The Value of a Parts Pricing Matrix

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Most independent automotive repair shops struggle with how to mark up their parts purchases. Many shops use a “double-the-cost” strategy. For a majority of the parts they purchase, they simply double the price they paid and charge this to the customer. While this is a widely accepted practice in the automotive repair industry, it may actually hurt a shop’s gross profit margin (GPM) for part sales.

For a month’s worth of purchases, the double-the-cost pricing model usually yields an average of 30% to 35% GPM for parts. This is below the industry target GPM of 50% to 55%, which is what a shop needs in order to be financially sound.

Here’s an example. A part purchased for $100 is sold for $200. We doubled our cost and made $100 for this part. This yields a 50% GPM. But, if we applied this across the board for all parts we would price ourselves out of business. So on higher cost items the GPM is usually around 20% to 30%. On items that cost $1.00 and sell for $2.00, our GPM is 50% again, or is it?

When you buy a part for any price, there is a hidden cost associated with that purchase. The time it takes to look up, order and receive the part are actually costs that are unaccounted for. Take a $1.00 part. Now, add in the time it takes to get that part into your hands. On average, that $1.00 part costs you around $4.00 to $5.00, and over the course of a month you actually have lost a significant amount of profit.

Remember, profit dollars are the dollars you can spend! It does not matter how much revenue you generate, but how much profit you end up with that determines if you’re doing well or ready to go bankrupt.

When a high-priced item is purchased, most shops will add $100 to $300 to stay competitive and be fair to their customer. While this will yield a fair percentage, the profit dollars are high. Whether it’s an expensive part or a low-cost part, the same amount of work goes into ordering it, with about the same $3.00 to $5.00 dollars in hidden costs. So, adding $100 to $300 makes the transaction profitable.

Under the double-the-cost model, a shop purchasing $10,000 a month in part sales yields an average of $3,000 to $3,500 in GPM dollars.

How can you be sure you are maintaining your GPM on parts? The answer is a Parts Pricing Matrix. A Parts Pricing Matrix gives you the ability to charge correctly
across the board and increase parts profit dollars, while staying competitive and fair. Developing a proper matrix will yield an average of 50% to 55% GPM on part sales. The hard part is trying to do this in your head – that’s where the matrix comes in.

Take a look at this table to see the dramatic difference in expected profit dollars using a matrix, versus a double-the-cost model.

<table>
<thead>
<tr>
<th>Average Monthly Part Sales in Dollars</th>
<th>Double-the-Cost Module GPD (@35% GPM)</th>
<th>Pricing Matrix GPD (@50% GPM)</th>
<th>Gross Profit Dollar Difference</th>
</tr>
</thead>
<tbody>
<tr>
<td>$4,000</td>
<td>$1,400</td>
<td>$2,000</td>
<td>$600</td>
</tr>
<tr>
<td>$8,000</td>
<td>$2,800</td>
<td>$4,000</td>
<td>$1,200</td>
</tr>
<tr>
<td>$12,000</td>
<td>$4,200</td>
<td>$6,000</td>
<td>$1,800</td>
</tr>
</tbody>
</table>

This example clearly illustrates the value of a profitable, yet competitive matrix for pricing parts. *It’s your money; don’t leave it under the hood!*