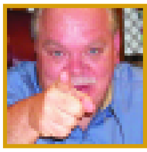

PROFIT MATTERS

HOW DO YOUR NUMBERS LINE UP? | BY CHRIS "CHUBBY" FREDERICK

Making Parts Profitable

Last month, we talked about netting 20 percent to 30 percent profit, and I shared a model that some shop owners have been able to accomplish. In that model, it required that your parts costs be 18.5 percent of your total sales. In order to accomplish this, you must hold at least 53 percent profit on your entire parts pool.

This is key performance indicator (KPI) No. 3 out of the 37 KPIs that a shop needs to hit that ideal 20 percent to 30 percent net profit. However, this is one of the easiest plates to spin because unlike labor, parts don't talk on cell phones, smoke, get sick or take time off.

One of the most recent obstacles to parts profiting is focusing on margin percentages instead of margin dollars. I recently met with a shop owner who was experiencing low profits when previously he was doing just fine. His accountant told him his parts margins were holding over 50 percent and that parts couldn't be the problem.

However, the root of the problem was that this shop owner was buying much better parts than he used to, so his multipliers were holding the correct percent but the margin dollars were almost half. (By the way, you send your kids to college with margin dollars, not percentages.)

Ashamed of profit

The automotive world, more than any other industry, is confused and even ashamed of making reasonable parts profits. To further complicate this, we seem to be so enthralled with the word "list" that we allow manufacturers and new car dealers (our greatest competitor) to assign selling costs to the parts we sell.

We're often willing to give our customers unnecessary discounts. Don't magnify this and limit our profits by charging list price. I would not have you see list as anything other than an arbitrary price assignment made by dealers and manufacturers as a suggestion based on what they believe your profits need to be.

Don't believe it? Try ordering a part from the parts department of your nearest car dealer, including list price. Then call the service department and ask them how much a specific repair is and what list price would be on the part. Don't be surprised when the two numbers are worlds apart.

The reason is simple: The service department has to maintain a certain level of profitability, and "list price" does not allow it. List price is a bad suggestion.

Once you have resigned yourself to the fact that you are in the service business — much like a restaurant — your life will be easier. Consumers can buy food cheaper than a restaurant will sell it to them, but I don't know of a restaurant that allows them to bring in their own food.

Consumers also can buy auto parts cheaper than you will sell it to them, but in a service business it is standard operating procedure to make 53 percent profit on your parts pool. Just tell your customers the truth: If they want you to sell your "food" to them at cost, you have lost the best half of your operating profit.

What should prices be?

I guess a good starting point in all of this would be setting a standard for parts prof-

QUESTION OF THE MONTH

QUESTION:

What is the biggest challenge that shop owners face trying to grow their businesses?

ANSWER: Having the time and the desire to change. Because most shop owners are Baby Boomers and we're not crazy about change to begin with, it's very difficult to change their belief system.

Do you have a question for Chubby? E-mail him at cfrederick@autotraining.net.

its. What should we make? To just break even, based on our fixed cost, most of us have to make between 25 percent and 30 percent bottom-line net operating profit (NOP).

Do you work all those hours and put up with all this stress to break even? The truth is that you should reasonably expect parts margins of around 53 percent. That's right: *53 percent.* List price will never get you close to that. We are not in the business to lose money. Making appropriate and reasonable profits is a great way to ensure you are here and enjoying the reward that your business should allow.

This is normally the place where I get the big objection to this level of pricing because we are scared we will lose our customers and that we are overcharging them. I talk to clients every day, dragging them to that parts margin benchmark kicking and screaming.

I'm telling you, that perception is wrong. With the exception of a tiny minority of customers who actually are price shoppers, most of those people walking in your door come in because they like you and the great way that you take care of them. Price rarely matters.

WATCH YOUR MARGIN

Sample Jobber Parts Matrix

Cost range	Multiply by	Parts profit
$ 0.00 - $ 5.00	3.25	69.2%
$ 5.01 - $ 10.00	2.50	60%
$ 10.01 - $ 75.00	2.25	55%
$ 75.01 - $150.00	2.00	50%
$150.01 - $750.00	1.85	46%
$750.01 - UP	1.54	35%

Sample Dealer Parts Matrix

Cost range	Multiply by	Parts profit
$ 0.00 - $ 1.00	3.50	71.4%
$ 1.01 - $ 5.00	3.25	69%
$ 5.01 - $ 50.00	2.25	55%
$ 50.01 - $100.00	1.82	45%
$100.01 - $175.00	1.67	40%
$175.01 - UP	1.54	35%

This is the starter matrix we use for our clients, and it works 99 percent of the time. There are many variations on this sample, but the premise is universal. Make the appropriate parts margins on all the parts you are selling. Your business demands this.

> **"The automotive world, more than any other industry, is confused and even ashamed of making reasonable parts profits.**

There, I've said it. Hard as it might be for you to believe, most people are willing to pay more just to be taken care of, to know that "Joe" is taking care of their cars. And those few customers who are truly price shoppers? If they will not allow you to make reasonable profits, you need to encourage them to go somewhere else.

Splitting the difference

Well, now we seem to have set a benchmark and have provided all the right reasoning, so what do I charge? Well, this can both be easy and complicated. Easy because the process is simple, and complicated because there is a certain thoughtful practicality required.

The benchmark of 53 percent might suggest that we just apply the appropriate math to ensure this margin to all parts. Problem solved, right? The reality is that high-end parts — typically large components, such as engines — will not support the benchmark. The lower end — less-expensive parts — can easily support prices well beyond the 53 percent benchmark.

So, we will use a matrix: a sliding scale that will allow us to maintain an average parts margin of around 53 percent. Less-expensive parts generate higher margins and more-expensive parts generate lower margins. All parts pricing is calculated on parts mark-ups based on cost.

The average price of a part for most shops is around $50. Thus, whatever matrix we use should be based on that average. See the sample matrix on pg. 56.

Starter matrix

Use the jobber matrix when you buy from the jobber and the dealer matrix when you buy from the new car dealer. If this does not make your parts pool 53 percent profit, then you are doing larger repairs and not tapping into the maintenance business. Someday the maintenance business will represent 70 percent, because the reliability of new cars is shrinking the repair business nationwide.

As noted at the outset, the process is not the issue. Your challenge will come when you have to look your customer in the eye and sell them that part at a reasonable profit for the first time.

I assure you that price is not why the vast majority of customers walk through your door; they will let you make a reasonable profit. You will take a large step toward accomplishing your goals and dreams the very day that you accept that your customers love you and that reasonable profits are not a sin. Profits will ensure you are in business as long as you choose to be.

Please implement the easy things we discuss together, because next month we will begin the discussion on making a profit on labor. Have fun with the journey.

Chubby would like to thank Brian Canning, a trainer at ATI, for his assistance with this month's column. You can read Brian's monthly Web-exclusive column, "Take the Lead," at www.motorage.com. MA

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