

# How do you know when the price is right?

Charging the right price for parts is crucial to staying in business

**W**hat should you charge for the parts you are putting on someone's car? Too many shops just don't charge enough. When I talk to shop owners and this subject comes up, many times I hear, "I can't charge more than list price in my area." Let's listen to Head Coach George Zeeks explain how to solve this problem.

When I point out that other shops in the same market are charging consistently more, I'm met with disbelief. All the time you hear the saying, "Well that's apples and oranges — you can't compare them." Some of the time, it's true. However, let's say you have an apple and I have an orange — which is worth

more? Well, it depends where we are, the time of year, etc. If we are in Florida and it's orange season, is the apple worth more? What if it's the time of year to harvest apples in Florida? Be careful here, since they don't grow apples in Florida. Surprised? I was.

The point is that the stores that sell the apples or oranges charge what they have to charge to make money and stay in business. So should you.

## List price

The most common thing that we hear is, "How can I charge more than the list price?" I learned early that the list price was an illusion. Who even paid the list price? Many times a DIY consumer will

walk in and get the part for the same price you pay. I have talked to tons of different parts vendors, and if you call different parts houses you can get different prices depending on who you are talking to. In your pricing, the thing that matters is what you are paying for the part. What do you need to charge for that part to make a profit? How much profit do you need to keep the doors open?

In many ways we don't even think about the pricing of things we consume every day. An 18-oz. soda in a fast food restaurant costs them only 16 cents but sells for around \$1.99. You don't really care; you want a Coke with your burger. A single rose, at wholesale, starts at around 82 cents but could sell for as much as \$8.33 on Valentine's Day. I can't speak for you, but I pay the price. Why? I know that I'm hard to live with. I know what my wife wants. I know what has happened in the past when I failed to deliver the goods, so to speak. At this point, I don't care what it costs, I care what it is worth to me. We are talking about value to the consumer and that is where you need to be focused.

## Defining value

How value is defined varies from customer to customer. There is definitely a segment that wants only a cheap price and does as little as possible to maintain their car. If price is your major selling point, I would tell you that you are going after the wrong customer. There is no relationship, no loyalty and no future for you in that customer's mind. You can't build a business to support retirement using that model. You have a job, not a business,



and it's probably a job that doesn't pay very well either.

The more value you build into the experience, the more you move from a transaction to a relationship. What is your warranty? How good is your crew? What does the shop look like? Do you have up-to-date equipment? All these things cost money — you know that. If you're not making enough money you can't have a great crew; you just can't afford it.

It's getting harder to find a good tech and they want more benefits. Comebacks will kill a shop — try to explain that while we didn't fix the car the first time, you did get a great price on the repair. Really? How great is the price of no repair? The real sale is about you and your shop. Why are you the best? Why can they trust you? Why should they spend money with you and then come back again and again? Give them value for their money and price becomes very flexible.

**Use different parts matrix values**

Almost all point-of-sale systems have a parts matrix built into them. How are you using that? What is your matrix based on? What is the average weekly parts margin or parts profit? Most of them have a step system that gives you, usually, 10 different levels that you can set different values for the parts markup. Are you using all 10 levels? How are you determining the margin value for each of the lev-

els? Have you run a parts detail report to see the price point that you are selling the most parts at and making adjustments from there? Do you have different matrix values for jobber, warehouse and dealer? All of the ATI clients, past and present, use a parts matrix that helps them charge properly and consistently. Will you end up charging your customers more than you are now? You may.

**IF PRICE IS YOUR MAJOR SELLING POINT, I WOULD TELL YOU THAT YOU ARE GOING AFTER THE WRONG CUSTOMER.**

Let's take a look at what that would really be. For the sake of discussion, let's say you are running a 35 percent parts margin. That means that you are making 35 cents of profit for every \$1 that you charge in parts. If you were running a 55 percent margin, then you would keep 55 cents of every \$1 charged. On a bill of \$200, \$100 in parts and \$100 in labor, you would only charge an additional \$20 to the \$200 bill. Build value in what you offer and it's no big deal. Most of you need and deserve that extra \$20 to be able to provide the right type of service and warranty to attract and keep the best customers. This gives you the money and opportunity to im-

prove your shop and offer more value.

One of the key things here is that increasing value to the customer is key to being able to charge properly. This boils back down to values and the type of shop you want. If you want to be able to take time off from the business, then you need the right staff to run the shop while you are not there — not just any person that can fog a mirror, but the people that will care about your business the way you do. You want staff that will treat your customers the right way, like you do. That type of employee costs more money. Working in your business without a break is a sure recipe for disaster. If everything revolves around you having to be there, then you have a job, not a business. You took the risk of starting a shop — you deserve to benefit from it.

It boils down to apples and oranges. If we say that the apple is the price-based shop with little customer loyalty and you working in the business every day and that the orange is the shop with great visual appeal, great technicians who want to work there and you are not stuck in the business but are working on it, which shop would you want to have? Which shop do you need to have to survive the next 10 years? Are you an apple or an orange?

If you would like a copy of the ATI Parts Matrix, for a very limited time simply go to [www.ationlinetraining.com/2016-08](http://www.ationlinetraining.com/2016-08) and download a copy of our most recent parts matrix. *TM*

**Increase Your Free Time**

**Our life-changing 1-Day Workshops are coming to venues all over the US and Canada!**

- The average attendee picks up 3-8% profit
- We've helped more than 25,000 shops over 35-plus years
- Rated the #1 management consulting firm in the industry by Frost & Sullivan



**ATI** Spots are limited. Find out when we'll be near you and sign up online at [atiworkshops.com](http://atiworkshops.com)

Chris "Chubby" Frederick, CEO



**CHRIS "CHUBBY" FREDERICK** is the CEO and founder of the Automotive Training Institute. ATI's 115 associates train and coach more than 1,400 shop owners every week across North America to drive profits and dreams home to their families. This month's article was written with the help of Head Coach George Zeeks. [cfrederick@autotraining.net](mailto:cfrederick@autotraining.net)