

Example C shows four competitor prices for a cylinder head part. Again, the wide range of competitive prices for this part makes determining a target price much more difficult. Calculating a Coefficient of Competition value of 22 indicates a loose competition situation. Using the competitor average price method would suggest a cylinder head price of \$427.91. However, the Pricing Guidance suggested price is lower at \$395.83. Pricing this part based on the competitor average, therefore, risks overpricing the cylinder head and losing sales and market share.

By using advanced pricing technology, organizations can now analyze and distinguish tight vs. loose competition prices using the Coefficient of Competition. Armed with the coefficient of competition number,

### EXAMPLE C

FILTER	PRICE
Competitor 1	\$295.64
Competitor 2	\$430.50
Competitor 3	\$473.59
Competitor 4	\$511.91
Coefficient of Competition	22
Average Competitor Price	\$427.91
Our Suggested Price (CA)	\$395.83

### Risks from Extrapolating Competitive Price Data

A common error pricing professionals often make when using competitive price data stems from how they extrapolate the competitive price information to parts that were not properly researched or not known. For example, let's say that Part #123 and Part #124 are from the same product family (i.e., they are rotors but fit for different vehicles, therefore they are given different part numbers). A pricing professional would research Part #123 and find four competitive prices to derive the average competitive price. If the average price is 20% higher than Part #123, he would then extrapolate that the average competitive price for Part #124 is 20% higher than the price for Part #124. This is a common technique to save on research costs but it is very risky. That's because it only adds another layer of uncertainty to the pricing equation since we don't know whether or not Part #123 has loose or tight competition. And without that distinction, we don't know if using the competitive price average is appropriate. In fact, we can actually end up worse off than before.

manufacturers and distributors can automate the sorting of pricing data so that competitive information is used for tight competition situations, while more rigorous analysis is applied to loose competition situations. The result is much more confidence in determining optimal prices and margins for competitive parts.

It's important to recognize that the previous examples illustrate the value of the Coefficient of Competition for only a few manual observations.

Imagine, being able to use Pricing Guidance as part of an automated process that would allow you to produce target prices for thousands of parts in a matter of minutes. And imagine the increased profit and improved market share you would gain from using this advanced pricing technology.