



discount, you would price below the average. The average competitor price thus becomes a proxy for the market price for each part.

While the logic of market-based pricing to the average has the advantage of simplicity, according to our research, it is incomplete and not reflective of real world conditions. That's because it is very difficult to simply determine the average of prices in the highly diverse and complex world of auto or equipment parts. What price should a company use to calculate the average wholesale price, jobber price, or list price? Price before or after discounts and back-end kick-backs? Even as one

answers these questions, other issues arise in determining how to implement market-based pricing. The most prominent concern describes a phenomena derived from the fact that not all competition is the same, creating what can be called a "pricing credibility gap."

RESEARCH INDICATES "PRICING CREDIBILITY GAP" FOR MARKET-BASED PRICING METHODS

Conducting research that analyzed actual prices for more than a thousand competitive auto parts, We discovered that only about one-third of the auto parts surveyed actually fall into the category of tight competition.

Tight competition occurs when prices for parts are always within a close enough range of each other that a reasonable estimate for setting a new price can simply use the average of the all the actual competitive prices. The fact that only one third of competitive parts fall into a tight competition category raises special concerns. That's because as many as 2 out of 3 parts fall outside of the tight competition range of prices and into what can be termed a loose competition category. Loose

competition occurs when competitive prices are spread over too wide of a range for the average to be considered a reliable indicator of the optimal price your part can achieve in the market. (See sidebar page 4)

This research suggests that current market-based pricing methods do not always provide the best estimate for setting prices for competitive parts. The loose competition category suggests a "pricing credibility gap"