

whereby competitive pricing techniques using averages should not be blindly trusted. The implication for

parts manufacturers and distributors is more uncertainty in market-based pricing analysis, an increased

likelihood that you may not be optimizing prices for profitability, and a greater risk wasting your money on competitive pricing research that is not as useful as you might assume it to be. While the average market price is a logical concept for parts in the tight competition category, it probably does not reflect additional complexities that need to be taken into account in order to establish an optimum price for parts in the loose competition category. Thus loose competition parts pricing must go beyond competitive data averages to include other critical factors such as parts availability, selling channels, perceived quality and historical purchasing behavior of an organization's own customers. To resolve the market-based pricing credibility gap posed by loose competition for competitive parts, a different approach and metrics are needed.

Research indicates that most of the revenue in parts organizations is generated from loose competition situations.

While highly competitive and competitive parts generate about 80% of a company's revenue, this revenue is skewed to come mostly from competitive parts. For this reason, determining how to price competitive parts is paramount to achieving optimal profitability.

An analysis of competitive pricing data for 1,235 competitive parts in the automotive industry found that *77 percent of the parts had competitive prices that were too wide or extreme a range to provide decisive pricing direction using pricing methods that rely on using the average of its competitors' prices.* Highly competitive parts were not included in this analysis because, by definition, they have "ultra" competition with frequent price wars and list prices that fall within a tight range of one another.