

## Driving Gross Profits in the Fast Lane

### SERVICE PRICE MANAGEMENT



“Servigistics delivered well beyond our expectations and helped drive our success in pricing, which positively impacted our corporate performance.”

#### **CHALLENGE:**

Customers of a Japanese automotive manufacturer consistently complained that the service parts for their vehicles were priced higher than those for comparable makes and models from other manufacturers. The company historically used a cost-plus methodology for pricing its service parts. However, as the market tightened, the company began to experience a decline in its service parts revenue. This decline was attributed to vehicle owners taking their cars to independent repair shops which typically use aftermarket non-OEM parts. Understanding the correlation between service part price and service revenue decline, the company turned to Servigistics to deliver a strategic pricing solution. With the integrated Servigistics Service Price Management solution, this Japanese auto manufacturer evaluated the competitive pricing landscape and developed a pricing strategy for critical part prices that put its service parts revenue back into gear by:

- Improving gross profit margins
- Reducing customer complaints
- Improving customer satisfaction
- Reducing competition
- Providing reporting tools and performance evaluations

#### **RESULTS:**

Servigistics drove success with an integrated Service Price Management solution that:

- Increased annual gross profit by \$15 million
- Reduced customer complaints
- Improved customer satisfaction

Automotive manufacturers understand that having the right part, at the right place, at the right time is key to maintaining customer loyalty and increasing revenue, but having the part at the right price is something that is often overlooked or undervalued.

A Japanese automotive manufacturer of all-wheel-drive vehicles understands that the right price is a critical element to achieving revenue and profit goals. This manufacturer historically used cost-plus methodologies for pricing its service parts, marking up all parts a set percentage for each vehicle platform. While cost-plus pricing inherently controls margins and requires simpler calculations, it is best suited for companies operating in smaller, captive service markets. It is not typically effective in competitive, dynamic service part markets, such as the automotive industry.

As the auto market tightened in the US, competitors were fighting for limited service dollars, and this manufacturer began to realize a decline in its service revenue. This decline was attributed to vehicle owners taking their cars to independent repair shops for service. Understanding the correlation between service part price and service revenue decline, the company turned to Servigistics to deliver an integrated pricing solution that would put its service parts back into gear.

#### **JUMP-STARTING PROFIT MARGINS AND CUSTOMER SATISFACTION**

This successful automotive manufacturer required a partner to evaluate the competitive pricing landscape and develop a pricing strategy for 2000 critical part prices that would:

- Improve gross profit margins
- Reduce customer complaints
- Improve customer satisfaction
- Reduce competition
- Provide reporting tools and performance evaluations

The company's challenge was to find a solution designed around the intricacies of service parts pricing and the complexities of the automotive industry through part life cycles. The automotive manufacturer also needed a partner who could quickly deliver measurable results through improved corporate performance. Traditional retail pricing solutions did not address the pricing challenges unique to service parts. Custom software solutions would be too expensive, take years to develop and implement and be costly to maintain.



### **WHY SERVICISTICS?**

After evaluating several pricing solution vendors, this Japanese automaker selected Servigistics since it was the only vendor that could support the company's unique service pricing requirements and was well versed in the automotive market, with more than 30 automotive clients.

### **PRICING CROSSES THE FINISH LINE FIRST**

This Servigistics client benefited from a \$15 million annual gross profit increase by conducting marketing research on 2,000 critical service parts and by using the Servigistics Service Price Management solution. The technology leverages market-adapted pricing, optimization science and price alignment to adjust pricing based on changing market, customer, competitor and supplier factors.



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