

# WHOLESALE SECRETS PROFIT OR LOSS

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### TABLE OF CONTENTS & TOPIC ABSTRACTS

The Wholesale and collision business can look like a straightforward way to boost sales, but is it really adding profit to your dealership, or quietly draining resources away?

In this PartsEdge webinar, we're diving deep into the question: *Should you be in wholesale & collision, or not?*

Chuck Hartle, President of PartsEdge with decades of experience in the automotive industry, and more than 300 seminars under his belt, joined us to discuss how to take control of wholesale profitability.

In this workshop You will learn:

- The true profit margins behind wholesale & collision parts sales
- Common pitfalls that eat away at time, cash-flow, and resources
- How to evaluate if this makes sense for your dealership
- Smart strategies if you do decide to pursue them.

### THE BIG QUESTION Page 2

*Should you be in wholesale & collision, or not?*

The wholesale collision business faces shrinking profitability due to industry consolidation, rising repair costs, fewer insurance claims, and increasingly complex vehicle technology.

As suppliers reduce discounts, dealerships often fail to adjust pricing, causing margins to erode.

When programs such as GM's fascia/grille discount drop from 15% to 4%, selling at deep wholesale discounts becomes unsustainable.

Profitability requires protecting margins, not absorbing supplier changes.

### THE WHOLESALE SYNDROME Page 3

Wholesale demands more effort for fewer profit dollars, and high-return customers can drain margins, so dealers must tailor discounts to customer value.

### OTHER THINGS TO FACTOR IN Page 7

Wholesale parts operations face hidden liabilities such as slow-paying receivables and high idle or obsolete inventory from frequent returns.

While assets such as incentives and stronger inventory width help, deep discounts to high-return customers create a costly domino effect that undermines margins.

### CUSTOMER CATEGORIES Page 8

Wholesale customers should be tiered into groups based on their payment habits, consistency, sales volume, and returns.

Prioritizing profitable "green" accounts and reducing discounts or access for high-risk "yellow" and "red"

accounts improves efficiency, lowers costs, and significantly boosts overall profitability.

## CUSTOMER VALUE

Page 10

Customer value should be measured using DMS reports that reveal profit, returns, incentives, and hidden costs.

Regular assessments support the green/yellow/

red discount system to identify changes in buying behavior, returns, payments or shifts in gross profit.

Strategic discounting and smart pricing help smaller dealerships compete by focusing on profitable, relationship-driven customers rather than chasing deep-discount volume.

CONCLUSION & CONTACT INFO Page 13

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## THE BIG QUESTION

### ***IS IT PROFITABLE TO BE IN THE WHOLESALE COLLISION BUSINESS?***

Let's look at a key collision-industry trends:

#### **1. Consolidation.**

Large Multi-Shop Operations (MSOs) continue to expand their footprint. Groups like Carter Collision and Caliber Collision are growing rapidly.

#### **2. Rising repair costs and inflation.**

Higher repair costs, combined with ongoing inflation, are changing consumer behavior. More customers are now choosing to repair their vehicles rather than purchase new ones.

#### **3. Lower claim counts.**

The industry is experiencing a drop in insurance claims. This is due to factors, including fewer repairable vehicles and increased competition.

#### **4. Technology-driven complexity.**

New safety and manufacturing technologies have made repairs more complex and less likely to be involved in minor dents, dings, and collisions.

These challenges directly impact the profitability of today's collision centers who in turn put pressure on their suppliers.

To illustrate, Chuck used the parable of the fuel station owner.

Instead of thinking like a parts manager, imagine you're the owner of a fuel station.

Your fuel tanks are running low.

And when the fuel truck pulls in, the driver tells you that the wholesale cost of gas just went up by ten cents per gallon.

What would you do?

- A. Worry customers won't pay the extra amount and absorb the increase yourself?
- B. Split the difference, raise your retail price by a nickel, and eat the other nickel?
- C. Raise retail prices by the full ten cents to maintain your profit margin?
- D. Match whatever your competitors are doing to stay competitive?

Realistically, the correct answer is "C," retail prices must be adjusted to protect your margin, because a fuel station can't stay healthy and profitable by absorbing wholesale increases.

Now bring that mindset back to your dealership.

If your supplier cuts discounts or incentives, would you absorb the cost and continue offering the same pricing? Probably not.

Yet in wholesale parts operations, this happens all the time.

Costs increase, but pricing isn't adjusted, so margins disappear.

For example: In January of last 2024, General Motors offered around 15% off on their fascia and grille program.

Later, they changed the terms to a 4% discount with a \$40,000 truckload minimum, although they did guarantee the inventory with an 18-month RIM protection window.

Overnight, you lost roughly 13% in discount support.

How can you continue offering 35% off list when your own discount just shrank dramatically?

This is what I call-----

## THE WHOLESALE SYNDROME

Typically, dealers are quick to adjust **retail** pricing.

Whether it's warranty uplift, matrix pricing, or other adjustments, retail prices tend to stay aligned with cost increases.

But when it comes to **Wholesale**, parts managers often find themselves constantly negotiating and haggling over prices.

Why? Because wholesale is usually the one area where the parts manager feels they have real control.

Internal, warranty, and retail pricing strategies are often dictated by fixed operations.

Wholesale, on the other hand, feels like *their* domain.

But here are some key facts.

- It takes **four times** more energy, effort, and resources to generate profit in wholesale than it does in retail.

For example, \$250 in retail sales yields \$100 at a 40% gross, however, it takes \$833.33 in wholesale to yield \$100 at a 12% gross.

When you compare 40% gross profit dollars on the retail side versus 12% on the wholesale side, the math becomes clear.

Because based on the degree of effort required, the wholesale operation should **support** and **complement** the retail parts business, not the other way around.

- Not all wholesale customers **benefit** your operation equally.

They treat you differently, so you should treat them differently.

To illustrate the point, Chuck shared a comparison between two hypothetical wholesale customers:

### Customer 1: Accurate Collision

- Charge account

- Purchased **\$95,000** over the past 12 months.
- At a 25% gross profit rate, the dealership earned **\$23,750**.
- But Accurate Collision returned **12%** of their purchases—**\$11,400**.
- After those returns, the net gross profit drops to **about \$12,350, or 13%**.

Because they're a charge account, you're also carrying the receivable risk and administrative cost.

### **Customer 2: Cascade Auto Body**

- Purchased **\$60,000**, which is **\$35,000 less** than Customer 1
- At the same 25% gross profit rate, the gross is **\$15,000**.
- Their return rate is only **4%**, or **\$2,400**.
- That leaves a net gross of **about \$12,600, or 21%**.

For context, at a 25% gross profit percentage, the Accurate Collision merchandise returns cost this dealer roughly **\$2,850** in lost gross profit, while Cascade's returns only cost about **\$600** in lost gross profit.

**Now here's the question: Which customer would you rather have?**

**Accurate Collision** who buys more but erodes your margin with high returns?

Or **Cascade Auto Body** with lower sales volume but a far healthier return behavior?

Chuck is of the opinion that Cascade Auto Body is the most profitable because they offer better value for the effort and expense that this dealer invests in selling to them.

Ponder this:

- ? Do both customers deserve the same discount?
- ? Does their payment method affect the value that they bring?
- ? Should a high-return customer be treated the same as a low-return customer?

**The Bill Pearson Rule** (Early '90s—but still relevant today)

- **25/10 Rule:** If you give a **25% discount** and returns exceed 10%, **you're losing money.**
- **30/5 Rule:** if you give a **30% discount** and returns exceed 5%, **you're losing money.**

So, if a 5% return makes a body shop who is receiving a 30% discount unprofitable, how profitable is a body shop who receives a **35+% discount?**

In 2010 **NADA** reported that the average body shop returned **12%** of everything they purchased from a dealership, and that dynamic has not changed much since.

When you compare your wholesale sales to other profit centers, you begin to see whether the department is in fact profitable.

### **Case Study – The tale of two stores**

With that in mind, let's look at store #1.

Category	Sales	Cost	Gross	GP%
Counter Wholesale Sales	\$1,792,914	\$1,634,713	\$158,201	8.80
Category	Sales	Cost	Gross	GP%
Counter Retail Sales	\$86,830	\$57,749	\$29,080	33.50
Counter Internal Sales	\$28,033	\$23,249	\$4,784	17.10
RO Customer Pay Sales	\$409,180	\$242,096	\$167,084	40.80
RO Internal Pay Sales	\$242,779	\$154,786	\$87,993	36.20
RO Warranty Sales	\$251,263	\$152,395	\$98,868	39.30
RO Service Contract Sales	\$75,920	\$56,995	\$18,925	24.90
<b>Total Non Wholesale Sales</b>	<b>\$1,094,005</b>	<b>\$687,271</b>	<b>\$406,734</b>	<b>37.18</b>
Category	Sales	Cost	Gross	GP%
Total Sales	\$2,886,919	\$2,321,984	\$564,935	19.57
Total Returns	-\$379,414	-\$356,467	-\$22,947	6.05
Total Net Sales	\$2,507,505	\$1,965,517	\$541,988	21.61
<b>Wholesale Pct of Business</b>	<b>62.10</b>	<b>70.40</b>	<b>28.00</b>	

In this example, we're looking at a dealership that sold **\$1.7 million** in collision parts and posted an **8.8% gross profit**.

Keep in mind, these numbers are pulled straight from the system. We'll get into the intrinsic values, liabilities, and deeper analysis after reviewing both stores.

But at first glance, you look at that **8.8%**, and your reaction might be: *"There's no way I'd let anything out of here for less than 10–12%."* Yet in a major metro market, at this volume, the dealership is operating at 8.8%, essentially list minus 35% or cost plus 10%.

One key point: **62%** of this dealer's business is from **wholesale** and is driving the entire parts department.

So, one of the questions we asked during the analysis was, *"If you eliminated wholesale tomorrow, could the dealership—through retail, internal, customer pay, etc.—support itself?"*

The answer was clear: they would need **60% fewer people** to operate.

Now, looking at that 8.8% on paper, here are several things **not** included:

- **Parts advisor salaries**

Most advisors are paid a commission based on gross profit, in this case \$158,201.

Because they're paid on gross, counter-people and parts advisors never have to participate in are the returns that are coming back.

Since there is no incentive to control returns, they don't.

For someone paid off net profit however, they start to care.

- **Benefits costs**

Health insurance and other benefits aren't reflected in that percentage.

- **Delivery vehicle expenses**

Depreciation, maintenance, fuel, etc.

- **Holding costs on receivables**

- **Missed incentives**

So, when you glance at that 8.8% gross, there's a lot missing beneath the surface, and that's what we need to unpack.

Now let's look at store #2.

Category	Sales	Cost	Gross	GP%
Counter Wholesale Sales	\$649,215.40	\$551,396.56	\$97,818.84	15.10
Category	Sales	Cost	Gross	GP%
Counter Retail Sales	\$31,404.53	\$17,912.34	\$13,492.19	43.00
Counter Internal Sales	\$18,623.99	\$13,815.06	\$4,808.93	25.80
RO Customer Pay Sales	\$497,702.83	\$295,323.35	\$202,379.48	40.70
RO Internal Pay Sales	\$119,528.11	\$80,982.98	\$38,545.13	32.20
RO Warranty Sales	\$138,050.13	\$79,377.04	\$58,673.09	42.50
RO Service Contract Sales	\$31,884.19	\$23,189.93	\$8,694.26	27.30
<b>Total Non Wholesale Sales</b>	<b>\$837,193.78</b>	<b>\$510,600.70</b>	<b>\$326,593.08</b>	<b>39.01</b>
Category	Sales	Cost	Gross	GP%
Total Sales	\$1,486,409.18	\$1,061,997.26	\$424,411.92	28.55
Total Returns	-\$77,583.76	-\$68,105.69	-\$9,478.07	-12.20
Total Net Sales	\$1,408,825.42	\$993,891.57	\$414,933.85	29.45
<b>Wholesale Pct of Business</b>	<b>43.68</b>	<b>51.92</b>	<b>23.05</b>	

They're operating at a **15.10% gross profit**, selling roughly **\$1 million less** than the previous store, yet still maintaining that stronger margin. Wholesale represents **43.68% of their total business**, which is still a solid share.

But the key takeaway is this: their **overall gross profit is 29.45%**.

This reinforces the point that wholesale should always be the *cherry on top* and not the foundation that the entire department depends on.

But now, let's put the two side by side.

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You can see here that the store on the right with 62% of this dealership's business coming from wholesale, primarily collision, that their overall gross profit is 21.61%.

In comparison, the store on the left is generating a 29.45% overall gross profit, with only 44% of its business coming from collision or wholesale-related work.

According to NADA, the standard overall gross profit for a parts department for the combined profit centers should fall between 30% and 32%.

We haven't even addressed net profit yet, but this side-by-side comparison gives a clear picture of how dramatically gross profit performance can differ between two stores.

## OTHER THINGS TO FACTOR IN

### *HIDDEN LIABILITIES*

## Accounts Receivable

Here are some additional *hidden liabilities* to consider. Beyond obvious liabilities like trucks and equipment, one major area is **accounts receivable**.

As many of you know, some body shops will float you for 60 to 90 days before they pay.

We worked with a dealer group that used an Accounts Receivable Management company, Interstate Billing, to reduce their AR liability.

Accounts receivable management companies focus on collecting debts owed to businesses, enabling organizations to ensure steady cash flow.

The dealer hands off their receivables to the company who pays them within 48 hours, generally for a 2% fee.

Is it worth paying 2% to get your money that quickly?

Depending on how much you're discounting, it can mean that you're not constantly fighting body shops over long floats.

## Idle and Obsolete Inventory

Another area is **idle and obsolete inventory**.

The typical body shop returns about 12% of what they buy from you and generally consists of items such as tape stripes, moldings, small trim pieces, and other parts that you will almost never sell again.

These items become idle capital the minute that they hit your shelf, and you're lucky if they ever sell again.

Chuck typically sees **the highest obsolescence rates** in stores doing a significant amount of collision work.

To add insult to injury, a low inventory turn rate and high idle inventory go together with lower sales.

These are the hidden liabilities you need to factor in.

You may think you're making a 12% overall gross profit after everything is accounted for, but you also have to ask:

How much idle inventory do I have?

? *And am I able to retire my obsolescence at a consistent rate?*

### *HIDDEN ASSETS*

Now, let's look at the hidden assets.

These hidden assets should be factored into your evaluation as they can provide real, though often overlooked, value.

## Manufacturer incentives, discounts, and compensation

In many cases, manufacturers offer incentives, discounts, or compensation through price-matching programs and similar initiatives and can amount to a couple of percentage points.

Some dealerships choose not to apply these incentives directly against their wholesale costs.

Instead, they may record them under compensation expense or another category, which can influence how the financials appear.

## Helps build inventory width.

Another important factor is the impact on inventory and overall dealership fill rates.

Independent shops, garages, and body shops typically work on older vehicles and by supporting them, you help maintain inventory levels for those older-model parts.

As those vehicles come through your service lanes, this strengthened inventory helps improve your fill rates.

## The Domino Effect

Now let's look at the domino effect this creates.

As I mentioned earlier, wholesale returns, especially from body shops, almost always contribute to what we refer to as “forced-stock” that ages to become obsolete in 12+ months.

For this reason, we consistently see obsolescence rates at least twice as high in stores that rely heavily on wholesale compared to those that don't.

Naturally, there's an actual cost associated with that, and it's something you need to monitor closely.

I've often asked, “*Why not charge a restocking fee for these returns?*”

The common response is, “*If we do that, they'll just go to a competitor.*”

But this ties back to the **Bill Pearson** rule.

We've seen major body shops returning 15% of what they buy while still receiving discounts of 35% or 36%.

At that point, you're essentially operating your business for their benefit rather than your own.

Now, before we move deeper into this analysis, I want to step back and highlight something important.

## CUSTOMER CATEGORIES

**Not all wholesale customers should receive the same discounts.**

Think of your customers in **three categories**, using a **traffic-light system**:

### ☺ **Green-Light Customers**

These are your best accounts. They:

- Pay their bills on time or pay cash up front.
- Buy from you consistently—daily or weekly.
- Purchase in solid, reliable volumes

- Return very little for credit.

When you analyze your list, you'll find a handful of these. These are strong, valuable customers who deserve your best discounts and attention.

### ☺ **Yellow-Light Customers**

These are borderline accounts. They:

- Purchase inconsistently.
- Often use you as a secondary source
- Buy only when their primary supplier can't fill an order.
- Order erratically—maybe every 60 to 90 days.
- Return more products than they should.
- **Worst of all: they slow pay their bills.**

These customers should receive **smaller or fewer discounts**, and you should monitor them closely.

Some may drift into red-light behavior, while others might improve and become green-light customers.

### ☹ **Red-Light Customers**

These are your highest-risk accounts. They:

- Buy very inconsistently or erratically.
- Have a high return rate.
- Make frequent complaints and demands.
- Consistently slow pay their bills

These customers should receive **little to no discounts**.

You can categorize your customers this way, and I highly recommend that you do.

When I implemented this system, the **red-light customers** were always the ones who pushed back immediately when I reduced their discount to 10%, made it cash-only, or simply told them not to buy.

They'd say, *"I can get 30% off at any other dealership."* And my answer was always the same: *"Please call them—do us both a favor."*

It may sound harsh, but these were the customers who expected the same level of service and the same discounts that our green-light customers earned.

And that simply wasn't going to happen. My goal was to chase those accounts away.

Remember, we're working in an industry where **insurance companies control the money**, squeeze body shops, and then that pressure rolls downhill to dealerships.

I've always said: imagine if one day every dealership said, *"We offer 25% off for cash, otherwise we don't need the business."*

But as was mentioned earlier, the wholesale/collision market often becomes a race to the bottom.

There is always someone willing to give huge discounts, usually someone new who sees dollar signs and hasn't yet learned what those decisions cost over time.

I'm not trying to talk you out of the collision business, but I am trying to encourage you against keeping customers who demand big discounts, send back excessive returns, and ultimately **cost you money**.

Only you can determine who those customers are by evaluating your own data.

You already know the customers who treat you well, and you've built strong relationships with them. They're not the problem.

What this really comes down to is the **80/20 rule**. Many dealerships spend 80% of their time trying to satisfy the 20% of customers who are the most difficult and least profitable.

But imagine flipping that, imagine putting your energy into the 20% of customers who actually make you money.

When I did this evaluation, I reduced my fleet from eight delivery trucks down to four.

We kept only the customers who treated us well.

We also shifted our business mix: we went from 65% wholesale/collision down to 30% and focused more on our shop and our strongest accounts.

The result? **Our profitability skyrocketed.**

Another thing to consider when evaluating your expenses, especially your wholesale and delivery operations, is the true cost of putting a truck on the road.

I've been asked this many times, and after digging into the numbers, here's the most realistic answer:

**Every delivery truck costs you between \$8,000 and \$10,000 per year when you factor in:**

- The delivery driver
- Depreciation
- Fuel and maintenance
- Insurance
- Commission or incentives

Now think about what that means financially.

If you sell **\$100,000 in wholesale parts** at a **10% gross profit**, you've made **\$10,000 gross**—which means you've essentially **broken even** on that truck.

All that work, all that volume... just to cover the cost of having the truck on the road.

To truly justify a delivery truck, you want it to generate **at least \$175,000 or more in annual sales**, especially if it's costing you around \$10,000 to operate, that's when the truck starts contributing real profit.

These are the kinds of numbers that are worth examining closely.

Many dealerships have been running trucks for years without ever taking a hard look at what those vehicles really cost them.

Hopefully, this will give you something to think about as you review your wholesale strategy.

## **DETERMINING CUSTOMER VALUE**

When asked how to determine the value of customers, Chuck gave this example.

Perform **official assessments** using the reporting tools in your DMS. You can pull these reports yourself and break customers down by pricing levels, gross profit, returns, and more.

CDK has a PDA report that shows everything you need.

Reynolds provides very strong reporting tools as well.

Dealertrack has an excellent report you can build through their **BID (Business Intelligence Reporting)** system.

These are the tools you use to evaluate customers:

- What are they buying?
- What gross profit are they generating?
- What are the hidden costs—returns, incentive chargebacks, or other expenses?

Recently, we ran an analysis for a dealership whose wholesale business showed **6.45% gross profit on paper**.

But once we factored in incentives and other hidden values, their true margin was closer to **11%**.

On paper, 6.45% makes you want to shut everything off, but the deeper review told a different story.

As you implement the green/yellow/red light system, you'll notice something interesting:

Some **yellow-light customers** will improve once you tighten up your rules. They'll say, "Okay, we're sorry—we'll cut back on returns," or "We'll pay faster."

**Red-light customers**, however, almost never become yellow, and I can't recall a single one ever turning green.

So, the monitoring never stops, and you need the reports to back up your decisions.

Occasionally, when a yellow customer says, "Hey, we want to do better," you can adjust accordingly.

But with red-light customers, our stance was always consistent: "*Here's the discount program. Treat us well and we'll treat you well*" and most of the time, they hang up or complain.

And that was fine because we wanted to focus on the customers who valued the relationship and treated us well.

Chuck recommends reviewing the assessment and AR receivables reports monthly to catch changes in buying behavior, returns, payments or shifts in gross profit.

This keeps you protected and ensures no problem account slips through the cracks.

## Strategic Discounting

Chuck related how at one point, he had a large dealer group that implemented a **fuel surcharge** when gas first jumped to \$4.50–\$4.60 a gallon.

They added the surcharge directly onto their tickets, and the body shops went absolutely crazy over it.

So, Chuck came up with a different approach, one that you may find useful.

Remember, profitability hasn't been shrinking because of rising costs alone. **Incentives have disappeared**, and wholesale compensation programs have been reduced or removed in different areas.

These changes hit your margins long before gas prices did.

Among independent repair shops, the standard discount had basically become automatic: “You have a resale number? You’re a wholesale independent garage? Great you get 20% off.”

So, here’s what we did:

**1. Create a new price code.**

If “20” was the standard 20% discount, we created a new code, “120,” which still gave 20% off.

**2. Adjust the original price code.**

We changed the original price code “20” from list-20% to **list-18% or list-19%**.

**3. Monitor customer feedback.**

- If a **good customer** called and said, “Hey, our discount changed,” we moved *that* customer to the new code “120” to give them the full 20%.
- If a customer said nothing, we left them at list-18% or list-19%.

We tried this with several stores, and the result was surprising: **very few customers noticed**, and the ones who did were reasonable.

They understood prices were going up and simply said, “Okay, thanks,” and kept buying.

Body shops may be tougher, and **one percent** can send them shopping elsewhere.

In fact, we just heard from a dealership whose large corporate customer said, “*We need 1% more or we’re moving all our business.*”

So, when faced with the big conglomerates, is there a way for smaller dealerships or dealership groups to compete?

The challenge is that in this segment of the business, you’re either **all in** or you’re **not in at all**.

Some of the large dealer groups we work with are fully committed, they buy in volume, leverage every available program, and structure their pricing around those advantages.

For example, on the GM side, the **CPVP Collision Program** can offer **10–13%** in additional discounts.

These large stores place massive volume orders weekly, sometimes twice a week. With that extra margin, they can afford to offer **35% off** and still maintain profitability because they’re starting with a 10% advantage before they even sell a part.

But for a smaller dealership that can’t afford to participate in CPVP, you’re already **10% behind before the race starts**.

That’s where the frustration comes in, and that’s why I referred to it as a “prostitution market.”

Some managers, especially those who don’t fully understand the hidden liabilities, will chase volume for the sake of seeing big gross numbers, not realizing that over time it **costs more than it earns**.

So, can smaller stores compete? Yes, but not by playing the same game as the big players.

This is where your **green-light, yellow-light, red-light** customer strategy becomes essential. Smaller dealerships often have something large groups don’t:

- Community relationships

- Local loyalty
- Customers who want to support the store in their area
- Shops that value service and consistency over deep discounts

There are absolutely opportunities in smaller communities and with customers who value relationships over price wars.

But trying to match the discount programs of the big operations, especially those making 12–15% margins due to volume incentives, puts you at a permanent disadvantage.

If you can't access the same programs, you simply can't discount at the same level without losing money.

The key is to **compete differently**, not cheaper.

Consider this:

If your collision wholesale volume drops by half, you can carry fewer parts, eliminate trucks, reduce staffing, and lower your expenses, while improving profitability.

## CONCLUSION

*You should never have to apologize for making a fair profit.*

Great customers understand this and respect it because they run businesses too.

When you focus on your profit centers and customer loyalty, the results take care of themselves.

Every time we've seen dealerships concentrate on their strong customers and their strongest profit centers, the outcome has always been the same: **happier customers, happier employees, and a healthier bottom line.**



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