



N439 Case Study: Parts Department Analysis

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OBSO Position

OBSO Reduction:

- Technical OBSO is at \$251,784, or 37.1% of reconciled inventory
- The franchise in this case study is a General Motors dealership; the significance of this information is that the parts department participates in GM's RIM program, whereby the dealership is able to return parts (at \$0 cost) to General Motors within 15-months from arrival at store.
- There is significant opportunity for OBSO reduction (refer to SWOT Analysis, slide 7)



Activity	Value \$	%	Notes & Guides			
0-3 Months	238,281	41%	ACTIVE INVENTORY at 75%			
4-6 Months	71,863	12%	ACTIVE INVENTORY at 23%	OBSO POSITION		
7-12 Months	22,693	4%	75% will likely become Obso 2% is guide	.75 TIMES \$		17019.75
Over 12 Months	175,383	30%	Technical Obsolescence 2% is guide	PLUS		175,383
New parts no sales	76,401	13%	Minimal Amount	PLUS		76,401
Total Inventory	584,621	100%		EQUALS	46%	268803.8

Difference is 8.10% from Financial Statement

Monthly Reconciliation Of Parts To General Ledger	
Dollar value of parts on dealership management report	\$ 584,621
Minus	
Dollar value of packing lists for parts received, but not invoiced	\$ (339)
Dollar Value of bulk oil, gear lube, trans fluid in stock	\$ (6,658)
Plus	
Credits due for parts returned	\$ 5,856
Inventory Core Value - clean	\$ 15,031
Cores to be returned for credit - dirty	\$ 7,550
Work in Process - Repair Orders & Invoices	\$ 33,610
Dollar Value of NPN parts	\$ 4,766
Dollar value of parts with no cost record	\$ 29,265
Plus / Minus	
Other Adjustments (price updates, bin count adj, outside purch inventory adj., negative on hand)	\$ 5,076
Total Inventory	\$ 678,778
Inventory Per Financial Statement	\$ 627,903
Difference	\$ 50,875

8.10%

Parts Gross Profit Analysis

If our gross profit met NADA Guide, we would have made \$39,522 more.

Three recommendations to reach NADA Guide:

1. REDUCE OBSOLESCENCE:

We can reduce obsolescence by implementing and maintaining a special-order system that focuses on eliminating special order parts from sitting. We can establish policies that eliminate wholesale accounts that are not performing well. We can also schedule monthly training on our parts catalog with our front / back counter team and technicians to help reduce the number of incorrect parts being ordered.

2. FOCUS ON KPI'S (What gets measured, gets done):

What gets measured gets done, what doesn't get measured gets forgotten. We will exceed our YTD gross expectations if we continuously focus on keeping this departments KPI's at or above NADA's guide.

3. EMPLOYEE FLOW CHART

With nine parts employees we will generate an employee flow chart that specifies everyone's individual tasks with training for each job position. This will hopefully help create more efficient parts staff. If this process does not help generate more gross, we may then have to cut employees.

Parts Department Employee Flow Chart



Proforma Calculation

PARTS DEPARTMENT - PROFORMA CALCULATION

	Repair Order Mechanical	Body Shop	Counter Retail	Internal (new/used)	Wholesale	Warranty	TOTAL
YTD Sales	\$ 345,555	\$ 289,252	\$ 105,808	\$ 346,007	\$ 356,715	\$ 222,777	\$1,666,114.00
YTD Gross Profit	\$ 110,507	\$ 33,801	\$ 30,041	\$ 50,996	\$ 100,001	\$ 51,661	\$377,007.00
YTD Cost of Sales	\$235,048.00	\$255,451.00	\$75,767.00	\$295,011.00	\$256,714.00	\$171,116.00	\$1,289,107.00
NEW Mark-Up Factor	1.69	1.33	1.69	1.69	1.33	1.39	1.52
Desired Gross %	41.00	25.00	41.00	41.00	25.00	28.00	33.50
NEW YTD Sales	\$398,386.44	\$340,601.33	\$128,418.64	\$500,018.64	\$342,285.33	\$237,661.11	\$1,947,371.51
OLD YTD Sales	\$345,555.00	\$289,252.00	\$105,808.00	\$346,007.00	\$356,715.00	\$222,777.00	\$1,666,114.00
Additional Gross Profit	\$52,831.44	\$51,349.33	\$22,610.64	\$154,011.64	\$0.00	\$14,884.11	\$295,687.17



<p>STRENGTHS</p> <ul style="list-style-type: none"> High fast moving parts inventory Sales distribution is a good mix Employees Strong wholesale business 	<p>WEAKNESS</p> <ul style="list-style-type: none"> Not stocking the right mix of inventory- high emergency purchases (are we stocking too many of the same part and not enough variety?) High slow moving inventory dollar value Significant cash in special order parts on the shelf (parts no sales) Internal parts sales (repair order, internal, warranty) are all low High inventory supply (10.25 days) Not tracking lost sales Selling parts at cost, gross compared to sales is low High obsolescence High value of parts with no record
<p>OPPORTUNITIES</p> <ul style="list-style-type: none"> Expand phase in to 3/9 Try wholesaling some of the inventory sitting in 12+ months last sale Begin tracking lost sales Revisit stocking policy so we aren't so full Increase internal sales volume Increase retail counter sales volume Stop discounting parts frequently Training Send parts manager to NADA academy Implement inventory reconciliation process including monthly manager check and yearly bin counts Increase internal markup Reevaluate and update pricing matrix 	<p>THREATS</p> <ul style="list-style-type: none"> Decrease in sales volume Competitors pricing Employees unwilling to follow new protocols Big losses trying to move aged inventory Management unwilling to order and stock parts according to new policies

Recommendation: Buy or Pass?

We recommend buying this dealership based on the limited information we have.

Reasons to buy:

1. Sizable parts team in place; we would recommend an investment in training
2. Sales distribution has a healthy mix

Recommendations for new ownership:

1. Utilize new mark-up factor to increase GP across sales channels, with a focus on internal sales
2. Focus on reducing OBSO position → free up cash flow to reinvest towards faster moving, higher GP% opportunities

