



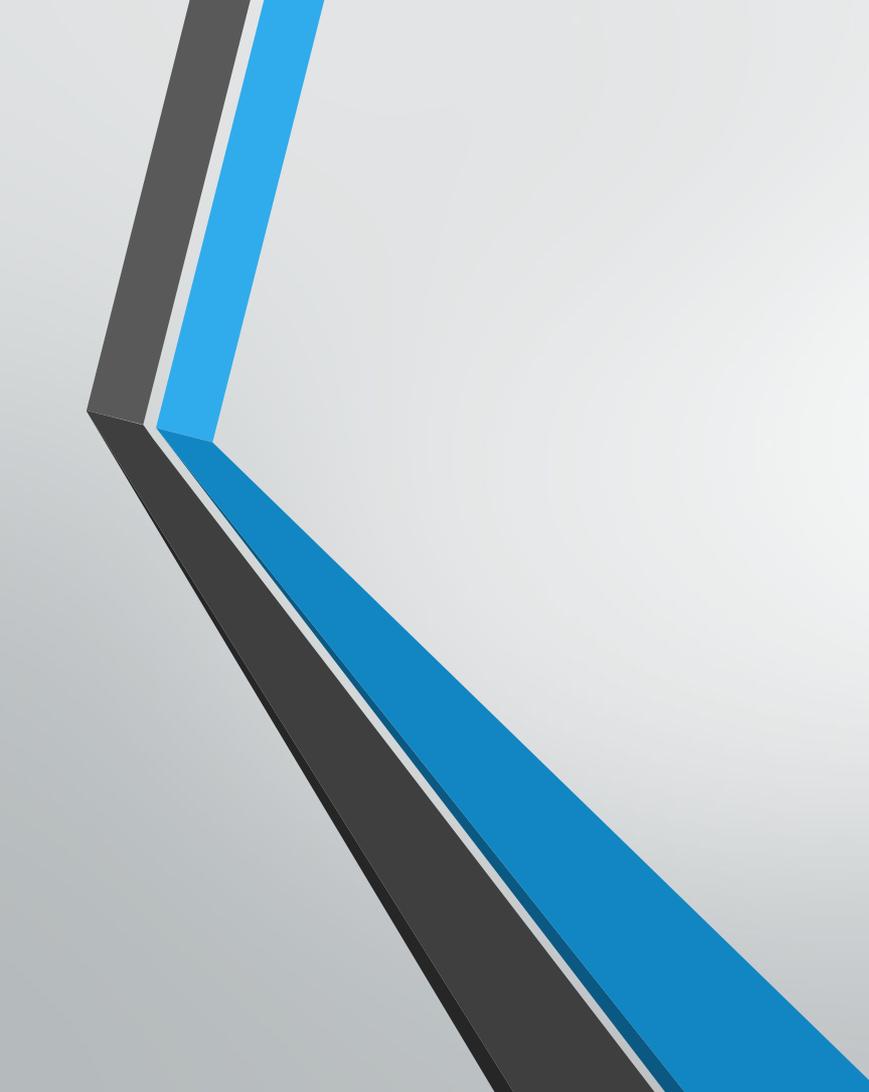
NADA N₄₄₄

FINAL CASE STUDY

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Obsolescence

- Total dealership obsolescence: 251,784=37.9% of reconciled inventory
- Reasons for obsolescence:
 - Not tracking lost sales
 - Poorly managed phase in/out
 - Lack of training
- Solutions
 - Sell parts online and develop a marketing strategy to move aging inventory
 - Adjusting ordering phase in and out
 - Improved process for parts ordering and tracking



Inventory at Cost

Advantages:

Inventory Reduction: Clears Shelf Space: Selling parts at cost can help clear out old inventory, making room for new, more in-demand parts.

Reduces Carrying Costs: Decreasing the volume of obsolete parts reduces storage and inventory management costs.

Improves Cash Flow: Even at cost, selling these parts can generate immediate cash flow, which can be reinvested in more profitable areas.

Builds Loyalty: Offering parts at cost can improve customer relationships and loyalty by providing them with significant savings.

Competitive Advantage: This practice can differentiate your dealership from competitors who do not offer such deals.

Enhances Reputation: Being seen as customer-centric and willing to help clients save money can boost your dealership's reputation.

Simplifies Inventory Management: Reducing the number of obsolete parts makes inventory management easier and more efficient.

Frees Up Resources: Staff can focus on more profitable activities rather than managing slow-moving inventory.



Inventory at Cost

Disadvantages:

No Profit Margin: Selling parts at cost means no profit is made, which can negatively affect overall profitability.

Potential Losses: In some cases, selling at cost might result in financial losses if the cost price is not recovered due to additional selling expenses.

Opportunity Cost: Resources used to sell at cost could be allocated to more profitable ventures.

Creates Price Expectations: Customers might expect similar deals in the future, making it difficult to sell parts at regular prices later.

Devalues Parts: Regularly offering parts at cost can devalue the perceived worth of your parts inventory.

Impacts Brand Perception: Customers might view your dealership as a discount outlet rather than a premium service provider.

Undermines Market Prices: Selling at cost can undercut the market, potentially leading to price wars with competitors.

Impact on OEM Relationships: Original Equipment Manufacturers (OEMs) might view this strategy unfavorably if it affects their pricing strategies and brand value.

NADA GUIDE

HOW TO GET THERE?

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	1.38	1.69	1.69	1.29	1.52	1.54
Desired Gross %	41.00	27.50	41.00	41.00	22.50	34.00	34.50
NEW YTD Sales	\$398,386.44	\$352,346.21	\$128,418.64	\$500,018.64	\$331,243.87	\$259,266.67	\$1,969,680.47
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	\$63,094.21	\$22,610.64	\$154,011.64	\$0.00	\$36,489.67	\$329,037.60

1. *Incrementally increase the mark-up factor and adhere to the desired gross profit percentage within each sale category based on department and customer type.*
2. *Large opportunity to improve internal gross profit. Implement an internal parts mark-up for the new and used sales department. Treat the sales department as a regular customer.*
3. *Ensure that discounting is protected and only available to the parts manager and a senior parts advisor.*
4. *Rely less on outside, emergency purchases from other dealerships and minimize wholesale distributor stock.*

Monthly Reconciliation

Dollar Value of parts on dealership management report		\$584621
	Minus	
Dollar value of packing list but not received		\$399
Dollar value of gas, oil, and grease		\$6658
	Plus	
Credits do for returned parts		\$21551
Clean core value		\$15031
Dirty cores to be return for credit		\$5856
Dollar value for parts with no cost record		\$29265
Open work in progress		\$33610
Dollar value of NPN parts		\$4766
	plus/minus	
Other adjustments		\$5076
Total inventory		\$663853
Inventory per financial statement		\$627903
Difference		\$35950

SWOT Analysis

Strengths

- big strengths is wholesale GP %
- Busy service dept with large potential GP%

Weaknesses

- - There are too many emergency purchases
- - Staff has not been trained properly
- - Gross profit is not where it should be
- Inventory is tracked quite poorly

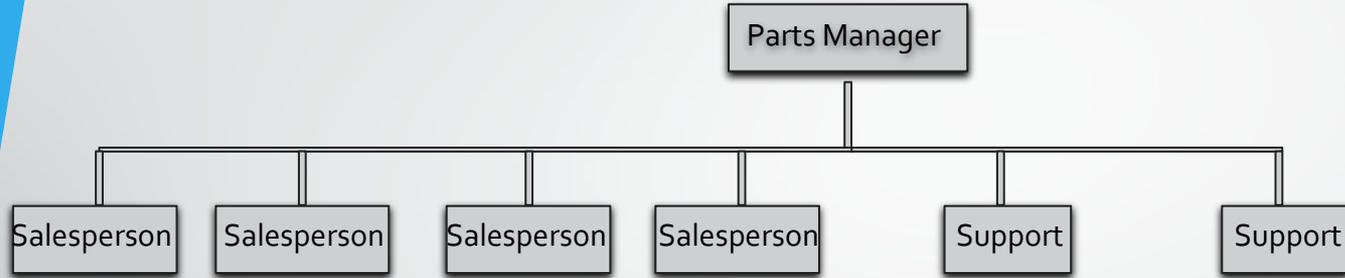
Opportunities

- Track lost sales to stock correct parts and capture demand
- potential to increase gross in parts department and body shop
- Stop discounting and properly train staff
- Change phase in for inventory breath

Threats

- - Lacking process
- - Lack of lost sale tracking and bad phase-in choices.
- - Discounting may be the norm

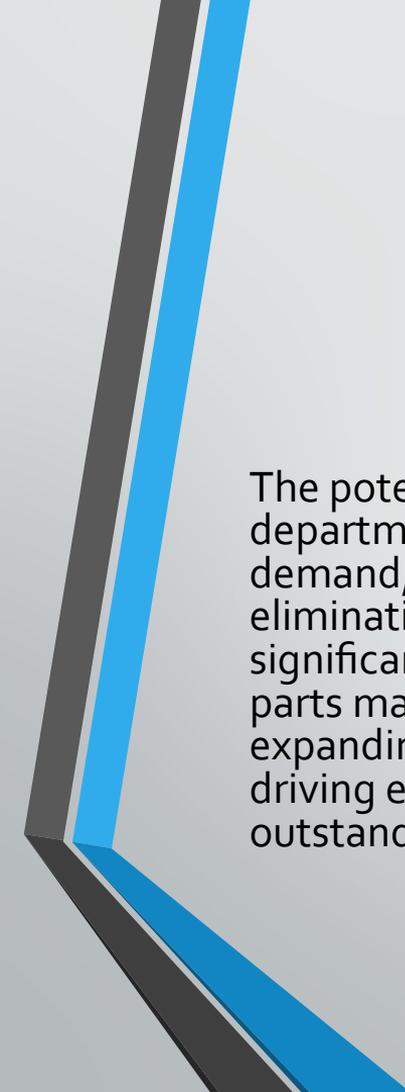
Parts Department Staff



A staff of nine as per the initial format would be too many employees after calculating sales.

Our sales calculations were estimated to be around 208K which with Staff Requirements sheet, it suggests there be a staff of 7.

1 Parts Manager, 5 Salespeople and 2 Support Staff.



RECOMMENDATION

The potential for growth here is immense. Despite the current challenges in the parts department, such as lack of processes, untrained staff, and inadequate stock to meet demand, they are still generating sales. By implementing effective processes, eliminating discounts, and hiring competent management, gross profit can be significantly increased. Additionally, training employees on lost sales will enable the parts manager to identify the right parts to stock, boosting retail sales. Furthermore, expanding networking efforts will enhance an already successful wholesale business, driving even more growth. This parts department has the potential to become outstanding!