

Case Study



N A D A 4 5 6



OB SO

HOW OBSO WAS ACCUMULATED:

Special Order Parts:

Never picked up or installed

Not sent back to the MFG during the permitted time period

SOP put on shelf as stock rather than being returned

Wholesale Customers and Service Dept Returns

Wrong Parts ordered, either by mistake or when given bad info

PLANS TO GET RID OF OBSO:

Use the accumulated MFG return allowance / credits earned to return parts

(currently \$21,551 unused)

Advertise aged parts at discounted prices on the Parts Locator (ex. OEC)

Sell online (ebay, Facebook Marketplace, etc)

Exchange OBSO lists with nearby dealers or others within our dealer group,

Then offer to sell / trade at a discounted rate

Sales Aging

	<u>Parts Cost</u>	<u>Percentage of Inventory</u>
<u>0 to 3 Months / Last Sale</u>	\$238,281.00	40.76%
<u>4 to 6 Months / Last Sale</u>	\$71,863.00	12.29%
<u>7 to 12 Months / Last Sale</u>	\$22,693.00	3.88%
<u>12+ Months / Last Sale</u>	\$175,383.00	30.00%
<u>New Parts No Sales</u>	\$76,401.00	13.07%

**3.88 %
Potential OBSO**

**43.07 %
Technical OBSO**

DMS Inv Total: \$584,621.00 "Reconciled" Inv Total: \$714,323.00

Potential OBSO:	\$22,693.00
Technical OBSO:	\$251,784.00
Total OBSO:	\$274,477.00
"Reconciled" Inv Total:	\$714,323.00
OBSO percentage:	38.42%



Average Month's Sales with no Gross Profit

WE ALWAYS WANT TO MAKE PROFIT ON PARTS

Here are some examples of why we may be tempted to sell parts at cost:

- A. An outside warranty company will only pay a certain amount, and we do not want to discount the labor which in many cases is more expensive in the long run. Ideally, we handle this issue upfront with the customer and they pay the remaining balance.
- B. A parts employee orders a wrong part that was properly requested by a tech.
- C. A customer has multiple issues on the same complaint, and we are trying to split the loss with the service department.
- D. We feel selling the part at cost could help in a CSI situation.
- E. Internal pressure from sales during the recon process to discount the part, or parts on a repair on a recently purchased vehicle.
- F. OBSO parts





A scenario that we might consider selling a part at cost would be if a service contract that we sell and stand by will only cover the cost of the part. Again, in most scenarios, we do not want to discount the labor. Also, there may be a mandate from the dealer that parts are sold to a particular guest at cost.

In almost every situation, the full cost of the part plus mark-up should be charged.





Parts Gross Profit

We can accomplish this by doing the following:

Right size market pricing on repair order mechanical, adjust the matrix to obtain desired results to reach a higher gross profit percentage.

Adjust and increase all internal pricing to match retail.

Apply for a warranty rate increase on parts, which should be able to be done yearly.

Do a wholesale analysis and see which account makes sense to keep and increase the gross

Bodyshop & counter retail deep dive and look for opportunities to increase GP.

The current situation shows YTD
Gross of **\$192.93**

By implementing NADA
Recommend guides for Gross
profit percentages will have
\$372.381.85 in YTD revenue.

Current

Current Situation	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	1.47	1.13	1.40	1.17	1.39	1.30	1.31
Desired Gross %	32.00	11.70	28.40	14.70	28.00	23.20	23.00
NEW YTD Sales	\$345,658.82	\$289,298.98	\$105,819.83	\$345,851.11	\$356,547.22	\$222,807.29	\$1,665,983.26
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	\$103.82	\$46.98	\$11.83	\$0.00	\$0.00	\$30.29	\$192.93

Guide

w/NADA Guides		Repair Order Mechanical	Body Shop	Counter Retail	Internal (new/used)	Wholesale	Warranty	TOTAL
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NEW Mark-Up Factor		1.69	1.43	1.69	1.69	1.39	1.69	1.60
Desired Gross %		41.00	30.00	41.00	41.00	28.00	41.00	37.00
NEW YTD Sales		\$398,386.44	\$364,930.00	\$128,418.64	\$500,018.64	\$356,547.22	\$290,027.12	\$2,038,328.07
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	\$75,678.00	\$22,610.64	\$154,011.64	\$0.00	\$67,250.12	\$372,381.85

In almost every situation, the full cost of the part plus mark-up should be charged.

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Monthly Reconciliation Of Parts To General Ledger

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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	\$	21,551	
Inventory Core Value - clean	\$	15,031	
Cores to be returned for credit - dirty	\$	13,406	
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 (shortage claims, damage, etc.)	\$	5,076	
Total Inventory	\$	700,329	
Inventory Per Financial Statement	\$	627,903	
Difference	\$	72,426	11.53%

Recommendation

DOUBLE-CHECK ENTRIES:

Review all entries in both your dealership management report and financial statements to ensure there are no data entry errors. Verify that all transactions are recorded accurately.

INVESTIGATE MISSING TRANSACTIONS:

Look for missing transactions that might not have been recorded in either the dealership management report or the financial statements. This includes parts received but not invoiced, and parts returned but not credited.

VERIFY INVENTORY COUNTS:

Conduct a physical inventory count to ensure that the recorded inventory matches the actual inventory on hand. Discrepancies can arise from theft, loss, or misplacement of parts.

Recommendation

CHECK FOR TIMING DIFFERENCES:

Identify any timing differences between when transactions are recorded in the dealership management report and when they are reflected in the financial statements. This can include parts received at the end of the month but not invoiced until the next month.

REVIEW ADJUSTMENTS:

Examine all adjustments made for shortages, damages, or other claims. Ensure that these adjustments are accurately reflected in both the dealership management report and the financial statements.

AUDIT WORK IN PROCESS:

Audit the work in process accounts to ensure that all repair orders and invoices are correctly accounted for. Verify that the values assigned to work in process are accurate and complete.

Recommendation

RECONCILE CORE VALUES:

Reconcile the core values for clean and dirty cores. Ensure that all cores returned for credit are properly documented and that the values are accurately reflected in the financial statements.

REVIEW NON- PRODUCTIVE PARTS (NPN):

Check the dollar value of NPN parts to ensure they are correctly recorded. These parts might not have a direct cost record but should still be accounted for in the inventory.

CONSULT WITH ACCOUNTING:

Work with your accounting department to review the reconciliation process. They might have insights or identify areas that need further investigation.



Recommendation

DOCUMENT FINDINGS:

Keep detailed records of your findings and the steps taken to resolve discrepancies. This documentation can help in future reconciliations and audits.



SWOT Analysis

SWOT

Big Service Shop – 27 Tech & 35 Stalls
Retail Grow Potential
Strong Wholesale Business
Parts Department Actively Working

Strong Pricing Matrix
Retail Parts Training
Put in Place a Lost Sale Log
Use the accumulated MFG return allowance / credits earned to return parts
Sell online (ebay, Facebook Marketplace, etc)

WEAKNESSES

THREATS

STRENGTHS

OPPORTUNITIES

Monthly Salas of \$61K with no GP
Parts and Service receivables High
\$255,000 – 44% Stock \$ Value
43% of total purchases are emergency purchases
Retail sales represent only 6.3%

30% of the Stock is Obsolete
Retail Business almost lost
No measuring of the Lost Sales
Losing Technicians and Customers
High dependance on Emergency Purchases. Increasing of costs

Parts Department Chart

Nine Parts Department Employees

Organizational Chart



Parts Employee Productivity YTD				
Category	Dollar Amount	÷	# Employees	= Per Employee
Sales (Total)	\$ 1,666,114.00	÷	9	= \$ 185,123.78
Gross Profit	\$ 377,007.00	÷		= \$ 41,889.67
Expenses (Total)	\$ 376,105.00	÷		= \$ 41,789.44
Department Net Profit	\$ 902.00	÷		= \$ 100.22

The proposal is to maintain the nine employees working in the positions described in the organization chart above. The actual weight of sales is produced by the workshop with 72% and wholesale with 21%. Retail sales is the area of opportunity. By implementing NADA Recommend guides for Gross profit percentages will have \$372.381.85 in YTD revenue. The number of current employees will be supported by the revenues and profits generated.

Team Recommendation

We would recommend the purchase of the store based on the following initiative:

- **Put in place the Plan proposed to get rid of OBSO**
- **Implement NADA Recommend guides for Gross profit percentages**
- **Train the Parts Department Personnel**
- **Follow all the recommendations showed in the presentation**

Thank you

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