

**GARY LANG GM**

**WEEK 5 PARTS**

**N 352**

**JEFFREY L LANG**

**REDUCTION OF OBSOLETE PARTS**

## **CURRENT SITUATION**

The biggest challenge in our parts department like many others is obsolete parts. Currently we have almost \$76,000 in parts never sold and another \$75,000 in technically obsolete parts representing roughly 28% of our inventory. Since we are a GM store with 18 months phase out. I have broken the numbers down even further to \$35,000 of those parts being over 18 months old and representing 20 % of our inventory and \$110,000 in frozen capital. The DMS also shows a first-time fill rate of 90 % while the 50-question survey tells me its 48%.

During my casual observation of our parts department I noticed several practices that I believe contribute to our obsolete inventory and poor fill rate. We were not requiring deposits let alone full payment for customer pay special order parts. The understanding of what constitutes a lost sale was basically understood but there was some confusion on some questions surveyed. We do not seem to be posting lost sales nearly as often as we should. During the entire month of December, we posted 6 lost sales that amounted to \$500 in cost and have yet to post one for the month of January. There seem to be a high number of special ordered parts incorrectly ordered by the technicians or parts counter men that are never installed on the vehicle, this is substantiated by the \$75,000 in numbers never sold. In addition to this we have 1500 pieces that have been written down with no cost available in the report. (I am trying to get an accurate cost as of the writing of this report) Through an informal discussion with the technicians there seems to be an indifferent attitude among some of the younger parts counter men and they seem to lack training.

## **OVERALL OBJECTIVE**

As mentioned above we have a technically obsolete inventory of \$150K which represents 28% of our inventory and another 12K and 4% potentially obsolete inventory. Because of GM stocking requirements and the nature of the parts business I don't believe we can ever achieve an inventory with zero obsolete parts. I believe we can reduce parts not sold to nothing over 20 months no sale and less than \$5,000 in inventory in this category. My goal is also to reduce the inventory "Never Sold" category to less than \$5,000 at any given time. I have broken down my action plan into 9 key components with a timeline and the stakeholders in the following pages.

# **ACTION PLAN**

## **DEPARTMENT MEETING 2/1/20**

### **Dealer Principal, GM, Parts Manager**

Schedule a meeting with the parts manager, dealer principal and controller to discuss the action plan, make necessary amendments, and confirm the below timeline. This is not a time to assign blame or point fingers but a time to refine this plan, discuss the challenges and expectations before proceeding. We will have better success when there is complete buy in and a clear laid out path.

## **EDUCATION 3/1/20**

### **Parts Manager, Service Manager, Counter men**

I believe our obsolete inventory problem stems from a lack of education. Many counter men and technicians do not know the dramatic cost of incorrectly ordered parts. This not only costs the parts department but also contributes to lost proficiency in the shop and ultimately effects everyone's paychecks. I feel that emphasizing this point will go a long way toward accurate orders. I would also recommend enrolling all the counter men in online DMS parts catalog training and possibly classroom training for the less experienced counter men. No matter how proficient a counter man is there is always something to be learned and this will also go a long way toward accurate parts orders. We must also emphasize the importance of posting a lost sale and the effects it has on the proper stocking. The technicians also need to be educated on the cost of obsolescence. In addition to this I suggest sending both the service manager and parts manger to NADA Academy parts class preferably together if we can schedule this.

## **FULL PAY ON SOP 1/1/20**

### **Parts Manager**

Immediately require deposits on all Special-order parts. Minimal restocking fee is 20% and absolutely no returns on electrical parts.

## **POSTING LOST SALES 1/1/20**

### **Parts Manger/Counter people**

The lost sale decision tree is to be prominently placed under the glass overlay on the parts counter to remind counter men of the importance of this process.

## **TRACKING 3/1/20**

### **Parts Manger**

As mentioned above through some casual conversations with the parts manager and counter men there seems to be a disproportionate amount of wrong ordered parts or parts never installed on the vehicle. This is further substantiated by the \$75000 in never sold parts sitting in our inventory. This may be a result of poor diagnosis, a tech wanting to get the car out of their stall, incorrectly ordered by counter man or pressure from the service advisor to order a part in the lane. Without accurately tracking these trends however this is just speculation. I would suggest we immediately start tracking every part not installed after 30 days to see what patterns emerge. We can then take corrective action. (See figure A Below)

**Figure A**



- \$500 Monthly bonus for least "Not Installed Parts"
- Evaluate chronic offenders and consider placing limits on ordering authority unless shop foreman or SM approves.

### **Parts Manager**

- \$1000 Bonus Monthly for keeping obsolete parts (over 20 Months no sale to account for GM phase out) under \$5000. Review exception report monthly to track discounting not to exceed 10% less than cost on obsolete parts sales)

- Reserve Obsolete parts from commissionable gross and add back in when sold. Evaluate periodically to make sure they are not being billed and restocked to record a "Hit"

## **DISPOSAL OF OBSOLETE PARTS**

### **Parts Manger/Clerical Staff 3/1/20**

The dead obsolete inventory discussed above needs to be disposed of as soon as possible as it loses value monthly. Parts are currently on "Parts Eye" and the GM locator; we advertise free shipping and a specific discount under cost on all obsolete parts. I recommend opening an E Bay store and loading all obsolete parts as well as our regular parts inventory to the site with appropriate discounts based on age of part. I am also suggesting we look strongly into opening an Amazon store. Loading and pricing these parts can be very tedious and are not an effective use of the parts mangers time so for that reason I suggest using front office staff to assist our PM. Some additional research is needed on opening and maintaining both the E-bay and Amazon stores since this is new territory to us. Both of these seem to be an excellent avenue to dispose of obsolete inventory and bolster retail sales.

## **MEASUREMENT TIMELINE**

3/2/20 Education and process put in place

4/6/20 \$10,000 reduction in Obsolete inventory, Evaluate Fill rate, Parts not installed, Training

5/4/20 \$10,000 reduction in Obsolete inventory, Evaluate Fill rate, Parts not installed, Training

6/1/20 \$10,000 reduction in Obsolete inventory, Evaluate Fill rate, Parts not installed, Training

7/6/20 \$10,000 reduction in Obsolete inventory, Evaluate Fill rate, Parts not installed, Training

8/3/20 \$10,000 reduction in Obsolete inventory, Evaluate Fill rate, Parts not installed, Training

9/7/20 \$10,000 reduction in Obsolete inventory, Evaluate Fill rate, Parts not installed, Training.

10/1/20 We should have obsolete inventory (Over 20 months no sales) to less than \$5000

## **COST**

### **Parts discounts**

It is difficult to quantify the discounts we will need to take on obsolete inventory, but I would estimate 50% therefore approximately \$60,000 in parts discounts.

### **Incentives**

Spiffs /Incentives \$24,000 annually assuming PM hits his obsolete parts goal

### **Training**

\$500 max estimate per counter men for offsite parts catalog training

**Clerical staff**

\$1920. Estimated \$12 Hourly x 40 @ 4 weeks estimated to post and adjust pricing on obsolete parts.