Fixed Operations – 1 Parts

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Contents

Activity: Picture Your Parts Department

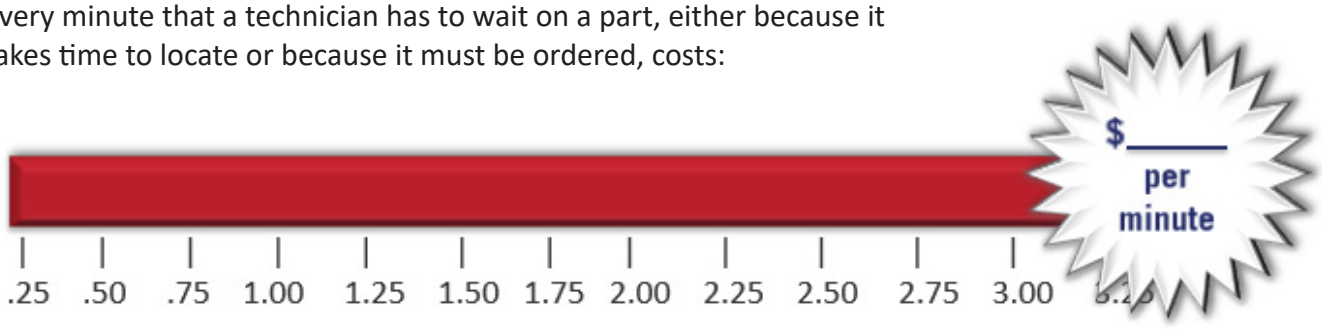
1. As a team, agree on three words that describe your parts departments.
2. Illustrate those three words on your flip chart using only pictures.

Parts Department Doodles

First-Time Fill Rate (FTFR): Why Does It Matter?

FTFR: Rate at which your parts department can supply a part the first time it is requested.

Every minute that a technician has to wait on a part, either because it takes time to locate or because it must be ordered, costs:



Effects of a Higher First-Time Fill Rate

Record some possible effects of a higher first-time fill rate. Consider all departments.

Activity: Vision Statement: The Big Picture

Vision Statements should be inspiring. For example:

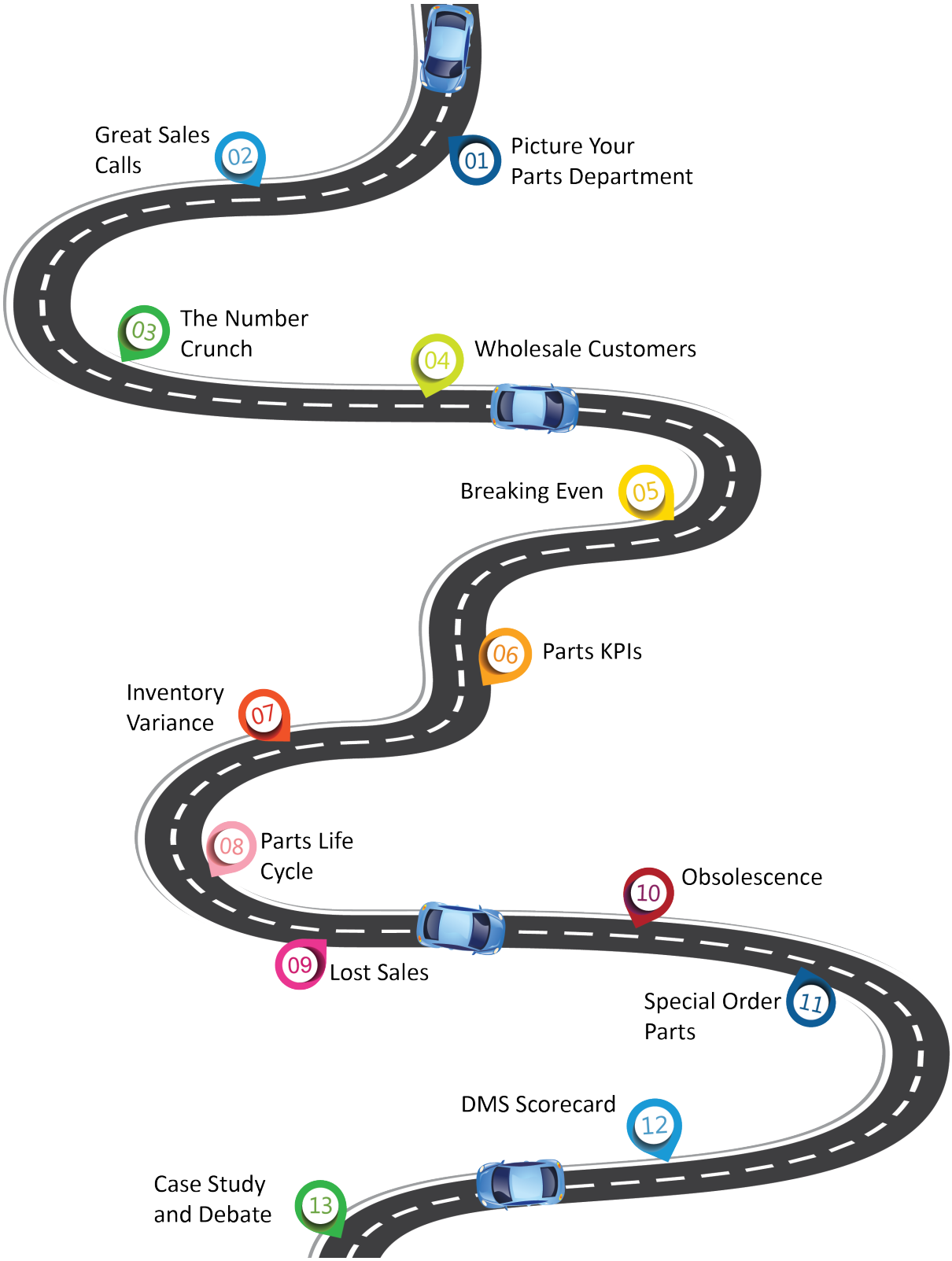
- **Google**: *Provide access to the world's information in one click.*
- **Ritz-Carlton:** *Inspire life's most meaningful journeys.*
- **Ikea**: *Create a better everyday life for the many people.*
- **Nike:** *Bring inspiration and innovation to every athlete in the world (if you have a body, you are an athlete).*
- **Disney:** *Make people happy.*

Your Parts Department's vision statement...

- Does it have one?
- Should it?

Work in your teams to develop a parts department vision statement. Think about what your parts department would look like if it succeeded 100% of the time.

Journey Through Parts



Pre-Class Assessment

1. What is the number one priority of the Parts Department?

2. What is First Time Fill Rate (FTFR)?

3. What is a stock part?

4. What is a non-stock part?

5. Should a dealer add every part to their DMS? Why or why not?

6. How would you define a lost sale?

7. Which inventory dollar investment is more accurate, the one on the DMS or the one on the Financial Statement? Why?

8. Define obsolescence.

9. What is an acceptable level of obsolescence as a percent of total inventory?

Activity: Website Audit

1. Work with a partner to review each other's websites. Consider the following:

- ☐ The parts department has its own web page.
- ☐ The parts department page is easy to find. For example, does it link directly from the main page or is it hidden under Service?

_____

_____

_____

- ☐ The parts department page includes appropriate features:
  - ☐ Correct hours of operation
  - ☐ Correct contact information
  - ☐ Current featured specials and coupons
  - ☐ Parts catalog lookup by:
    - ☐ Make
    - ☐ Model
    - ☐ Year
    - ☐ VIN
    - ☐ Part Number
  - ☐ Links to accessory information:
    - ☐ On your own site
    - ☐ On your manufacturer's site
  - ☐ A working search feature
  - ☐ A parts order form (or a link to one)
  - ☐ Common parts (e.g., batteries, filters, tires, etc.) in a prominent position with links to order
  - ☐ Link to schedule service
  - ☐ Other features (e.g., blogs, videos, brochures, how-to-guides, etc.)

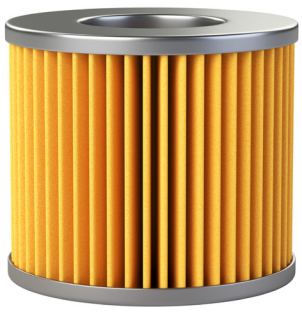
_____ How many required fields does your order form have?

_____ How long does it take to receive a response to an order form lead?

Activity: Website Audit Continued

2. What other observations do you have about your dealership website and your fixed operations pages (parts and service)?

3. Go to Amazon.com and walk through the steps required to find and order a common oil filter. How does it compare to finding and ordering a filter on your site?



What Makes a Great Sales Call?

Record the characteristics of a great sales call.

Order Takers

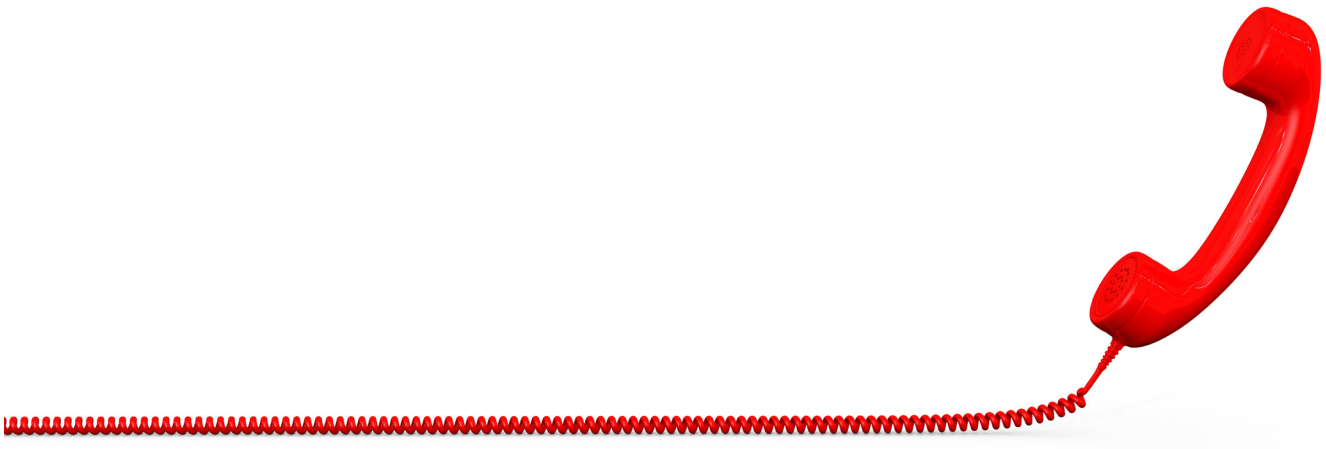
Order Makers

Mystery Shop

Record your observations from the mystery shop phone calls. Identify three things that could be improved.

Activity: Improving the Sale

Work in your teams to create a job aid that your parts employees can use to improve their phone customer service.



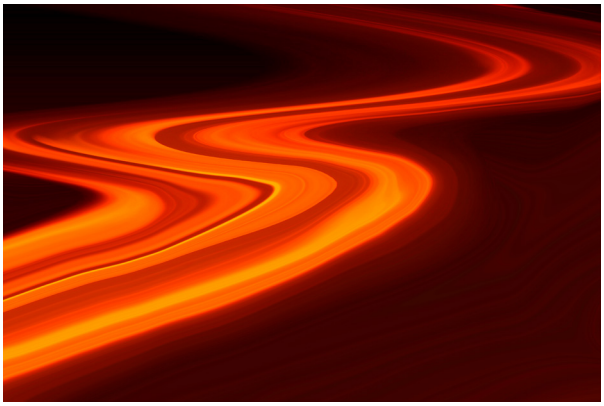
Activity: Improving the Sale

Work in your teams to develop a strategy to get your parts employees to use the job aid you developed. Consider the parts manager's role.

Differentiating Your Dealership

Describe some ways in which your dealership goes the extra mile for your customers.

Record some best practices from the class discussion that you might be able to use at your dealership.



Sales, Gross, and Expense Financial Statement Mapping

Acura:			**Hyundai:**			**Nissan:**		
Sales & Gross	Pg 4	L 52	Sales & Gross	Pg 5	L 40 ->	Sales & Gross	Pg 7	L 2->
Expenses	Pg 3	L 66	Expenses	Pg 3	L 62	Expenses	Pg 3	L 52
Audi:			**Infiniti:**			**Porsche:**		
Sales & Gross	Pg 9	L 35	Sales & Gross	Pg 6	L 31 ->	Sales & Gross	Pg 8	L 24 ->
Expenses	Pg 4	L 64	Expenses	Pg 3	L 52	Expenses	Pg 6 +14%	L 30 of L 64
BMW:			**Jaguar & Land Rover:**					
Sales & Gross	Pg 6	L 12	Jag. Sls & Grs	Pg 5	L 23-30	**Subaru:**		
Expenses	Pg 3	L 61	LR Sls & Grs	Pg 5	L 36-44	Sales & Gross	Pg 5	L 27->
			Expenses	Pg 3	L 63	Expenses	Pg 3	L 61
FCA:								
Sales & Gross	Pg 5	L 22	**Kia:**			**Toyota:**		
Sales Expenses	Pg 2	L 42	Sales & Gross	Pg 5	L 23->	Sales & Gross	Pg 6	L 46->
Fixed Expenses	Pg 6	L 60	Expenses	Pg 3	L 60	Expenses	Pg 3	L 55
Ferrari:			**Lexus:**			**Volkswagen:**		
Sales & Gross	Pg 5	L 16	Sales & Gross	Pg 6	L 45->	Sales & Gross	Pg 6	L 35->
Expenses	Pg 3	L 64	Expenses	Pg 3	L 52	Expenses	Pg 3	L 63
Ford:			**Maserati:**			**Volvo:**		
Sales & Gross	Pg 5	L 1 ->	Sales & Gross	Pg 5	L 16->	Sales & Gross	Pg 5	L 21->
Expenses	Pg 2	L 5 & L9	Expenses	Pg 3	L 66	Expenses	Pg 3	L 63
GM:			**Mercedes:**					
Sales & Gross	Pg 6	L 45 ->	Sales & Gross	Pg 9	L 21->			
Expenses	Pg 4	L 57	Expenses	Pg 4	L 60			
Honda:			**Mitsubishi:**					
Sales & Gross	Pg 4	L 53 ->	Sales & Gross	Pg 9	L 58->			
Expenses	Pg 3	L 66	Expenses	Pg 4	L 65			

Sales and Sales Distribution

Use your financial statement sales and gross page or the addendum sheet to calculate the percentage of total for each area.

Step One

Locate all the categories on the financial statement or addendum sheet and fill out the sales column with month-to-date (MTD) numbers.

Step Two

Calculate % of Total.

Category
÷ Total
= % of Total

Example with Composite References

Sales Distribution MTD		
Category (Page 39)	Sales	% of Total
Repair Order	488,373	54%
Quick Service	4,306	0.5%
Warranty	204,216	23%
RO Body	106,352	12%
Internal	54,387	6%
Counter Retail	11,284	1%
Wholesale	25,673	3%
Accessories	6,278	0.5%
Total Department (MTD)	$900,869	100%

Category 488,373
Total ÷ 900,869
% of Total = 54%

Activity: Parts Sales Distribution (Fill in **Sales** and **% of Total**)

Category
÷ Total
= % of Total

Sales Distribution MTD		
Category (Page 39)	Sales	% of Total
Repair Order		%
Quick Service		%
Warranty		%
RO Body		%
Internal		%
Counter Retail		%
Wholesale		%
Accessories		%
Total Department (MTD)		100%

There are no NADA guides for sales numbers; they will vary depending on location and brand.

Notes

After this page, go to your FS Parts Excel Template.

Gross Profit Contribution (Fill in the Blanks)

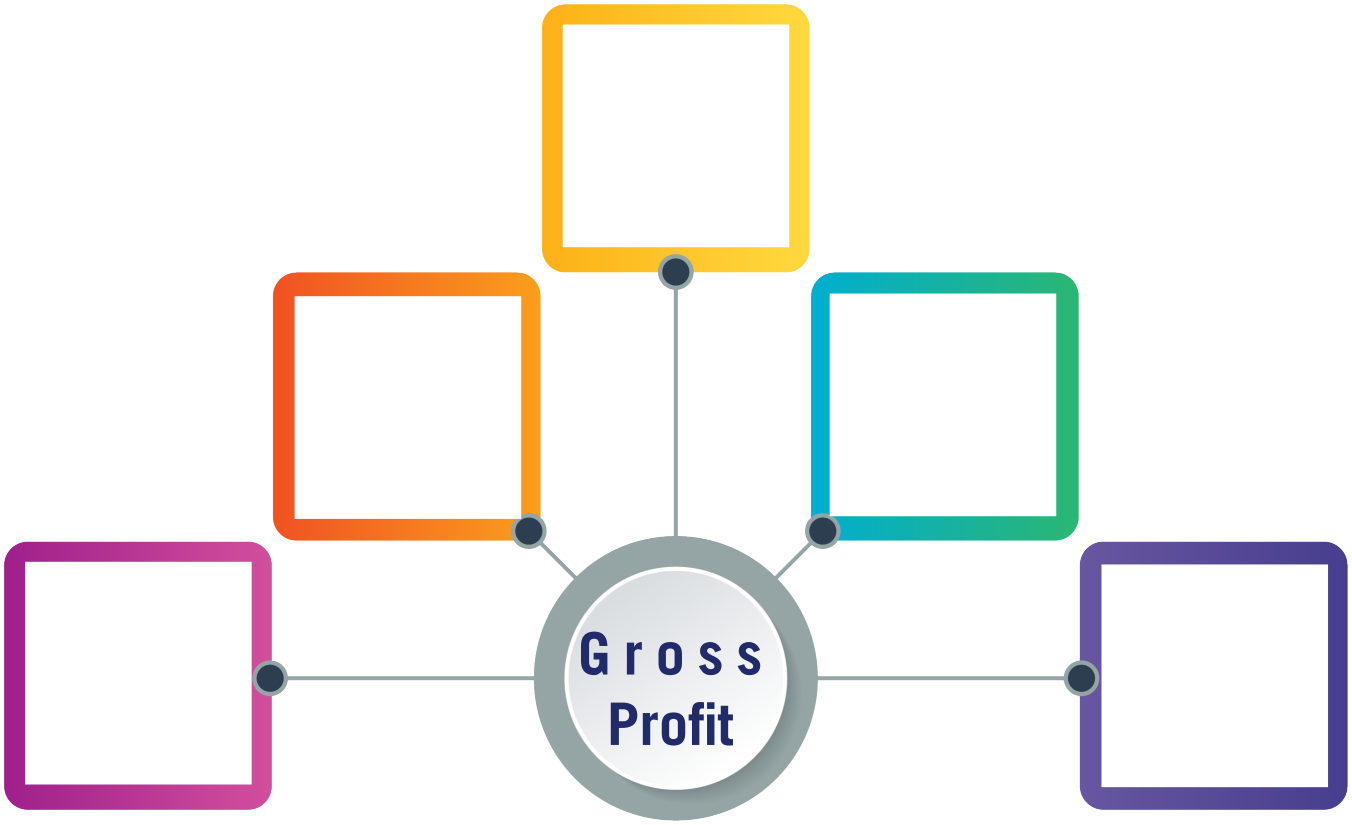
Use your financial statement to calculate the percentage of the total and percentage of sales for each area and compare the results to the profile percentage.

Gross Profit Contribution MTD				
Category (P39)	**Gross**	**% of Total**	**% of Sales**	**Car Profile %**
Repair Order	$	%	%	41%
Quick Service	$	%	%	15-20%
Warranty	$	%	%	28-40%
RO Body	$	%	%	25-30%
Internal	$	%	%	41%
Counter Retail	$	%	%	41%
Wholesale	$	%	%	20%-25%
Accessories	$	%	%	20%
Total Department (MTD)	**$**	**100%**	**%**	**38%**

After this page, go to your FS Parts Excel Template.

Gross Profit Chompers

Record the most common gross profit chompers.



Parts Department – Pro Forma Calculation

Parts Department – Pro Forma Calculation	Repair Order Mechanical	Repair Order Body Shop	Counter Retail	Internal (new/used)	Wholesale	Warranty	Total
YTD Sales							
YTD Gross Profit							
YTD Cost of Sales							
New Markup 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	33.33
New YTD Sales							
Old YTD Sales							
Additional Gross Profit							

Accessory Pro Forma

Aces of Accessories

Dealerships for these brands stand out in accessory sales during the first 120 days of new-vehicle ownership.

Brand	Average	At Dealership	Elsewhere
BMW	$808	$717	$91
Audi	$682	$586	$96
Mercedes-Benz	$676	$490	$186
Acura	$650	$580	$70
Industry Average	$388	$247	$141

Source: "Inside the Accessory Buyer's Mind," Foresight Research

What Are You Missing with Accessory Sales?

If you sold $247 at 28% GP, how much parts gross would you make? _____

With a one-to-one ratio, how much labor would you sell? + _____

How much labor would you make at 73% gross? _____

Total parts and labor gross per accessory sale. = _____

Multiply the total by the number of New Vehicles sold YTD. x _____

Potential Accessory Gross Profit. = _____

Accessory Sales Opportunity

- The Vehicle Accessory Market equals $40 billion a year.
  - 90% of that is spent within 90 days of vehicle purchase.
- While accessory sales vary by brand and dealership, sales of the items more than double at stores in which salespeople discuss accessories with customers.
  - Only 43% of new vehicle buyers recalled a conversation about accessories on the showroom floor.

Source: *Automotive News*

Calculating Markup Factor for a Desired Gross Profit (DGP) %

Start with	_____
Minus DGP	– _____
Equals Difference	= _____

Start with	_____
Divide by Difference	÷ _____
Equals Markup Factor	= _____

Double Check

Cost of Sublet or Part		
Multiply by Markup Factor	x _____	x _____
Equals Sale Price	= _____	= _____
Subtract Cost of Sublet or Part	– _____	– _____
Equals Gross Profit	= _____	= _____
Divide by Sale Price	÷ _____	÷ _____
Equals Desired Gross Profit	= _____	= _____

Matrix Pricing

Matrix pricing allows you to apply different markup factors to different ranges of prices in a consistent fashion using your DMS, which can contribute to increased profits. For example, your matrix could apply a markup factor of 3.0 times to parts that cost you from $0.01 to $2.00, and then apply a different markup factor of 2.7 times to parts that cost you from $2.01 to $3.50. You can set it up so that the matrix doesn't apply to certain categories (sources) of parts, like parts that won't sell if they are marked up from the factory-level prices (e.g., oil filters, air filters, engines, transmissions, etc.).

You can also set your DMS so that it applies different matrices to different customers, like wholesale customers who may buy enough from you to earn a special discount. There is an override feature as well, so you can adjust pricing for individual sales if necessary. Remember, matrix pricing should be examined thoroughly before installation. It is personal to your dealership. NADA training provides examples, but you must tailor them to your dealership situation/location/competition.

Who controls pricing? _____

Domestic Example

Part Cost	Markup Factor
$.01 - 2.00	3.0
$ 2.01 - 3.50	2.7
$ 3.51 - 5.00	2.5
$ 5.01 - 7.50	2.3
$ 7.51 - 9.00	2.2
$ 9.01 - 15.00	2.1
$ 15.01 - 25.00	2.0
$ 25.01 - 175.00	1.75
$ 175.01 - 225.00	1.7
Over $ 225.00	Refer to MSRP

Calculation

Part Cost	$
Markup Factor	x_____
Dealer Retail	$

Import Example

Part Cost	Markup Factor
$.01 - 4.00	3.5
$ 4.01 - 6.00	3.2
$ 6.01 - 7.50	3.0
$ 7.51 - 9.00	2.7
$ 9.01 - 15.00	2.5
$ 15.01 - 25.00	2.3
$ 25.01 - 50.00	2.1
$ 50.01 - 65.00	2.0
$ 65.01 - 80.00	1.95
$ 80.01 - 100.00	1.85
$ 100.01 - 150.00	1.83
$ 150.01 - 190.00	1.80
$ 190.01 - 225.00	1.78
$ 225.01 - 250.00	1.75
$ 250.00 - Over	Refer to MSRP

Parts Department Best Practice

Some DMSs have a function to allow the parts department to increase the part price to end in 99 cents. For example, a part billed at $2.15 will automatically increase to $2.99. This feature can be turned on for different pay levels so it does not interfere with anything sold to a wholesale customer. This is additional gross profit for the dealership, and depending upon how many transactions are done on a monthly basis, it could be significant.

PL1 Name Matrix PPL 1

LN#	Source	Base	COMP OVR +/-	COMP OVR %	GP%	Y/N	RMO RMO COMP	RMO RMO +/-	RMO RMO %	RMO RMO Y/N	RMO RMO AMT
1	1		+	0.00	0.0	N				Y	0.99
2	2	5	+	0.00	0.0	N				Y	0.99
3	3	5	+	0.00	0.0	N				Y	0.99
4	4	5	+	0.00	0.0	N				Y	0.99
5	5	5	+	0.00	0.0	N				Y	0.99
6	6	5	+	0.00	0.0	N				Y	0.99
7	7	5	+	0.00	0.0	N				Y	0.99
8	8	5	+	0.00	0.0	N				Y	0.99
9	10	1	+	0.00	0.0	N				Y	0.99
10	13	1	+	0.00	10.0	N				N	

Price Rounding Y To Next 99 (eg. 99) or (eg. X9) Selling Y (Y/N) List N (Y/N)

From		Up To	Selling Price Percentage %				Discount Calc %
.01	-	.10	975.000	% of	C	Cost/List/Trade	.000
.11	-	.20	950.000	% of	C	Cost/List/Trade	.000
.21	-	.30	925.000	% of	C	Cost/List/Trade	.000
.31	-	.40	900.000	% of	C	Cost/List/Trade	.000
.41	-	.50	875.000	% of	C	Cost/List/Trade	.000
.51	-	.60	850.000	% of	C	Cost/List/Trade	.000
.61	-	.70	825.000	% of	C	Cost/List/Trade	.000
.71	-	.80	800.000	% of	C	Cost/List/Trade	.000
.81	-	.90	795.000	% of	C	Cost/List/Trade	.000
.91	-	1.00	775.000	% of	C	Cost/List/Trade	.000
1.01	-	2.00	650.000	% of	C	Cost/List/Trade	.000
2.01	-	4.00	400.000	% of	C	Cost/List/Trade	.000
4.01	-	8.00	150.000	% of	C	Cost/List/Trade	.000
8.01	-	10.00	125.000	% of	C	Cost/List/Trade	.000
10.01	-	15.00	100.000	% of	L	Cost/List/Trade	.000

Five Levels of Pricing

Notes

Grading Your Wholesale Customers

What Makes a Customer a Wholesale Customer?

- Entities that are exempt from sales tax, either by exemption (e.g., churches) or by registering with the state (by being issued a tax ID certificate).
- Parts are bought for resale.

Who Are Wholesale Customers?

- Body Shops
- Independent repair facilities (e.g., garage, gas stations, etc.)
- Municipalities (e.g., city, county, state entities)
- Schools and churches

What are Tax IDs and Why Are they Important?

- State Tax IDs/Reseller permit certificates
  - Certificates should be current and on file.
  - Should be updated annually (along with contact info, phone, and email).
  - Make sure that the sales tax collected is correct.

Wholesale Comparison

- You work 3 times as hard to make a dollar in wholesale than you do in retail.
- Most body shops return about 15% of what they purchase.
- If you are making 6-8% gross profit in wholesale, are you making money?
- NADA considers wholesale breakeven to be approximately 17%.

Wholesale Customers

Activity: Wholesale Customer Case Studies, Part 1

1. Work in your teams to complete the activity.

2. Read the **scenario** and review the **sales report** provided by the parts manager.

3. Create a classification system with criteria to distinguish your best wholesale customers from your not-so-great wholesale customers.

4. Classify the customers on the parts manager's sales report. Record your top three and bottom three on chart paper. Be prepared to explain why you chose them.

Scenario

Your Dealer Principal (DP) has just returned from a 20 Group meeting with several action items to tackle before the next meeting. You, the newly appointed General Manager, are given the task of evaluating and improving the dealership's wholesale parts business. The DP was put in the hot seat for being at 16% gross as a percent of sales, which is below both NADA Guide and the 20 Group average. Being the go-getter that you are, you decide to not only tackle gross as a percent of sales but also plan to increase overall wholesale parts sales. You conduct an initial assessment of your wholesale parts performance and practices and find the following:

- Your 20 Group average: 22%
  - NADA Guide: 20-25% (varies based on location and competition)
- YTD sales as of December 2018: $1,916,825
- YTD gross as of December 2018: $306,692
- YTD gross as a percent of sales as of December 2018: 16%
- One dedicated wholesale parts consultant
- Two delivery drivers
- Marketing strategy: Word of mouth, sporadic cold calls.

Activity: Wholesale Customer Case Studies Data

Customer Name	MTD Sales	MTD GP%	MTD Return %	YTD Sales	YTD GP%	YTD Return %	Prior Year Sales	Prior Year GP%	Prior Year Return %	Credit Terms	Acct Status
H & T Ford	$14,548	10.70%	5.60%	$188,829	11.40%	9.10%	$130,820	11.90%	8.50%	Net30	Current
M & B Collision	$19,283	19.00%	12.00%	$192,762	18.60%	9.80%	$200,480	17.90%	11.00%	COD	N/A
B & L All Makes Repair	$6,680	12.00%	5.00%	$108,734	12.70%	10.60%	$120,174	10.50%	16.00%	COD	N/A
M & D Used Cars	$4,968	5.80%	3.60%	$94,439	7.60%	7.40%	$75,785	11.30%	8.90%	Net30	Overdue
M & M Auto Sales	$7,166	7.80%	6.90%	$105,208	7.00%	8.80%	$129,715	13.60%	8.60%	COD	N/A
JD Auto Leader	$1,155	20.00%	1.00%	$1,155	20.00%	1.00%	$36,380	21.21%	2.80%	Net15	Overdue
Import Specialists	$8,441	20.00%	3.30%	$22,147	20.30%	5.00%	$18,772	18.00%	4.70%	Net30	Current
Accidents Happen	$3,355	11.00%	5.60%	$7,755	11.80%	8.20%	$51,225	10.90%	6.00%	Net30	Current
AAAAAuto Collision	$2,215	16.20%	10.00%	$13,447	17.10%	10.00%	$22,800	16.80%	13.00%	Net30	Current
VanaMax	$22,847	24.00%	13.00%	$255,103	25.00%	10.00%	$294,222	24.80%	8.60%	COD	N/A
MFD Car Doctor	$8,003	20.20%	11.70%	$87,321	19.50%	14.00%	$118,972	19.90%	8.20%	Net30	Current
BP Customs	$6,716	14.00%	4.70%	$82,625	18.30%	5.90%	$90,641	18.90%	6.40%	COD	N/A

Activity: Wholesale Customer Case Studies

Describe your classification system.

Activity: Wholesale Customer Case Studies Classifications

Identify your top three and bottom three customers. Explain your choices.

Top Three Customers

1. _____

2. _____

3. _____

Bottom Three Customers

1. _____

2. _____

3. _____

Activity: Wholesale Customer Case Studies Opportunities, Part 2

1. Identify some opportunities for improvement and describe how you can take advantage of them.

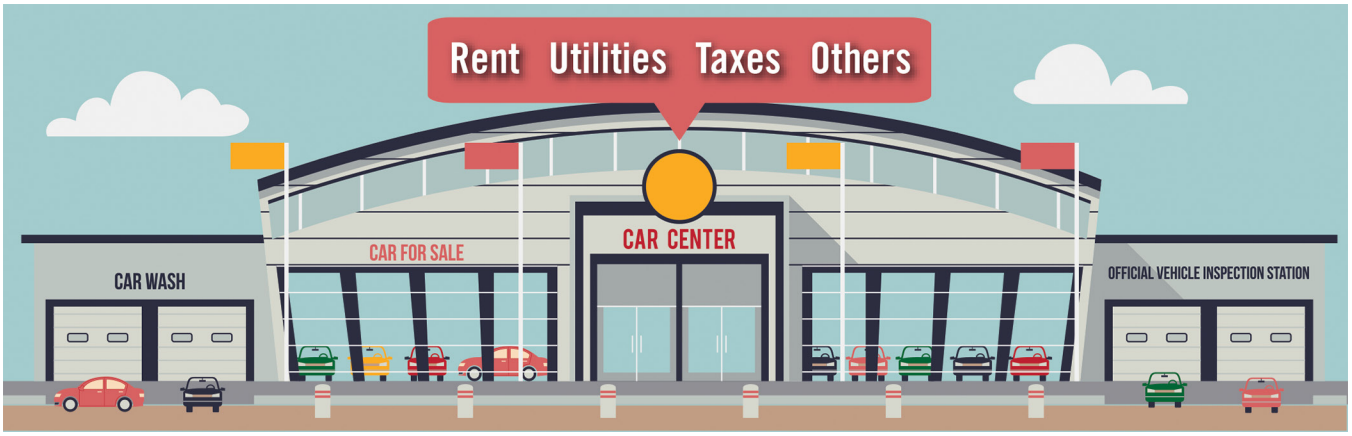
2. Consider incentive programs, like those employed by airlines, hotels, department stores, grocery stores, etc.

Profit Centering – Blank Template

Your Brand			
Expense Category	**Dollar Amount**	**% of Gross**	**Guide**
Department Gross Page 38	$		
Total Expenses	$	%	**80%**
Total Department (Net Operating Profit)	$	%	**20%**

Controllable vs. Fixed Expenses

Fixed expenses cannot be changed by a department. Examples of fixed expenses include:



What expenses can a parts department actually control?

Controllable Expenses

Record some strategies to control expenses.

Breakeven Analysis

Breakeven Analysis	
Category	**Calculation**
Total Parts Department YTD Expense	$
Statement Month (Example: May = 5)	÷
Average Month Parts Department Expense	= $
Parts Gross Retention Percentage (as a Decimal)	÷
Parts Sales Needed per Month to Break Even	= $
Working Days in the Month	÷
Parts Sales Needed per Day to Break Even	= $
Number of Parts Consultants	÷
Parts Sales per Parts Consultant per Day to Break Even	= $

Breakeven Actual Performance

Breakeven Actual Performance Analysis	
Category	**Calculation**
Total Parts Department YTD Sales	$
Statement Month (Example: May = 5)	÷
Average Month Parts Department Sales	= $
Working Days in the Month	÷
Parts Sales per Day	= $
Number of Parts Consultants	÷
Parts Sales per Consultants per Day	= $
Sales per Consultant per Day to Break Even	– $
Over/Under Sales per Parts Consultant per Day	= $

Notes

Parts Employee Productivity

Do you have a sales and gross per employee problem?

Compare guide to sales and gross per employee to determine opportunities.

Parts Employee Productivity MTD					
Category	**Dollar Amount**	**÷**	**All Parts Employees**	**=**	**Per Employee**
Sales (Total)	$	÷		=	$
Gross Profit	$	÷		=	$
Expenses (Total)	$	÷		=	$
Department Net Profit	$	÷		=	$

Domestic parts sales per employee:	$45,000+
Domestic parts gross profit per employee:	$15,000+
Import parts sales per employee:	$50,000+
Import parts gross per employee:	$20,000+
High-line parts sales per employee:	$63,000+
High-line parts gross per employee:	$22,000+

From Recent NADA 20 Group Data

NOTE: Large wholesale dealers will have higher sales and lower gross than above.

If you have a sales or gross deficiency, where do you look first to improve?

Key Performance Indicators (KPIs)

What gets measured gets done.

What doesn't get measured, gets forgotten.

Parts Department KPIs - NADA Guides

1.5 Months' Supply

6-8 Gross Turns

4-6 True Turns

90% First Time Fill Rate

95% Same Day Fill Rate

6% Idle Capital Dollar Reduction

Months' Supply

Months' Supply Formula

$$\frac{\text{Inventory Value}}{\text{Average Monthly Cost of Sale}} = \text{Months' Supply}$$

Example

$$\frac{\$750{,}000}{\$300{,}000} = 2.5$$

NADA Guide

1.5 Months' Supply

Inventory Investment

- What does it suggest if you are above guide?

_____

_____

- What does it suggest if you are below guide?

_____

_____

Gross and True Turns – The Critical Difference

Parts Inventory Gross Turns

- Gross turn is the number of times the total dollar investment in parts inventory is turned.
- It is not an indication of how "healthy" your inventory is.
- You can conceivably sell a lot of parts through the parts department and not move a whole lot of shelf stock.
- This could be the case if the dealership has excessive emergency purchases.

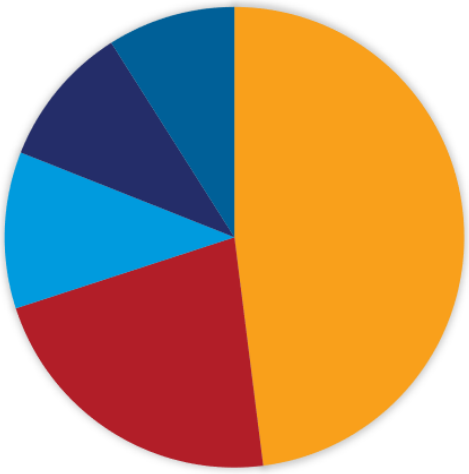
6-8 Gross Turns

Parts Inventory True Turns

- True turn is a much better indication of how well the inventory is being managed.
- It is a calculation of the number of times the stock order purchases are being sold and replaced.
- However, even though the inventory has a good true turn figure, there could be other problems that can result in frozen capital.

4-6 True Turns

Gross Turn



Fill Rates

First Time Fill Rate (FTFR): Rate at which the parts department can provide a part the *first time* it is requested.

Same Day Fill Rate (SDFR): Rate at which the parts department can provide a part the *same day* it is requested.

What is Idle Capital?

- Potential obsolescence: 7-12 months aged parts
- Technical obsolescence: 12 months and older
- New part no sales: Why do we have them?
- Forced stock: Returns
- Excess inventory: Extra depth

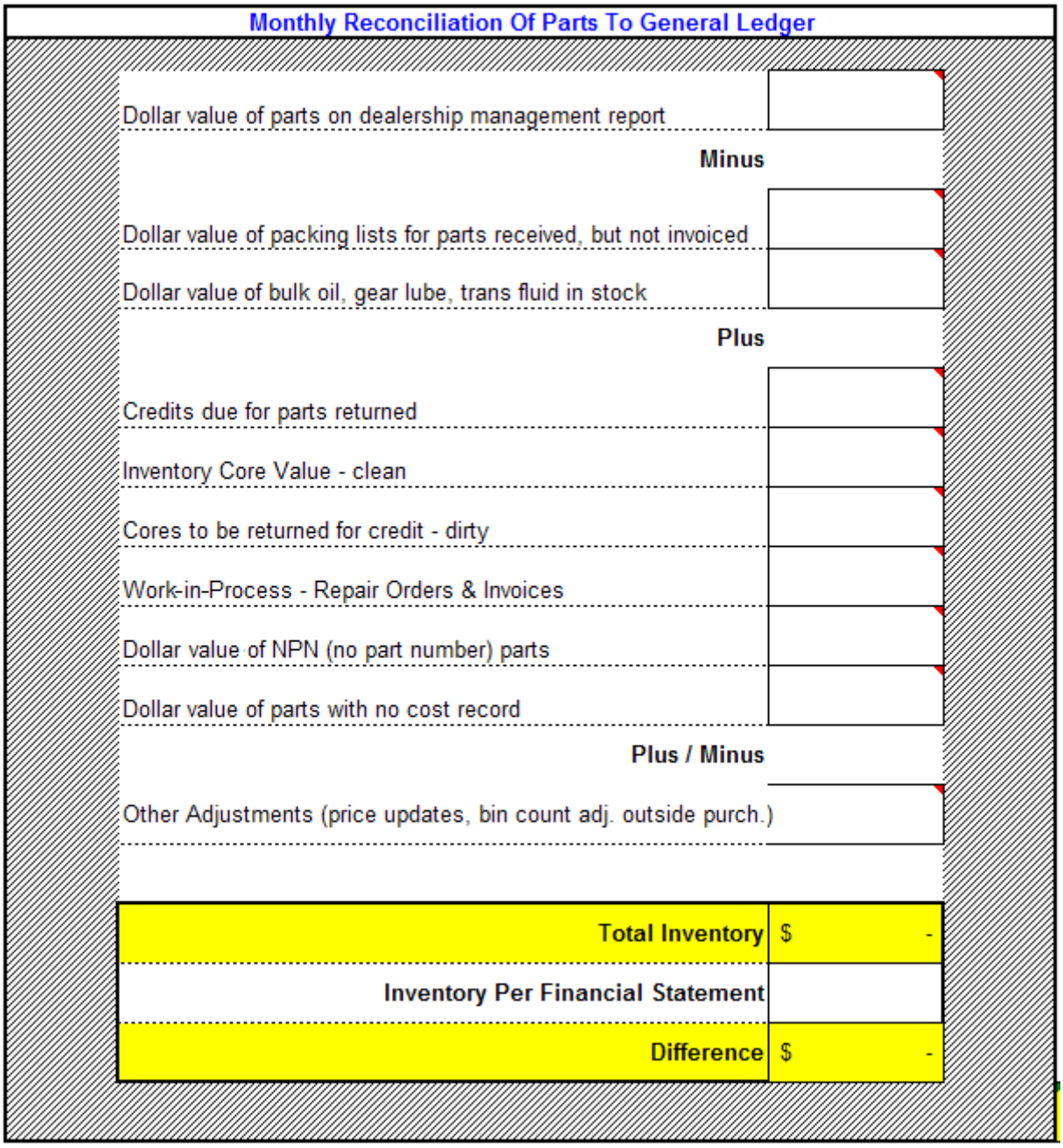
6% Idle Capital Dollar Reduction

Notes

Reconciliation Scenario

1.	Bin count adjustments	–$396
2.	Price updates from OE	+$2,227
3.	Outside purchase	–$4,355
4.	Outside purchases	+$2,938
5.	DMS EOM (end of month)	$557,839
6.	Clean core	$3,217
7.	Dirty core	$3,722
8.	Dirty cores returned, no credit yet	$2,334
9.	NPN (no part number) parts	$3,712
10.	WIP service ROs	$19,051
11.	WIP body shop ROs	$4,912
12.	Bulk oil	$1,539
13.	Bulk trans fluid	$1,033
14.	Pack lists parts received but not invoiced	$887
15.	Parts with no cost	$0
16.	Negative-on-hand parts	$3,382
17.	Financial statement inventory	$566,039

Monthly Reconciliation of Parts to General Ledger

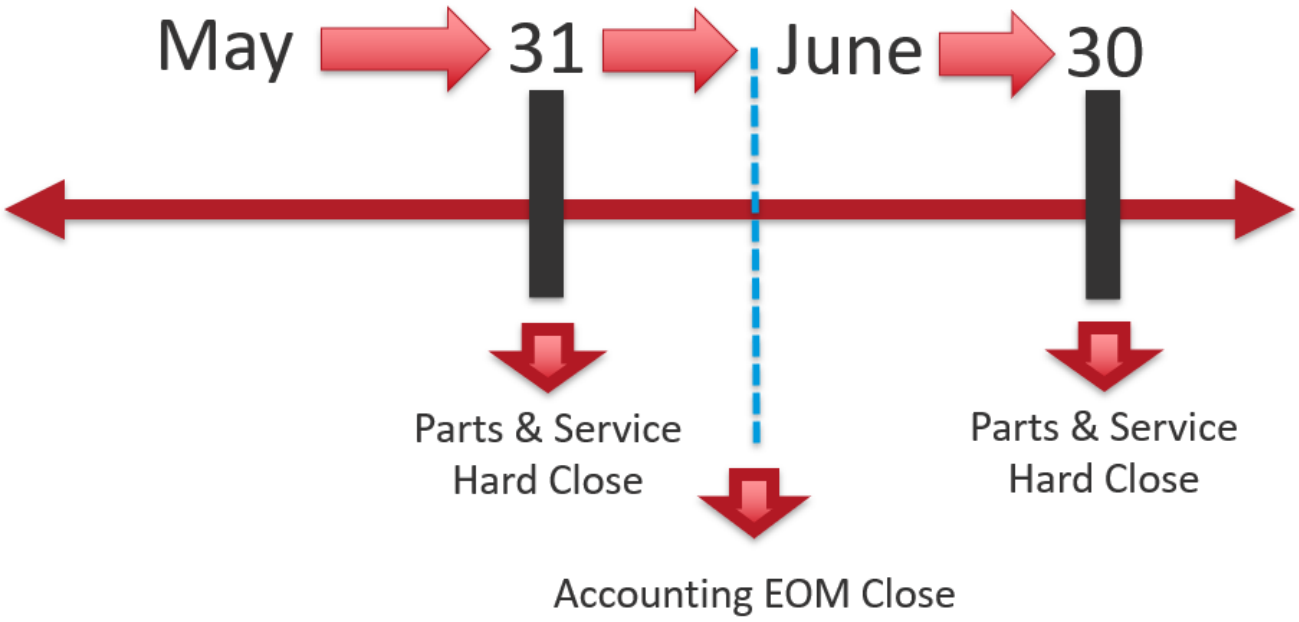


Monthly Reconciliation Of Parts To General Ledger	
Dollar value of parts on dealership management report	
Minus	
Dollar value of packing lists for parts received, but not invoiced	
Dollar value of bulk oil, gear lube, trans fluid in stock	
Plus	
Credits due for parts returned	
Inventory Core Value - clean	
Cores to be returned for credit - dirty	
Work-in-Process - Repair Orders & Invoices	
Dollar value of NPN (no part number) parts	
Dollar value of parts with no cost record	
Plus / Minus	
Other Adjustments (price updates, bin count adj. outside purch.)	
Total Inventory	$ -
Inventory Per Financial Statement	
Difference	$ -

2 Basic Inventory Adjustments

- _____ _____ irregularities.
- _____ _____ from the manufacturer.

Accounting vs. Calendar Month



Notes

Price Changes from the Manufacturer

OLD INVENTORY VALUE		301,474.45+
TOTAL + CHANGES	905.71+	
TOTAL - CHANGES	25.02-	
NEW APPREC/DEPREC		880.69+
FIRST TIME PRICE		.00+
NEW INVENTORY VALUE		302,355.14+

Price Changes Showing Detail

DATE	PART #	DESCRIPTION	QOH	COST	EXT COST	COST	EXT COST	CHANGE	TOTAL CHANGE
11/1/2018	12345982	N-OIL (08800-BOPCKT)	1	6.21	6.21	6.43	6.43	0.22	0.22
11/1/2018	12346241	N-LUBRICANT (08800-BOPCKT)	12	6.47	77.64	6.70	80.40	0.23	2.76
11/1/2018	12344949	SL-N-BOLT (08965-BOPCKT)	2	2.14	4.28	2.20	4.40	0.06	0.12
11/1/2018	12344951	SL-N-SPACER (08965-BOPCKT)	5	2.33	11.65	2.40	12.00	0.07	0.35
11/1/2018	12355066	SL-N-STRAP (09065-BOBCKT)	24	0.20	4.80	0.21	5.04	0.01	0.24
11/1/2018	12356150	REFRIGERANT (08800-BOBCKT)	194	0.27	52.38	99.00	19206.00	98.73	19153.62
11/1/2018	12368668	SL-N-WIPER (16062-CKT)	1	4.75	4.76	4.92	4.92	0.17	0.17
11/1/2018	12369463	SL-N-RING (05422-BOPCK)	4	1.14	4.56	1.18	4.72	0.04	0.16

Statement Inventory Adjustments

General Motors

Adjusted to Gross

45		P	WARRANTY CLAIMS	480	Corresponding Labor Sales Categories	74,278	54,558	19,720	26.55%		512,735	369,588	143,147	27.92%	45
46	I	A	MECH CARS&LD TRK R.O.	467	(460A & 460B)	74,475	92,211	62,264	40.31%		857,575	530,918	326,657	38.09%	46
47		R	MECH COM,FLT & MD TRKS R.O.	468	(461A & 461B)	0	0	0	0.00%		0	0	0	0.00%	47
48		T	MECH QUICK SERV R.O.	478	(460C & 461C)	3,860	2,656	1,204	31.19%		18,068	11,029	7,039	38.96%	48
49	O	S	BODY CUST. R.O.	477	(470 & 471)	74,513	49,854	24,659	33.09%		585,332	387,347	197,985	33.82%	49
50			INTERNAL	481		52,453	41,917	10,536	20.09%		348,333	276,415	71,918	20.65%	50
51	N		COUNTER-RETAIL	482		27,572	18,281	9,291	33.70%		150,957	98,624	52,333	34.67%	51
52		&	WHOLESALE	483		251,293	201,922	49,371	19.65%		1,358,255	1,090,358	267,897	19.72%	52
53		S	ACCESSORIES	484		0	0	0	0.00%		0	0	0	0.00%	53
54		A	PURCHASE ALLOWANCES	687			(5,819)	5,819				(79,469)	79,469		54
55		C	ADJ. P&A INVENTORY	688			1,393	(1,393)				4,166	(4,166)		55
56		C	TOTAL P&A			638,444	456,973	181,471	28.42%		3,831,255	2,688,976	1,142,279	29.81%	56
57		E	TIRES	490		9,111	7,306	1,805	19.81%		9,111	7,306	1,805	19.81%	57
58		S	GAS, OIL & GREASE	491		0	0	0	0.00%		0	0	0	0.00%	58
59		S	MISCELLANEOUS	492		0	0	0	0.00%		0	0	0	0.00%	59
60			TOTAL OTHER		MTH-FIXED	9,111	7,306	1,805	19.81%	YTD-FIXED	9,111	7,306	1,805	19.81%	60
61			TOTAL P&A DEPT.		COVERAGE	647,555	464,279	183,276	28.30%	COVERAGE	3,840,366	2,696,282	1,144,084	29.79%	61
62			TOTAL FIXED		63.4%	1,024,775	605,638	419,137	40.90%	63.5%	6,076,402	3,541,298	2,535,104	41.72%	62
63			TOTAL ALL DEPTS.			7,374,271	6,409,370	964,901	13.08%		39,423,984	33,979,174	5,444,810	13.81%	63

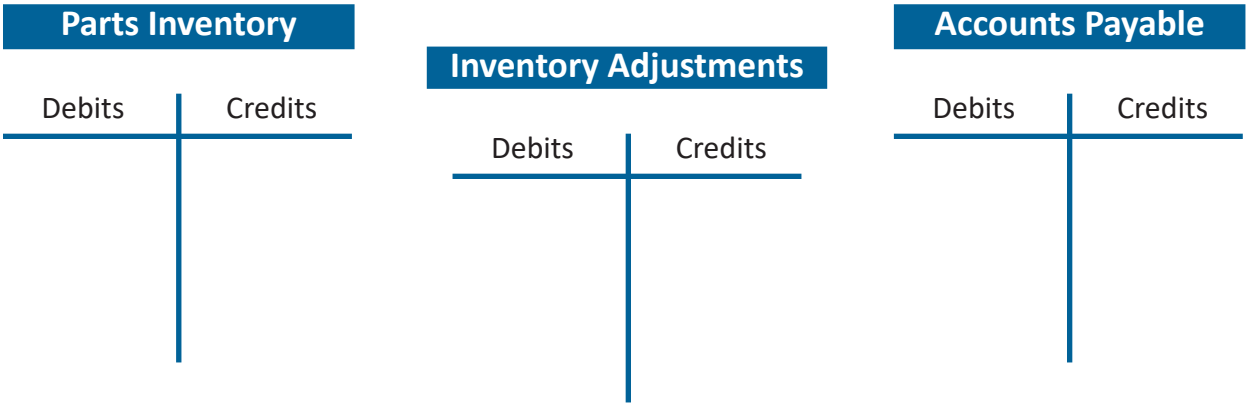
"Inventory adjustment accounts represent the purchasing practices of the Parts Department."

Toyota

60	57	-				S	Accessory Counter Retail - Toyota/Scion	4797	
61	58	-				S	Accessory Counter Wholesale - Toyota/Scion	4787	
62	59	-				O	TOTAL ACCESSORY TOYOTA/SCION	Lns 52-58 incl	
63	60	1,663	180638	58485	32.38%	R	TOTAL PARTS & ACCESSORY - TOYOTA/SCION	Lns 51& 59	
64	61	-				Y	Total Parts & Accessory - OTHER MFG	4757	
65	62						P&A Inv. Adj. /Purch. Disc./LIFO	6760/6799/6798	
66	63		25,685	5,535	21.55%		Gas, Oil & Grease/Other Inventory	4770/4780	
67	64		206,323	64,020	31.03%		TOTAL PARTS & ACCESSORY DEPARTMENT	LINES 60-63	
68	65		147,869	106,441	71.98%		TOTAL SERVICE & BODY SHOP	LINES 34 & 41	
69	66		354,192	170,461	48.13%		TOTAL SERVICE, B/S, PARTS & ACCESSORY	LINES 64 & 65	
70	67		3,346,872	230,938			TOTAL NEW AND USED VEHICLE DEPARTS.	Pg 5 Ln 78 & Pg 6 Ln 15	
71	68		3,701,064	401,399			TOTAL ALL DEPARTMENTS	LINES 66 & 67	
72	69	USED VEHICLE SUMMARY					TRAC units sold to Used Vehicle Dept.	MTD	Y
73	70	Trade In Received On:	MTD	YTD			TRAC Cars to Certified Program		
74	71	New Car				T	TRAC Trucks to Certified Program		

Proper Parts Accounting

How should inventory adjustments be accounted for?



Inventory Adjustments and Examples of How Parts Inventories Are Increased

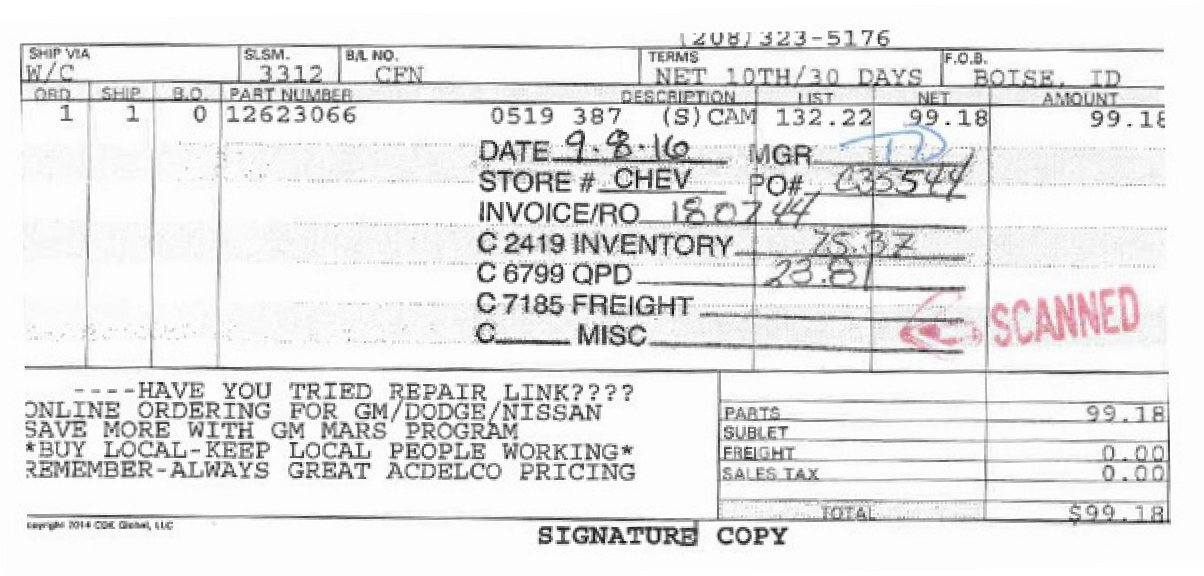
1. Outside purchasing of parts for stock from a non-manufacturer source.
2. Adding new part numbers to inventory (increased coverage).
3. Purchases charged to the Inventory Account that should go into other accounts.

EXAMPLE:	a. Paint Material	d. Advertising	g. Freight
	b. Sublet	e. Publications	h. Handling Charges
	c. Gas and Oil	f. Other Supplies	

4. Price appreciation (price tape changes).
5. Re-ordering parts that are in stock, but unable to be located, due to:
   a. Unused bin location.
   b. Wrong bin location.
   c. Improper stocking.
6. Parts charged to dealership, but not delivered, due to:
   a. Shortage from freight company.
   b. Company billed for parts not shipped.
   c. Item charged with no intention of delivery.

Take out your emergency purchase document that you brought to class.

Inventory Stamp



(208) 323-5176

SHIP VIA	SLSM.	B/L NO.	TERMS	F.O.B.
W/C	3312	CFN	NET 10TH/30 DAYS	BOISE, ID

ORD	SHIP	B.O.	PART NUMBER	DESCRIPTION	LIST	NET	AMOUNT
1	1	0	12623066	0519 387 (S) CAM	132.22	99.18	99.18

DATE 9-8-16 MGR TD
STORE # CHEV PO# 635544
INVOICE/RO 180744
C 2419 INVENTORY 75.37
C 6799 QPD 23.81
C 7185 FREIGHT
C____ MISC

SCANNED

----HAVE YOU TRIED REPAIR LINK????
ONLINE ORDERING FOR GM/DODGE/NISSAN
SAVE MORE WITH GM MARS PROGRAM
BUY LOCAL-KEEP LOCAL PEOPLE WORKING
REMEMBER-ALWAYS GREAT ACDELCO PRICING

PARTS	99.18
SUBLET	
FREIGHT	0.00
SALES TAX	0.00
TOTAL	$99.18

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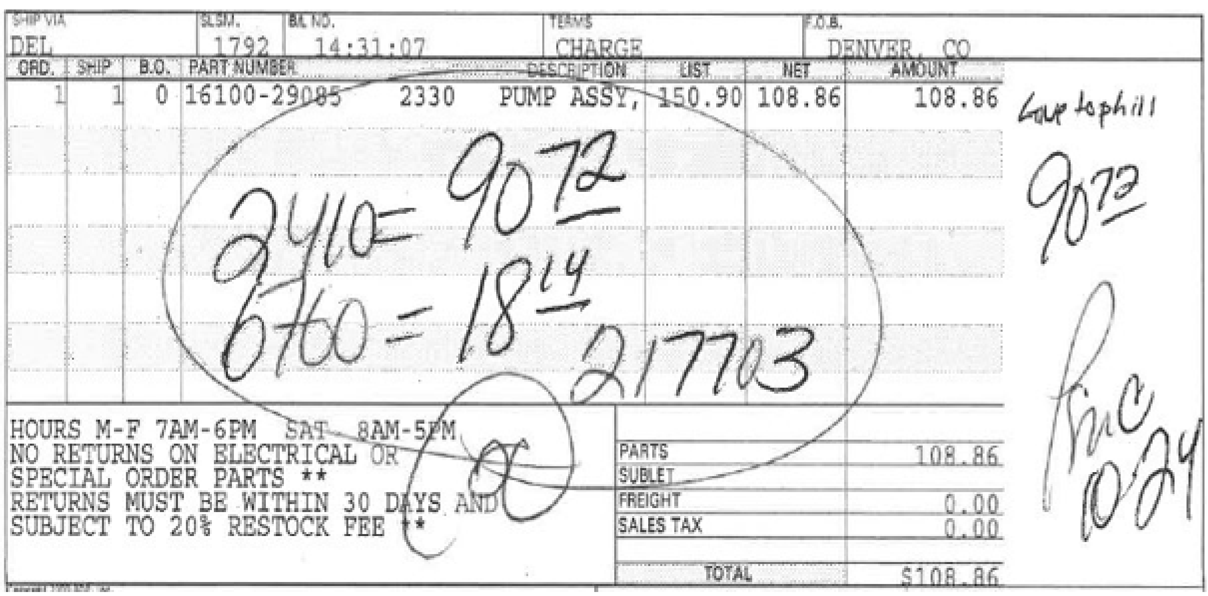
SIGNATURE COPY

Inventory Stamps – Manual



SHIP VIA	SLSM.	B/L NO.	TERMS	F.O.B.
DEL	1792	14:31:07	CHARGE	DENVER, CO

ORD.	SHIP	B.O.	PART NUMBER	DESCRIPTION	LIST	NET	AMOUNT
1	1	0	16100-29085	2330 PUMP ASSY,	150.90	108.86	108.86

2410 = 90.72
6760 = 18.14
217703

Loup tophill
90.72
Eric 10/24

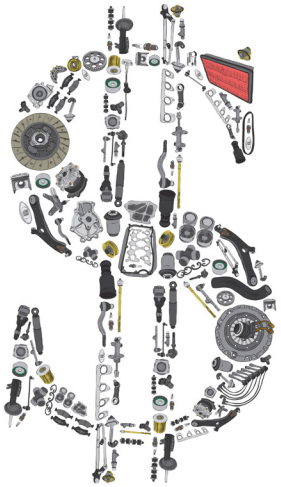
HOURS M-F 7AM-6PM SAT 8AM-5PM
NO RETURNS ON ELECTRICAL OR
SPECIAL ORDER PARTS **
RETURNS MUST BE WITHIN 30 DAYS AND
SUBJECT TO 20% RESTOCK FEE **

PARTS	108.86
SUBLET	
FREIGHT	0.00
SALES TAX	0.00
TOTAL	$108.86

Inventory Investment

How much should be invested in parts inventory?

Guide: _____ months' supply



There are two places to find your store's inventory investment:

1. _____

2. _____

What are some causes of Variance?

- _____
- _____
- _____
- _____
- _____
- _____
- _____
- _____
- _____
- _____

What are the effects of Variance?

- _____
- _____
- _____
- _____
- _____
- _____
- _____
- _____
- _____
- _____

Potential Causes of Inventory Variance

Source: WD&S Publishing

CONDITION If:	POSSIBLE CAUSE Check:	ACTION Look for:
On-hand count in the system is higher or lower than what is physically in the bin.	Posting of sales.	• Sales posting not current. – Parts sold not posted. – Incorrectly posted parts. – Sales posted to the wrong part number. – Duplicate posting of sales.
	Plus/Minus adjustments	• A plus adjustment used to receive a part, then receiving the same part by some other method - such as auto receipt. • Incorrect posting of plus/minus adjustments.
	Receipts	• Incorrect posting of receipts. – Receipt of a wrong order. – Receipt of a canceled order. – Receipt posting not kept current. – All receipts not being posted. – Orders not receipted. – Orders receipted more than once.
	Returns	• Incorrect posting of returns. • Returns made to the manufacturer, such as obsolescence returns or other returns not posted.
Stock orders are larger or smaller than usual.	System settings	• Days' supply that is set too high or too low depending on the condition. • Phase-in too easily met or too strict, depending on condition. • Large amount of non-stocking parts qualifying for stocking.
	Sales	• Increase or decrease in sales depending on the condition. • High number of sales posted. • Sales posted as minus adjustments. • Duplicate posting of sales.
	Order details	• Depending on condition. • Special orders not included with order. • High amount of force orders.
	Receipts	• Receipt posting not kept current. • High number of emergency purchases. • High number of other receipts.
Pricing is incorrect.	Master tape update	• Update tape not run. • Fields not set to update when update tape is run. • Incorrect escalators, may not be properly set.
	System setups	• Incorrect price codes used for specific customers. • Incorrect prices entered as new parts are added. • Parts employees overriding prices.
	Procedures	• Not enough inventory to meet current demand. • Wrong parts in stock.
Emergency purchases are excessive or seem higher than usual.	Inventory and inventory level	• Easily met phase-out criteria. – Non-stock criteria too strict. – Too restrictive phase-in criteria. – Days' supply set too low. • High level of obsolete parts in inventory.
	System setups	• Large percentage of inventory with declining demand.
	Inventory activity	• Increased customer demand.
Lost sales are excessive or seem higher than usual.	Customer activity	• Not enough inventory to meet current demand. • Wrong parts in stock.
	Inventory and inventory level	• Easily met phase-out criteria. • Non-stock criteria too strict. • Too restrictive phase-in criteria. • Days' supply set too low.
	System setups	• Employees forcing lost sale posting or posting fictitious lost sales.
	Practices	• Increased customer demand.

Four Moments in Time – Daily Audit

There are four moments in time where the physical inventory record must be equal to the DMS record. If these four moments are audited daily and reconciled, most variance will be eliminated and routine bin checks and physical inventories will only be necessary for slower moving and Non-Stock Parts.

1. When the DMS record quantity is reduced to zero, make sure the physical quantity is also zero.

2. When the physical quantity is reduced to zero, make sure the DMS record quantity is also zero.

3. When the DMS record is reduced to less than zero, determine if the negative is false or if the transaction was posted to the wrong part.

4. When the DMS suggests an order for a part, make sure the DMS record matches the physical quantity.

Four Moments In Time – Daily Audit

1. When the DMS record quantity is reduced to zero, make sure the physical quantity is also zero.

This condition is reported on the **Out of Stock** report. It may have another name on different DMSs, but the key elements of the reports are the same. The report displays all part numbers that had the quantity on hand reduced to zero in the previous day's business. A sample report is shown below.

Ideally, this report should match the data in Moment 2 (see next page). The parts manager may delegate this daily responsibility. It's also a best practice to conduct this review before checking in a stock order.

SO	BIN	PART NUMBER	DESCRIPTION	CUR OH	SS	TRAN CODE	PRG NME	POST DATE	POST TIME	INVOICE NUMBER	PORT NBR
1		F4DZ-5230-D	MUFLR ASY LH	0	AP		RO	18MAY19	9:20	156857	7
1		16612-					RO	18MAY19	12:22	165867	11
1		16612-					RO	18MAY19	12:24	156867	11
4		MAT2K					RO	18MAY19	12:21	156867	11
1	1	F4AZ-2001-A	KIT-BRK SHOE	0			RO	18MAY19	10:35	15863	7
1	1	F4AZ-200A-A	KIT-BRK SHOE	0			RO	18MAY19	13:04	156861	7
2	2	F5AZ-2200-A	KIT-BRK SHOE	0			RO	18MAY19	10:35	156863	7
2	13	D7RZ-6701-A	SEAL ASSY CR	0	AP	H	OE	18MAY19	9:33	201074	6010
3	35	E1FZ-9D726-A	CLIP-SPD CNTL	0	AP		OE	18MAY19	12:53	201080	6010
2	53	F6DZ-9350-AD	PUMP ASSY-FU	0			RO	18MAY19	12:24	156866	7
6	REMAN	F5ZZ-7902-ARM	TORQUE CONV	0			RO	18MAY19	10:46	156851	7
6	REMAN	F5ZZ-7902-ARM	TORQUE CONV	0			RO	18OCT95	10:47	156784	7

- Reynolds' “out of stock report” is 2249.
- ADP/CDK's is Report Stock Out (RSO).
- DealerTrack's is “0” on Hand Not Ordered.

Four Moments In Time – Daily Audit, cont'd

2. When the physical quantity is reduced to zero, make sure the DMS quantity is also zero.

This condition is reported on the **Zero Stock Board** (ZSB). The ZSB is a manual record that is kept at the parts counter and maintained by the people at the counter. The parts consultant records the part number on the zero stock board when the last part in the bin is handed out and the physical quantity remaining is zero. A sample of a ZSB is shown below.

Ideally, this report should match the data in Moment 1 (see previous page). The parts manager may delegate this daily responsibility.

Part Number	Sold Last Part in Bin (Employee #)	Remarks (Bin Location, Discrepancy, etc.)
31277334	094	Bin 1123
31349957	108	Bin 1409 DMS QOH = 2

Four Moments In Time – Daily Audit, cont'd

3. **When the DMS record is reduced to less than zero, check the physical transaction to determine if the negative is "false" or if the transaction was posted to the wrong part.**

   This condition is reported on the **Negative On Hand** report from the DMS. Typically, this report shows all parts that have been reduced to a negative quantity, whether it happened today, yesterday, or six months ago. As time passes it may become difficult to determine the cause of the negative on hand, so the report should be run and reconciled each day to keep the process manageable.

   One best practice is to job stack the report, so it runs each day automatically. The parts manager may delegate the responsibility to reconcile this moment, but should be discussing the causes with the appropriate staff to prevent issues in the future.

SO	BIN	PART NUMBER	DESCRIPTION	CUR OH	SS	TRAN CODE	PRG NME	POST DATE	POST TIME	INVOICE NUMBER	PORT NBR
100		F4DY-16038-AA	MLD FRT FNDR	-1			OE	18MAY19	10:37	201076	7
100		E9SZ-19579-A	ROCKER ARM	-1	AP		RO	18MAY19	8:21	15817	6010
100		FL-200	FILTER-OIL	-1			RO	18MAY19	10:55	156814	6010

- Reynolds & Reynolds' is 2245.
- ADP/CDK's is RNO.
- DealerTrack's is Parts with Negative On Hand.

Four Moments In Time – Daily Audit, cont'd

4. **When the DMS suggests an order for a part, make sure the DMS record from which the order is calculated is the same as the physical quantity.**

   This moment is detailed on the suggested stock order from the DMS. The actual **Stock Order** report is formatted differently on various DMSs, but the basics of the report are similar across all lines. The reports in the other three Moments will determine variance in all parts that were reduced to a zero or negative quantity. There are other parts that have not been reduced to zero but the DMS recommends an order for the part based on your depth criteria.

   For instance, your DMS best stocking level for a filter is ten filters. You have sold down to six in inventory since your last stock order and the DMS recommends that you purchase four more. The DMS recommends purchasing four because it “thinks” you have six in inventory. If the actual count is different than six on hand, the DMS will order incorrectly. All stock order purchase recommendations for parts that have a current quantity on hand greater than zero need to be checked for accuracy to ensure proper ordering.

   One best practice is to job stack the report, so it runs each day automatically. The parts manager may delegate the responsibility for bin checks, but should be discussing the reasons for variance with the appropriate staff to prevent similar issues in the future.

   - Reynolds & Reynolds' is 2043.
   - ADP/CDK's is Report Stock Order (STK).
   - DealerTrack's is Demand Fill Analysis.

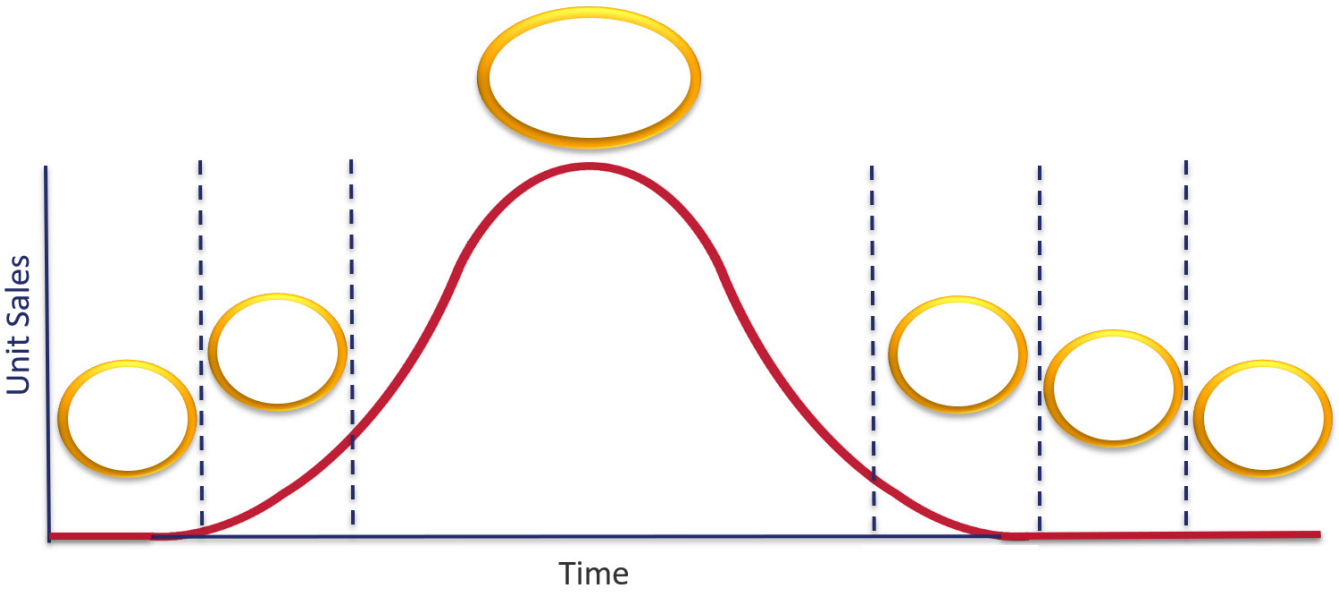
The Daily Database Audit Procedure

When you are conducting the database audit every day, you are combining the ZSB, the Out of Stock report, and the daily Negative on Hand report into one management process. Once you have reconciled the ZSB with the Out of Stock report, and crossed off any parts that appear on both reports, the parts that remain on the three reports fall into one of three scenarios. Use the guides on this page to help you determine why a part appears here, and what may have caused a variance. Once you identify the cause, develop strategies to address and prevent the variance in the future.

Condition 1: Part on ZSB, but not on Out of Stock report	Condition 2: Part on Out of Stock report, but not on ZSB	Condition 3: Part on Negative on Hand Report
1. Part is in an NS status. 2. Most recent day's sale not posted because part is set aside for customer or on special order shelf. 3. Transaction posted to the wrong part number. 4. Sale was posted to a superseded part number. 5. Wrong quantity receipt posted. 6. Floor denials, back orders, or shortages not posted to inventory. 7. Requests for credit or factory return not posted to inventory record. **No Resolution?** Make the appropriate Minus Adjustment.	1. Parts consultant forgot to write part number down. 2. Transaction posted to the wrong part number. 3. Credit memo posted as a sale. 4. Part put in the bin, but not yet receipted. 5. Remanufactured part sold under original part number. 6. Sale posted to a superseded part number. 7. Package quantities posted incorrectly. 8. Staged body shop parts sold a second time. **No Resolution?** Make the appropriate Plus Adjustment.	1. Sale posted prior to receipt posting. 2. Transaction posted to the wrong part number. 3. Package quantity posted incorrectly. 4. Long part number sold under short number. 5. Credit memo posted as a sale. 6. Parts received in a kit but sold as pieces. 7. Staged body shop parts sold a second time. 8. Sale posted to a superseded part number. **No Resolution?** Do nothing until the part has been negative one full week, and then make the appropriate Plus Adjustment, if still necessary.

The Life Cycle of a Part

Fill in the different stages in the life cycle of a part.



Notes

There Are Only Two Kinds of Parts

_____ Parts

- Purchases for future sales based on historical sales.
- Order generated by the **DMS.**
- Parts meets stock status ordering criteria.

_____ Parts

- Parts purchased for immediate sale.
- Purchased based on current demand.
- Part number and quantity ordered generated by **PEOPLE** via special order requests.
- Part does not meet stock status ordering criteria.
- Minimum phase-in not achieved.

How?

Stock and Non-Stock refer to the process in which the part number and quantity for the order is determined. It does not refer to how the part is ordered. A non-stocking part may be needed for a customer who has left the car in the repair shop while they are on vacation. The dealer will order the part on the stock order to reap the benefits of stock order discounts... but the part is still a non-stock status part.

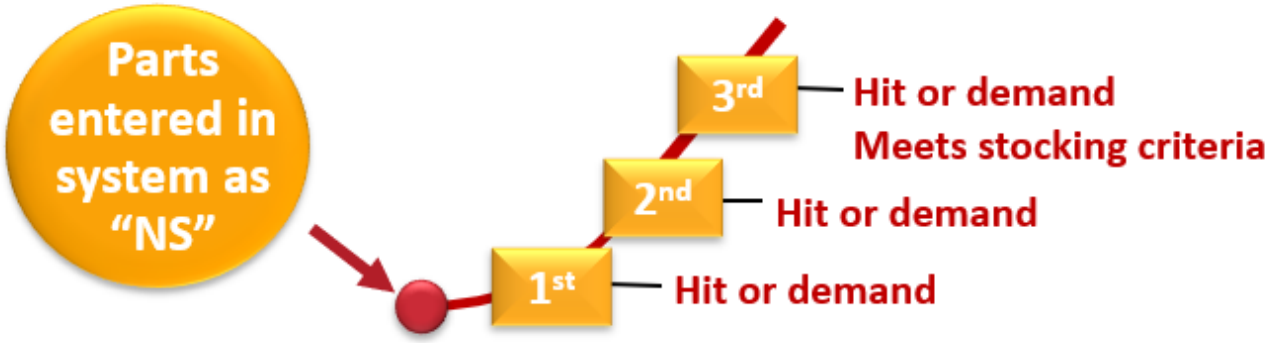
Parts Life Cycle Tracking – Demand

- When the first demand for a part occurs, the part number record is not in the DMS. It must be added from the _____.
- Add every part to the DMS that has a demand so that you can _____ .
- A _____ is a sale in the eyes of the DMS, so record all _____ too.

Parts Life Cycle Tracking – Sale

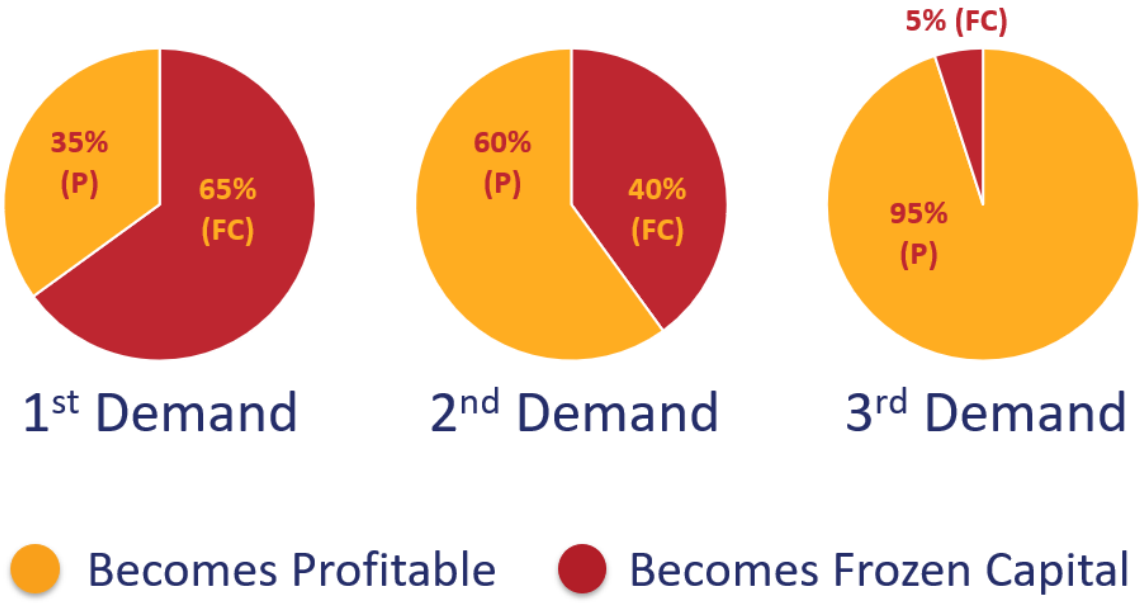
- When the first sale occurs, the DMS records the sales history and adds the part to the _____ .
- At this point, the "Status" of the part should default to _____ .
- If the part does not experience any more sales / lost sales after the first demand for it, the part will be deleted in _____ .

Phase-In



Notes

Prospects for a Part: Chance of Profitability



Parts Master Screenshot

wcuster 17315 — Parts Master Maintenance — PARTUP2

Part # 42428414 — Description FASCIA

GM Part

On Hand 0 — Avail 0 — Update from MFG has been moved to F5, option 1

Status N Blank=Active,A=AP,N=NS,D=DP,M=MO — Add Date 02/17/17

Source 001

External Mgt N

BinLoc1 SPORD

BinLoc2

BinLoc3

Return Cd RY

R=Returnable

Prices

List .00

Trade .00

Cost 419.97

W/SComp .00

Core 75.00

Cost-Core 419.97

If MFG Cost Included

Pack Qty 1

Pack Code P=Cost/Pack

OtherInfo 100000 W0

Min/Max 0 / 0

Job Qty 1

SeasonMth 0

Grp/Ser# 07.831

Sales History

MoNoSale 1

Curr Mth 0

YTD Sale 1

PrevYear 0

CurrLost 0

CurrEmer 0

Last Sale 02/17/17

Demand Hits 2017				Demand Hits 2016			
Jan	0	Jul	0	Jan	0	Jul	0
Feb	1	Aug	0	Feb	0	Aug	0
Mar	0	Sep	0	Mar	0	Sep	0
Apr	0	Oct	0	Apr	0	Oct	0
May	0	Nov	0	May	0	Nov	0
Jun	0	Dec	0	Jun	0	Dec	0

On Order 0

Last Order 00/00/00

Last Rcpt 02/17/17

On Return 0

Last Return 00/00/00

Memo

ESC Save F2 Delete F3 Skip F4 More Info F5 More Options F9 PWB Inq

Basic Inventory Controls

Phase-in (Birth of a Part Number)
Refers to the minimum demand for a part necessary for a dealership to purchase the part for stock. Set by dealership and OE personnel, and expressed as X sales in Y number of months.

Phase-out (Death of a Part Number)
The minimum sales demand necessary for a dealership to continue to stock a part. Set by dealership and OE personnel, and expressed as X sales in Y number of months.

High Days
Also known as best stocking level (BSL). This term describes the most you should have of any one part based on sales history.

Low Days
Also known as best reorder point (BRP). The least amount of any one part based on sales history before it is reordered.

Profile of a Part
The sales and lack of sales of any given part over the life cycle of the part.

Phase-In for a Part

The demand criteria is set by dealership personnel and OE personnel, and expressed as X sales in Y number of months. If a dealership has the phase-in criteria set at 3/9, then all parts that sell in 3 separate months over a 9-month period would be recommended for stock.

Traditional Phase-In of 3/12	
January	1 Emergency Purchase
February	
March	
April	1 Lost Sale
May	
June	
July	
August	1 Emergency Purchase
September	
October	
November	
December	

3/12 = There is demand in three separate months out of a rolling 12-month period. A rolling 12-month period starts in the month with the first demand.

Notes

Suggested Stock Order

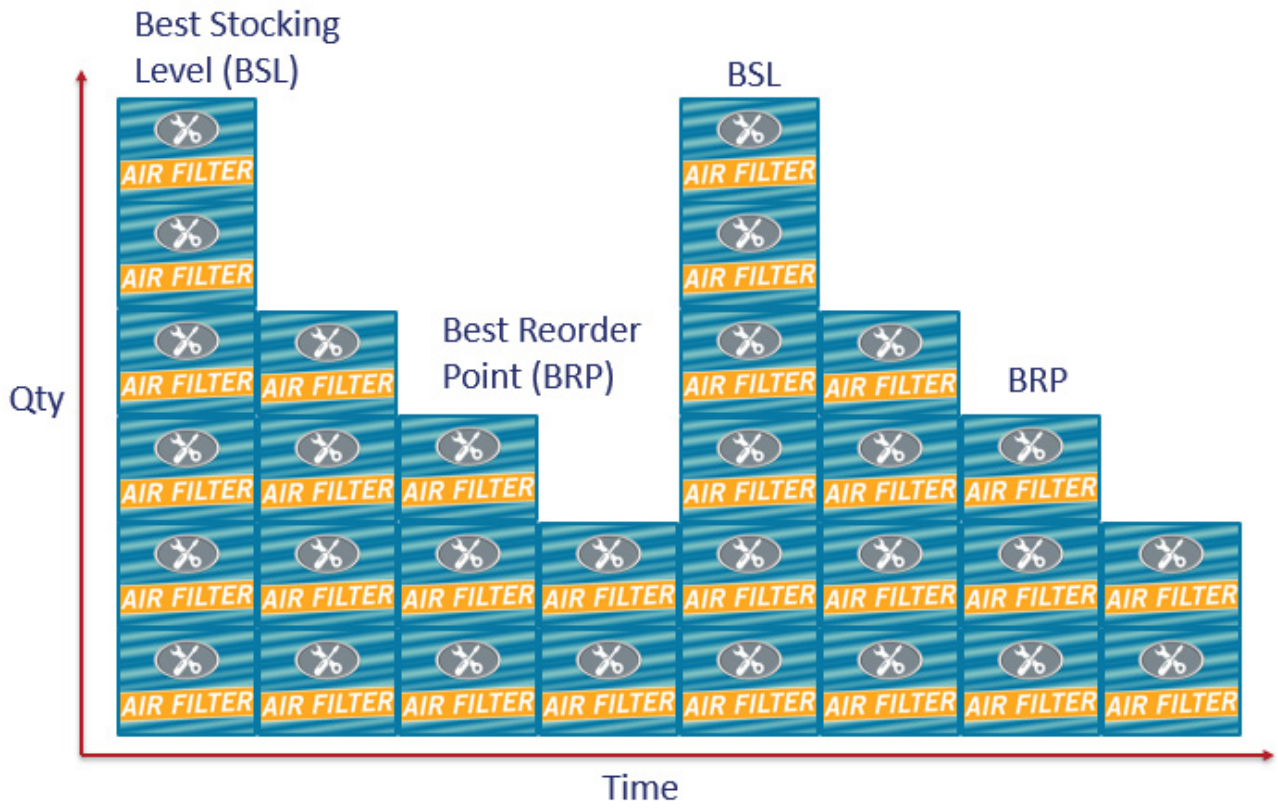
Suggested Stock Order

A DMS-generated list of stocking parts that have fallen to or below the BRP.

Your DMS will generate a suggested stock order based on your demand history. You can override these recommendations when you have more information than the DMS.

For example, you've had high historical demand for a part that your service shop was replacing due to a recall, but the recall is winding down. Despite high historical demand, you know there will be less demand in the future.

Days' Supply



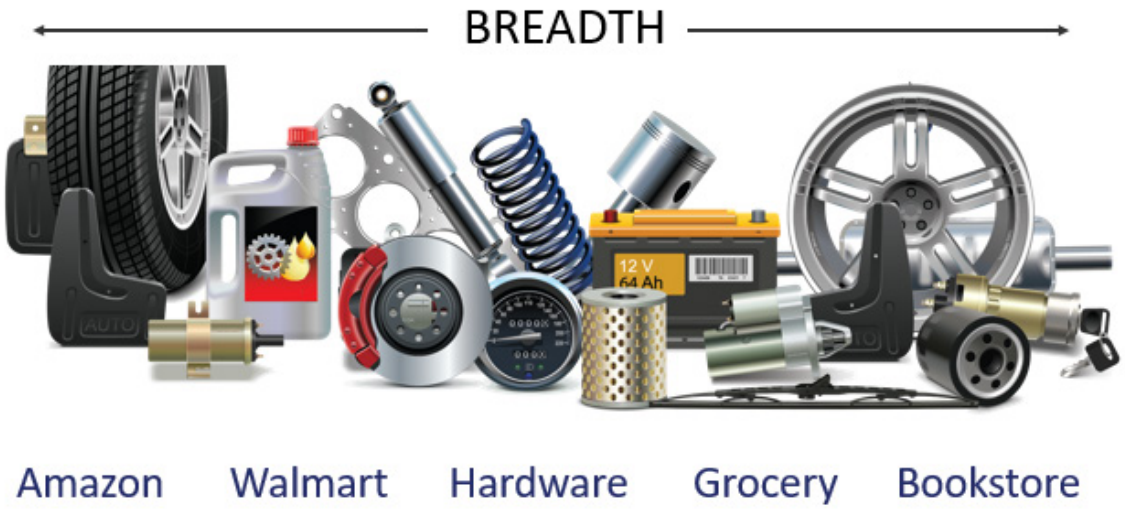
Parts Inventory Is Measured in 3 Numbers

Dimension	Example
	• 2,000 unique #s in the DMS
	• 6,000 on hand
	• $100,000 investment

Notes

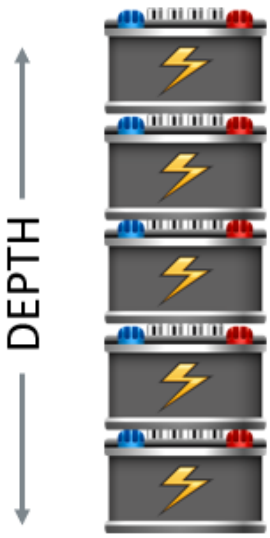
Inventory Dimensions – Breadth

Some inventories have many part numbers (Breadth) but fewer actual pieces (Depth).



Inventory Dimensions – Depth

Other inventories have many pieces (Depth) of fewer part numbers (Breadth).



Gas Station

Apple products

M&Ms

Activity: Phase-In Effects

What would be the effect on the parts inventory if the phase-in criterion was changed from 3 in 9 to the criteria below?

- Would it be easier or harder to bring in new parts?
- Would the inventory get bigger or smaller?

Phase-In		
3 in 12	Bring in:	Inventory gets:
3 in 6	Bring in:	Inventory gets:
2 in 9	Bring in:	Inventory gets:
2 in 12	Bring in:	Inventory gets:
2 in 3	Bring in:	Inventory gets:

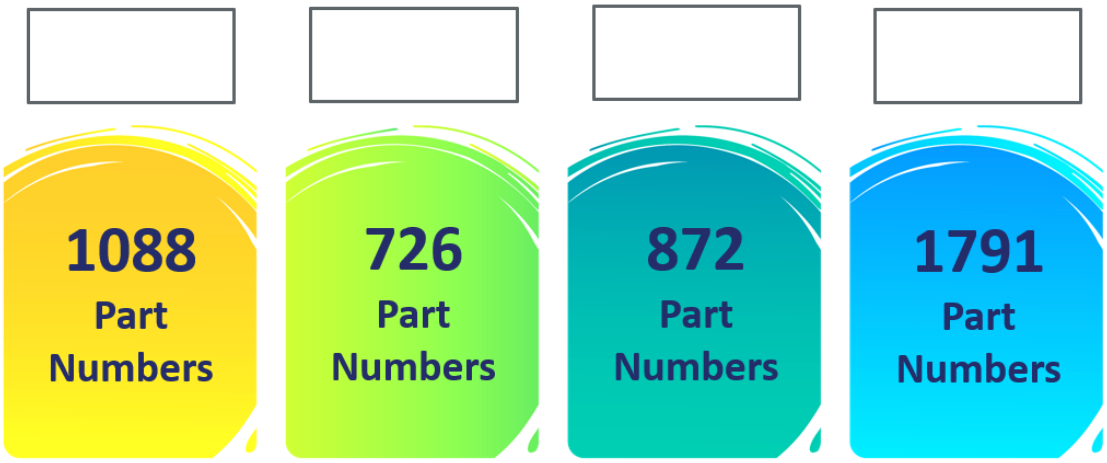
Activity: Effects Achieved by Increasing Breadth

In the chart below, fill in the blanks with the expected outcomes when the breadth is **increased**.
Examples: Increases, Decreases.

Factor	Expected Outcome
Part Numbers Stocked	
Parts Investment	
Return on Investment %	
Gross Profit $	
Parts Availability	
Special Orders	
Outside Purchases	
Acquisition Costs for Special Orders	
Lost Sales	

NOTE: Be careful when changing the breadth parameter because inventory will be added or subtracted.

Alternative Phase-In



Activity – Convenience Store

Assume you sell:

One Coke per day

One Pepsi per week

One orange soda per month

One root beer every two months

One ginger ale every three months

One Dr. Pepper every 4 months

One grape soda every 6 months

One cream soda every 12 months

Your breadth parameter is set to stock sodas that you sell at least **four times a year (4/12)**.

Circle the sodas you will stock.

Inventory Dimensions

Remember:

Greater breadth means more variety, but likely means you have fewer pieces of each individual item.

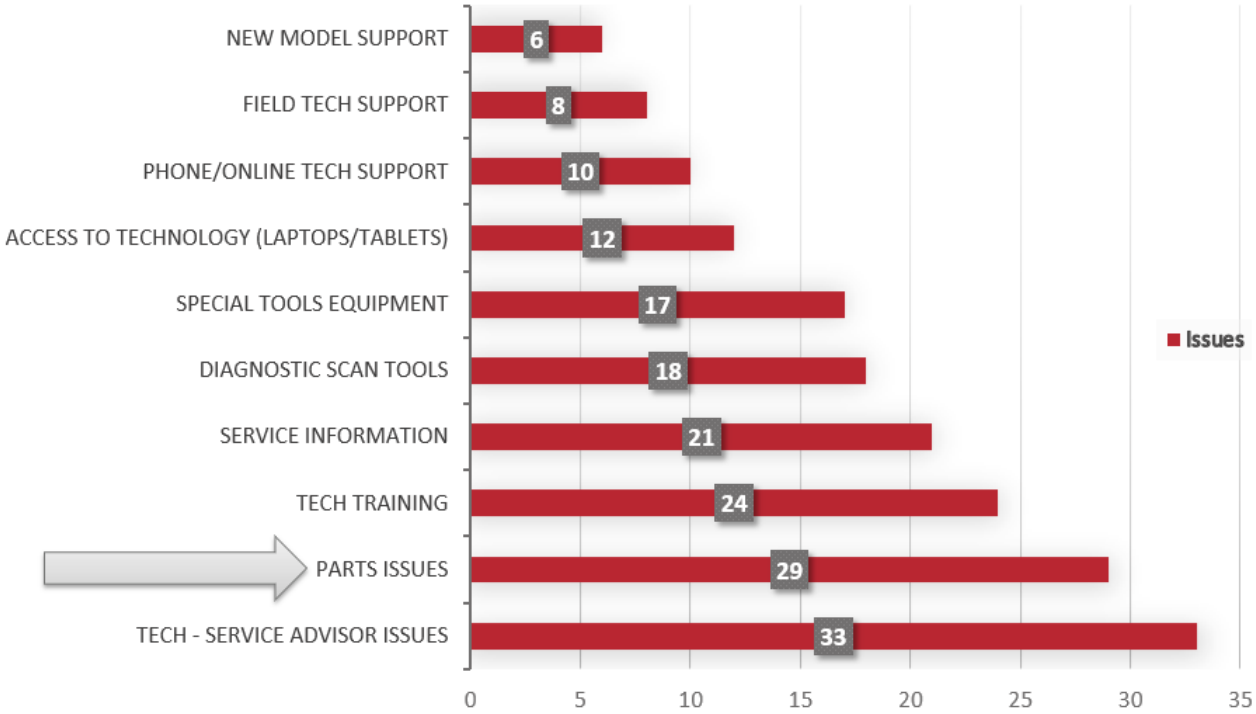
Greater depth means less variety, but likely means you have more pieces of each individual item.

How Do You Fix Mix? By Tracking Demand.

Remember, there are three types of Demand:

1. A stock sale (automatic)
2. An emergency purchase sale (automatic)
3. A true lost sale (manual)

Which factor do technicians say has the biggest impact on ensuring quality, efficient repairs?



Source: *Automotive News*

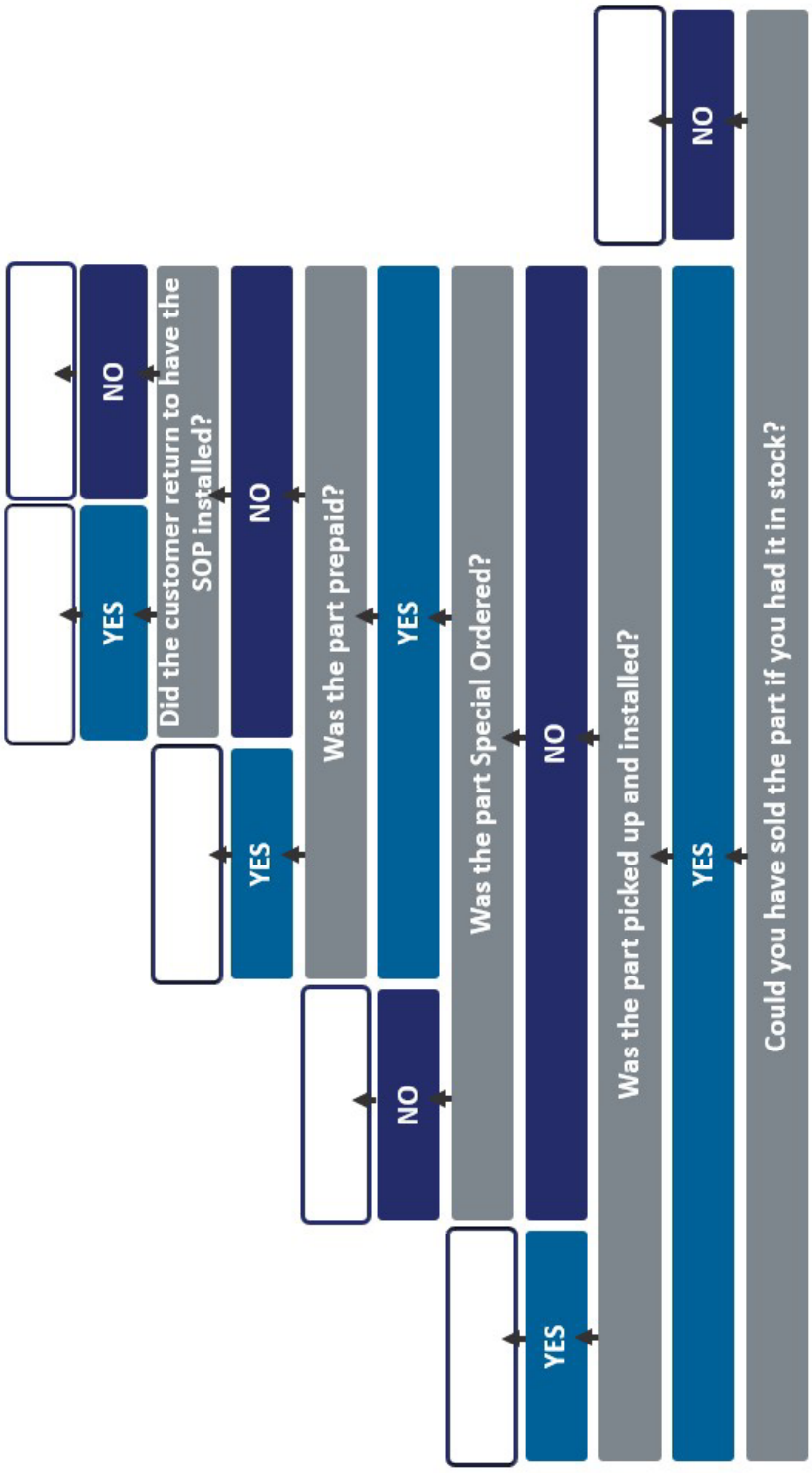
Lost Sale Quiz

Read each situation below and indicate whether or not your parts department would post a lost sale.

	Situation	Yes	No
1	A technician needs a part to complete a repair. The part is not available in your inventory. You locate the part at a neighboring dealership and inform the service advisor managing the job. The advisor authorizes you to order the part. The part is given to the technician later that day and the repair is completed.		
2	A technician needs a part to complete a repair. The part is not available in your inventory, nor is it available locally. You find that plenty are available in your facing PDC. You inform the service advisor managing the job. He/she authorizes a daily order and places the vehicle in a down condition. The next morning, the part arrives and the technician completes the repair.		
3	A technician needs a part to complete a repair. The part is not available in your inventory, nor is it available locally. You find that plenty are available in your facing PDC. You inform the service advisor managing the job. Since the vehicle is safe to drive, he/she requests that you order the part for later and the customer takes possession of the vehicle. The needed part is added to that week's stock order as a customer order.		
4	The customer described in Item 3 above prepays for the special order part.		
5	A customer comes in to buy a part that is available in your inventory. However, upon learning that the part's cost is more than he is willing to pay (even after you offer him a reasonable discount), he leaves without making the purchase.		
6	About two months after the customer special order described above in Item 3, the customer has not returned to have the part installed. Your manager gives you a new bin location and tells you to relocate the special ordered part from the special order bin to the new location.		
7	A local dealership calls looking for a part needed to complete a repair in their service department. You check but discover that you don't have the part in stock.		
8	A service customer asks to have a repair done, but the needed part is not available in your inventory. You learn that a local dealership has several in stock but is unwilling to sell to you because the part is on national back order. You offer to place a special order for your customer, but he/she declines and leaves.		
9	A customer is leaving town tomorrow morning at 5:30 a.m. and needs their car back today. The needed part is not available in your inventory, nor is it available locally. At the customer's insistence, you locate an after-market part and the technician completes the repair before the day ends.		
10	A customer calls and requests a door handle for a 1971 "insert your make and model" and to your amazement, you don't have the part.		

Lost Sale Decision Tree

Fill in the blank boxes from the class discussion.



Effect of a Double Demand

What would happen if you entered a lost sale and posted a sale for the same part?

Demand per Year	Equals	Decimal	Times	Days' Supply	Equals	BSL
1/365	=	.0027	X	30	=	.081
2/365	=	.0055	X	30	=	.165
3/365	=	.0082	X	30	=	.246
6/365	=	.0164	X	30	=	.492

The BSL would be rounded up to a quantity of 1.

NOTE: Double demands will affect stock depth.

Notes

Lost Sales Calculator

What is one way you can monitor if your employees are entering lost sales?

Lost Sales Calculator

Inventory Value	Multiplier	Times # of People Determining Lost Sales	Times # of Parts Working Days	Times Average Piece Value
$0.00	3	0.00	0.00	$0.00

Reference Table	
Inventory Value	Multiplier
0-250k	3
251-500k	4
501-750k	5
751-1 mil	6
1 mil plus	7

Equals Possible Lost Sales	Recorded Lost Sales From DMS
$0.00	$0.00
Average Piece Value	**Average Lost Sale Piece Value from DMS**
$0.00	$0.00

Formula

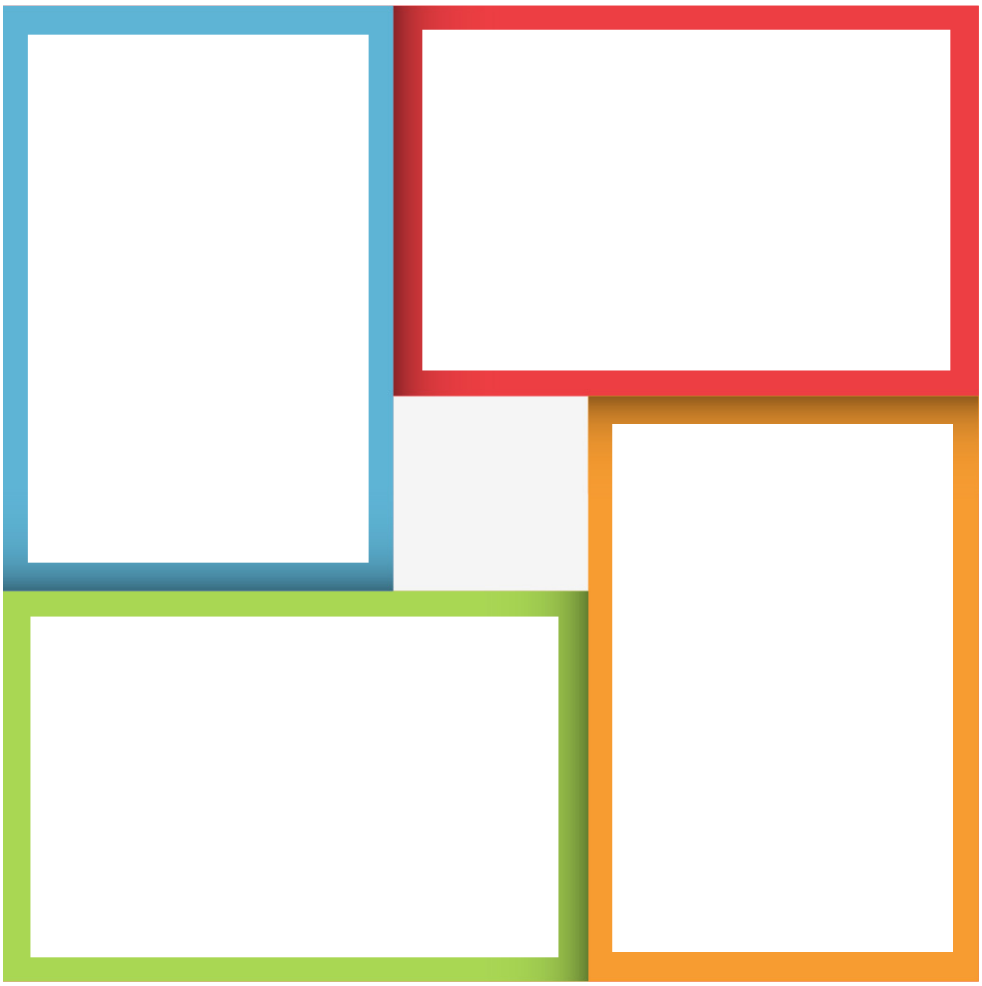
Multiplier **x**	# of People Determining Lost Sales **x**	# of Parts Working Days **x**	Average Piece Value =	Possible Lost Sales

Compare your Possible Lost Sales from the calculator with the Recorded Lost Sales from your DMS. If the Possible Lost Sales number is drastically higher than the Recorded Lost Sales number, it may suggest that your parts employees are not entering lost sales.

Moment of Truth

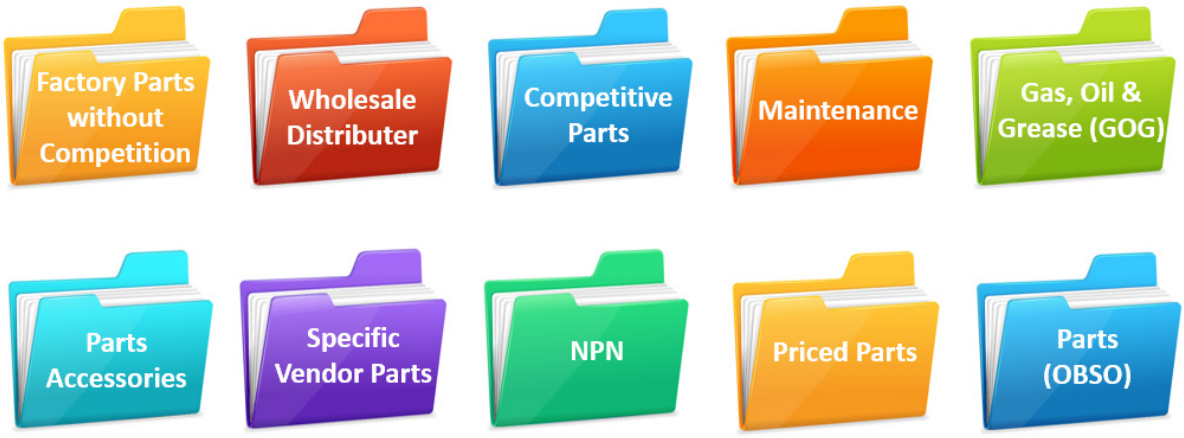
Parts managers must do four things with any new part that is phased in and receipted into inventory.

Record the steps a parts manager should take during the Moment of Truth.



Inventory Depth: Sourcing

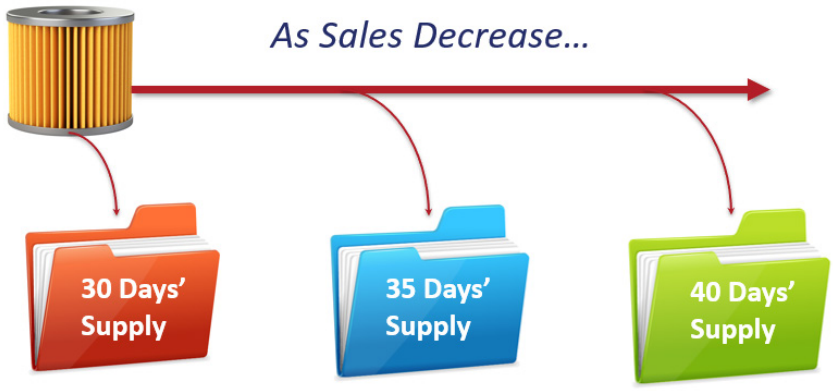
What are some of the reasons that a dealer may use different sources?



ABC Sourcing (Source by Sales Movement)

- ABC Sourcing is used to assign different days' supply criteria for different groups of parts.
- Some DMSs allow parts to be moved automatically between sources based on sales volume.
- As the part is moved to a different source, a different days' supply criterion is applied so that more or less quantity is ordered.

ABC Sourcing Source by Sales Movement

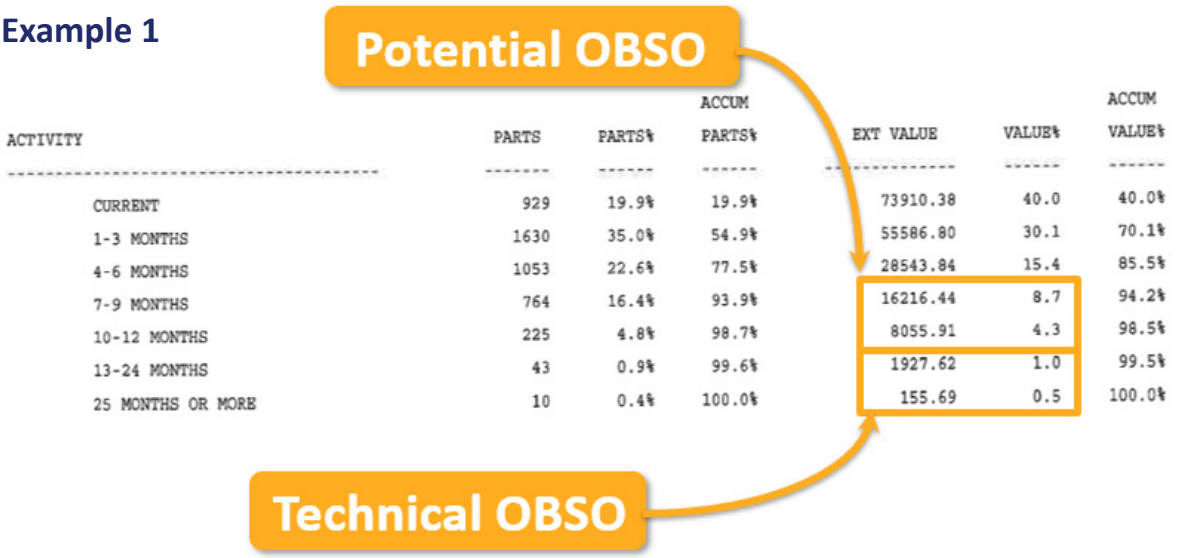


An example of ABC Sourcing with Daily Delivery

Source Number	Sales in a Year	Days' Supply
1	1 – 2	30 Days
2	3 – 5	35 Days
3	6 – 8	30 Days
4	9 – 12	20 Days
5	13 and up	15 Days

Obsolescence (OBSO): DMS Summary Sales Aging Example Reports

Example 1

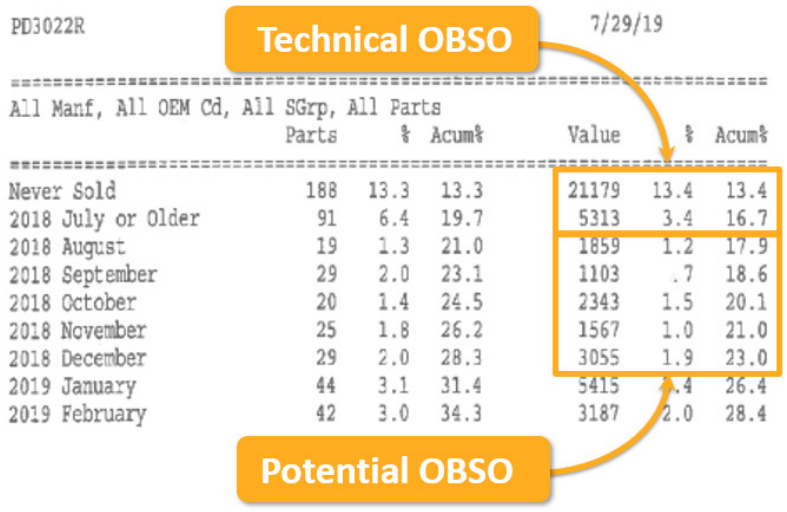


ACTIVITY	PARTS	PARTS%	ACCUM PARTS%	EXT VALUE	VALUE%	ACCUM VALUE%
CURRENT	929	19.9%	19.9%	73910.38	40.0	40.0%
1-3 MONTHS	1630	35.0%	54.9%	55586.80	30.1	70.1%
4-6 MONTHS	1053	22.6%	77.5%	28543.84	15.4	85.5%
7-9 MONTHS	764	16.4%	93.9%	16216.44	8.7	94.2%
10-12 MONTHS	225	4.8%	98.7%	8055.91	4.3	98.5%
13-24 MONTHS	43	0.9%	99.6%	1927.62	1.0	99.5%
25 MONTHS OR MORE	10	0.4%	100.0%	155.69	0.5	100.0%

Example 2

Inventory Movement - Sales						
0 to 3 Months	2,932	18.45	6,377	43.67	68,415.09	33.44
4 to 6 Months	1,436	9.04	903	6.18	22,032.39	10.76
7 to 12 Months	2,250	14.16	1,128	7.72	27,363.56	13.37
Over 12 Months	7,073	44.53	6,116	41.88	83,187.42	40.66
New Parts No Sales	2,192	13.80	78	0.53	3,586.70	1.75

Example 3

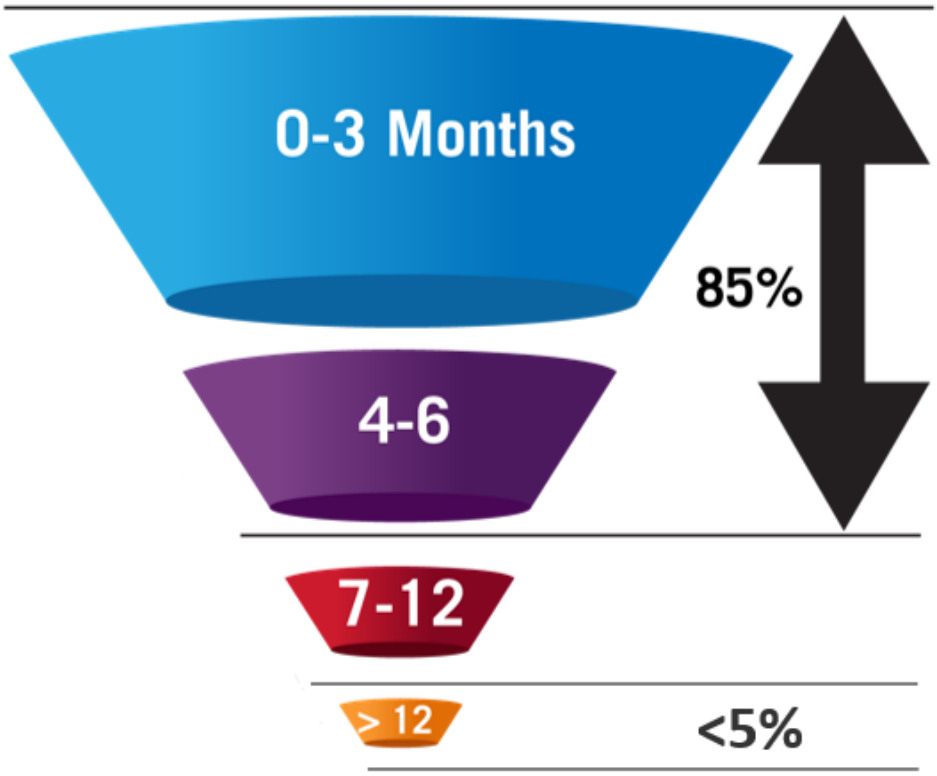


PD3022R 7/29/19

All Manf, All OEM Cd, All SGrp, All Parts

	Parts	%	Acum%	Value	%	Acum%
Never Sold	188	13.3	13.3	21179	13.4	13.4
2018 July or Older	91	6.4	19.7	5313	3.4	16.7
2018 August	19	1.3	21.0	1859	1.2	17.9
2018 September	29	2.0	23.1	1103	.7	18.6
2018 October	20	1.4	24.5	2343	1.5	20.1
2018 November	25	1.8	26.2	1567	1.0	21.0
2018 December	29	2.0	28.3	3055	1.9	23.0
2019 January	44	3.1	31.4	5415	.4	26.4
2019 February	42	3.0	34.3	3187	2.0	28.4

Inventory Profile



Notes

Parts Obsolescence

Obsolete parts create idle capital while taking up physical and financial space that could be used to stock additional desirable inventory. Most people assume that obsolete parts were quick-moving parts at one time but as the vehicles that used those parts left the road for good, the parts never experienced demand. This is seldom the case. Record the data that explains the origins of obsolete inventory.

_____ % of Obsolescence Comes From: _____

_____ % of Obsolescence Comes From: _____

_____ % of Obsolescence Comes From: _____

Obsolescence

Identify some ways you can prevent obsolescence.

1. Reevaluate your _____.
2. Create a consistent sense of _____ regarding ordering criteria.
3. Establish and maintain a _____ procedure.
4. Provide _____ for parts consultants and service technicians.
5. Use the factory _____.

Post your return dollars: _____

Obsolescence Best Practices

Record some best practices for preventing and addressing obsolescence.

Getting Rid of Obsolescence

Record some ways to get rid of obsolescence.

20 Special Order Parts Class Sample

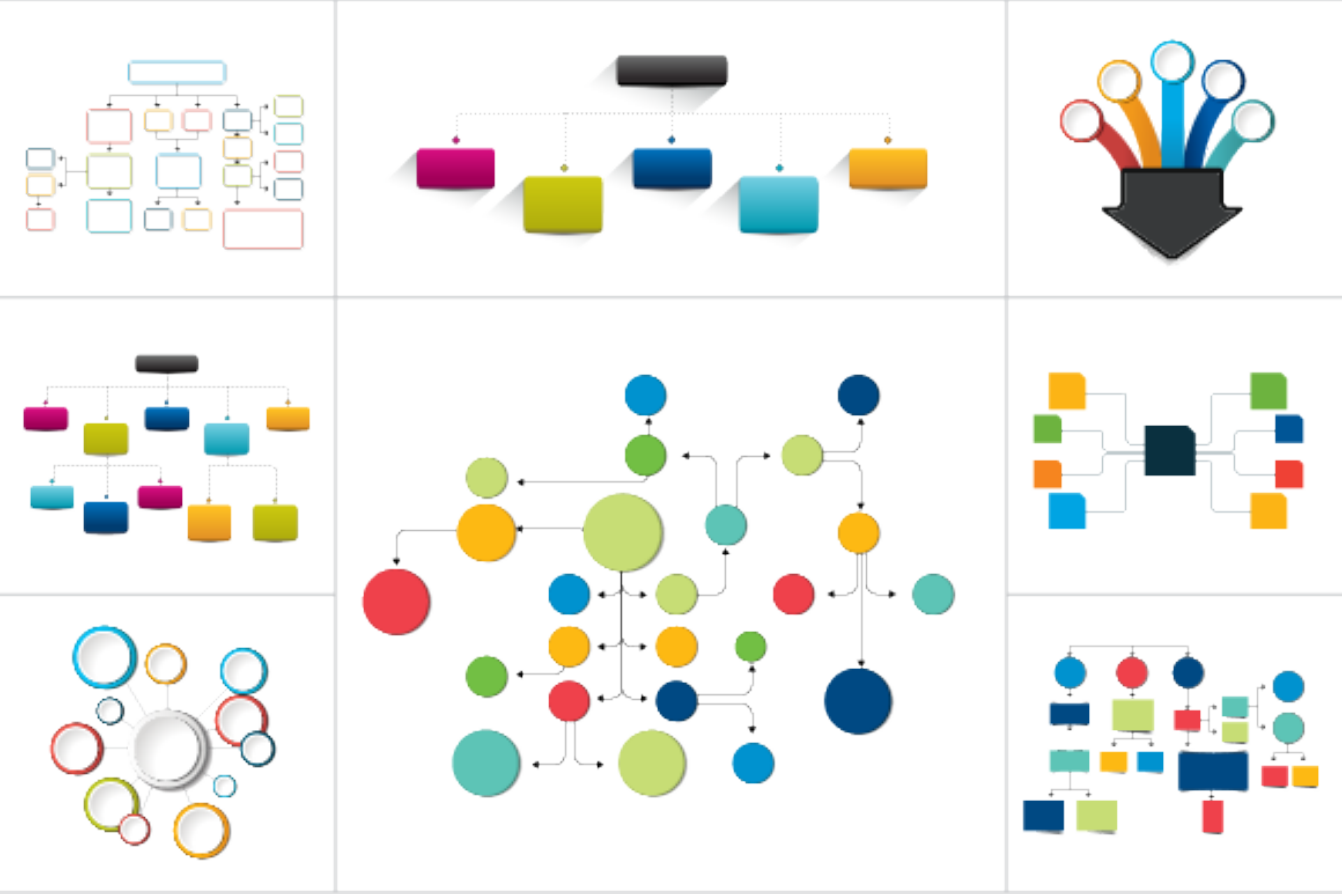
$	Oldest	Over 100	Over 200
$529.93	119	2	0
$630.90	626	6	4
$142.33	137	1	0
$399.40	20	0	0
$2,963.33	191	2	0
$1,627.37	136	2	0
$2,729.91	968	10	4
$826.66	69	0	0
$1,236.51	71	0	0
$71,060.98		**130**	**59**

Notes

Activity: Special Order Parts Process

1. Work in your teams to review the list of SOP Process Issues and Things to Consider.
2. Design an SOP process for your dealership that prevents or addresses all the issues on the list.
3. Your process should include all the necessary steps from the time the problem is diagnosed and the part is identified to its sale, installation, or return to the manufacturer.
4. Use sticky notes to display your process on chart paper in a graphically interesting way. *You may need to adjust your process during the activity.*
5. You may choose the format. The graphics provided below are only intended for inspiration.

Sample Flow Charts



Activity: Special Order Parts Process, cont'd

Common Issues to Prevent or Address

1. The service advisor or parts consultant doesn't get the necessary customer or vehicle information.
2. A customer refuses to prepay, leave the vehicle, or make a service appointment.
3. The service advisor or parts consultant doesn't require the customer to prepay, leave the vehicle, or make a service appointment to order a part (which is dealership policy). The customer never comes back in for the part.
4. A customer orders a part, but never comes back to pick it up or have it installed.
5. A parts consultant orders a part based on the name and specification rather than the part number, and the incorrect part arrives.
6. A technician orders a part that is covered under warranty, and the customer never comes back in.
7. A technician makes an incorrect diagnosis and orders the wrong part.
8. A D-Level technician orders a $450 part without manager approval, and it's the wrong part.
9. A wholesaler wants to return a part that can't be returned to the manufacturer.
10. A customer orders a part without prepaying. She returns two weeks later, and her part has been sold to someone else.
11. A part is placed on the SOP shelf without an RO or customer information.
12. A customer comes in to pick up a part he ordered. It is the wrong part, and he swears he requested the correct part.
13. An SOP that was ordered by the service department is ordered as part of the regular stock parts order.
14. An SOP arrives, but there is no information about the RO or the customer.
15. An SOP arrives. The parts department thinks that the service department will contact the customer, while the service department thinks the parts department will.

Activity: Special Order Parts Process, cont'd

16. A service advisor requests that an SOP be ordered for a specific customer. The part comes in the next day, but the advisor is not notified. Two weeks later, while reviewing her outstanding ROs, she discovers that the part arrived the day after it was ordered. When she contacts the customer, he says that since he didn't hear from them, he had the part installed elsewhere.

17. A service technician requests a part that is on backorder, with an estimated delivery time of 5-7 days.

18. There are old parts on the SOP shelf that have been there for over a year and have missed the window to be returned to the manufacturer.

19. There are old SOP parts on the regular stock shelf that have been there for over a year and have missed the window to be returned to the manufacturer.

Things to Consider

- Who is responsible/accountable at each stage of the process?
- What are the roles and responsibilities of the parts and service managers?
- How can the dealership ensure critical customer and RO information is communicated to the right parties throughout the process?
- How can the dealership ensure unsold SOPs are returned to the manufacturer in a timely manner?

Activity: Special Order Parts Process, cont'd

Doodles

Parts Status

Through the status of a part, it can be determined if the part is a stocking part or a non-stocking part. It can also be determined if the part was ordered by a person or by the computer.

Record the names/abbreviations and guides for each definition.

	The only parts that will be on the DMS-generated stock order. Parts have met phase-in requirements.
	A stocking status part that is not selling enough to justify ordering it again. Future stock orders will be suppressed.
	A status where the ordering is done manually. It will never be recommended on a stock order.
	This is the default status on most systems. The part has not met the phase-in criteria and will not be ordered by the stock order process.
	Non-Stock dollar value.
	The dealer manually set a part to phase out without further testing in the system.

Activity: DMS Scorecard

Stocking Status INVESTMENT	Inventory Value	% of Inventory	Guide	COLOR SCORING
Normal or Active Stock		#DIV/0!	over 70%	GOOD
Automatic Phase Out		#DIV/0!	Less than 30%	WARNING
Dealer Phase Out		#DIV/0!	Less than 1%	DANGER
Manual Order		#DIV/0!	Less than 3%	
Non Stock Part $'s		#DIV/0!	Less than 5%	
Non Stock Part #'s*			Greater than 70% of PN's	
Clean Core		#DIV/0!	# PIECES / PART #	
Dirty Core		#DIV/0!		
Total Inventory	$0	#DIV/0!		

Activity	Value $	%	Notes & Guides
0-3 Months		#DIV/0!	ACTIVE INVENTORY at 75%
4-6 Months		#DIV/0!	ACTIVE INVENTORY at 23%
7-12 Months		#DIV/0!	75% will likely become Obso 2% is guide
Over 12 Months		#DIV/0!	Technical Obsolescence 2% is guide
New parts no sales		#DIV/0!	Minimal Amount
Total Inventory	0	#DIV/0!	

CRITICAL OBSERVATIONS:(How do you feel about these observations?) Color Code	Pass or Fail ?
OBSO POSITION (LINES 20-22 FROM ABOVE)	
NEG-ON-HAND (MINUS-ON-HAND)	
CLEAN CORE	
DIRTY CORE (RDCI) OR DONE MANUALLY	
LOST SALES CALCULATOR VS. ACTUAL	
AVERAGE STOCK ORDER (Obtain data from your OE)	
MONTHS SUPPLY (This calculation from your FS Template)	
GROSS (TOTAL) TURNS (from your FS Template)	
TRUE (STOCK) TURNS (from your FS Template)	
FTFR (FIRST TIME FILL RATE)	

OBSO POSITION		
.75 TIMES $		0
PLUS		0
PLUS		0
EQUALS	#DIV/0!	0

Directions for Case Study and Debate

Instructions

1. Work with your team to examine the case study information.
2. Be prepared to present on each of the topics below. Identify any issues, then focus on opportunities, recommendations, and solutions. Use the service department figures on the last page to help improve the parts department. Use your imagination to fill in information that is not provided.
3. A friendly law review style debate will be used to cover the six different topics on Friday at 8:00 am. Teams will present on different topics, while other teams will be able to ask questions and offer additional suggestions.

Six Topics for Debate

1. *The dealership's OBSO position.* Determine the dollar value of your OBSO and your OBSO as a percentage of the "reconciled" inventory. You should be able to explain how you got it and how you are going to get rid of it.
2. *Average month's sales with no gross profit = $61,240*. Explain the reasons why a dealership would sell parts at cost. Include both good and not-so-good reasons.
3. *Parts gross sales.* If your gross sales met NADA Guide, how much more money would you have made? What are three steps you could take to get closer to Guide?
4. *Monthly reconciliation.* Conduct a monthly reconciliation. Be as accurate as possible with the limited information provided.
5. *SWOT Analysis*. Identify the parts department's strengths, weaknesses, opportunities, and threats. How can you take advantage of the strengths and opportunities, and minimize weaknesses and threats.
6. *Nine parts department employees.* You want to increase gross profit. It is not absolutely necessary to reduce the number of staff. Provide an organizational chart and justify each position. Be prepared to explain why you are letting people go (if applicable).

Logistics

1. Each person on your team must be involved in the presentation.
2. The length of each presentation will depend on the content and the size of your team.
3. It can be helpful to choose a leader to guide team activities and ensure all the work gets done.
4. Split up topics and responsibilities.
5. All work is to be done on the fourth floor.
6. Get something to eat.
7. Put back the tables and lower the chairs. Throw out the trash.

Case Study Data and Information (eight months' information, unless otherwise stated)

Parts Department

Financial Data

Gross Sales.....$1,666,114
Gross Profit.....$377,007
Gross Profit (%) of Sale.....22.6%
Inventory (F.S.).....$627,903
Personnel Expense.....$119,065
Departmental Net (+/-).....$902

Purchases for 8 Months

Total Factory.....$740,110
Other Dealers (emergency).....$521,884
W/D (wholesale distributor-stock).....$98,440
Emergency Purchases (NAPA, etc.).....$122,246
Total Purchases.....$1,482,680

Factory Information

Factory Stock Order Purchases.....$447,665
Stock order discounts earned (YTD).....$22,345
OBSO Credit Earned (but not used yet).....$21,551

Sales Distribution and Gross Profit Contribution

Category	YTD sales	YTD GP	Percent
Repair Order Mechanical	$345,555	$110,507	32.0%
Repair Order Body Shop	$289,252	$33,801	11.7%
Counter Retail	$105,808	$30,041	28.4%
Internal (new/used)	$346,007	$50,996	14.7%
Wholesale	$356,715	$100,001	28.0%
Warranty	$222,777	$51,661	23.2%
Total	$1,666,114	$377,007	22.6%

Summary of Computer Reports

Average Part Value.....$19.51
Parts with No Cost Record (@1500 pieces).....757 Part Numbers
Negative on Hand: $ 17,488 value.....1,112 Part Numbers
Dirty Cores Returned but No Credit Received.....$ 5,856
Dirty Core Value (on hand).....$ 7,550
Clean Core Value (on hand).....$15,031

Computer Controls

Stocking Criteria

High Days' Supply (Best Stock Level, aka BSL)	92 days
Low Days' Supply (Best Re-Order Point, aka BRP)	66 days
Phase-in	2/3
Phase-out	3/12

Sales Aging (using the CDK/DMS scorecard)

0 to 3 Months/Last Sale	$238,281
4 to 6 Months/Last Sale	$71,863
7 to 12 Months/Last Sales	$22,693
12+ Months/Last Sale	$175,383
New Parts No Sales (ADP)	$76,401
(aka: NS $ VALUE ON HAND)	

Inventory Adjustments

+$1,674.00	210 Part Numbers
–$4,730.00	410 Part Numbers

Computer Information

Total part numbers	9,276
N/S test numbers in the system	3,031
Total dollar value	$584,621
N/S parts on hand	$72,431
Average month's sales with no gross profit	$61,240
Emergency purchases/month	$35,490
Lost sales posted/month	$0

Additional Information

Work-in-process parts	$33,610
GOG (gas, oil, grease) inventory	$6,658
NPN (no part number)	$4,766
Price updates from OEM	$7,655
Bin count adjustments	$477
Value of packing lists for parts received, but not invoiced	$339
Parts and service receivables (over 60 days old)	$255,000

Service Department Performance

Total labor sales	$1,589,442
Total gross profit (from labor)	$942,889
Numbers of technicians	27
Available hours (5 days a week; 8 hour day)	37,800
Effective Labor Rate (ELR) (overall)	$49
Number of repair orders (total)	21,400
Number of FRH (flat rate hours)	30,400
Number of advisors	6
Number of technician stalls	35

Proficiency Formula

Total Labor Sales
÷ ELR
= Hours Billed
÷ Hours Available
= Proficiency

Proficiency Calculation

Total Labor Sales		**$1,589,442**
ELR	**÷**	**49**
Hours Billed	**=**	**32,438**
Hours Available	**÷**	**37,800**
Proficiency	**=**	**85.8%**

Proficiency Guide: 120%

Obtainable, but difficult to sustain

Appendix

Grading Your Wholesale Customers: Sample System

Green Light Customers

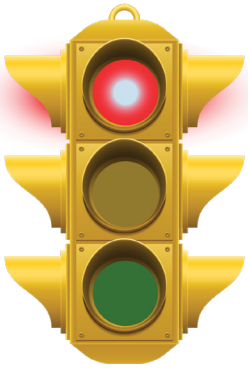
- Loyal customers who buy from you consistently.
- Decent gross profit.
- Low accounts receivable.
- High volume.
- Low returns.
- Short distance.

Yellow Light Customers

- Customers who buy from you as a second choice.
- Decent gross profit when they do buy from you.
- Some accounts receivable payment problems.
- Lower volume.
- Returns are a bit higher.
- Medium distance.

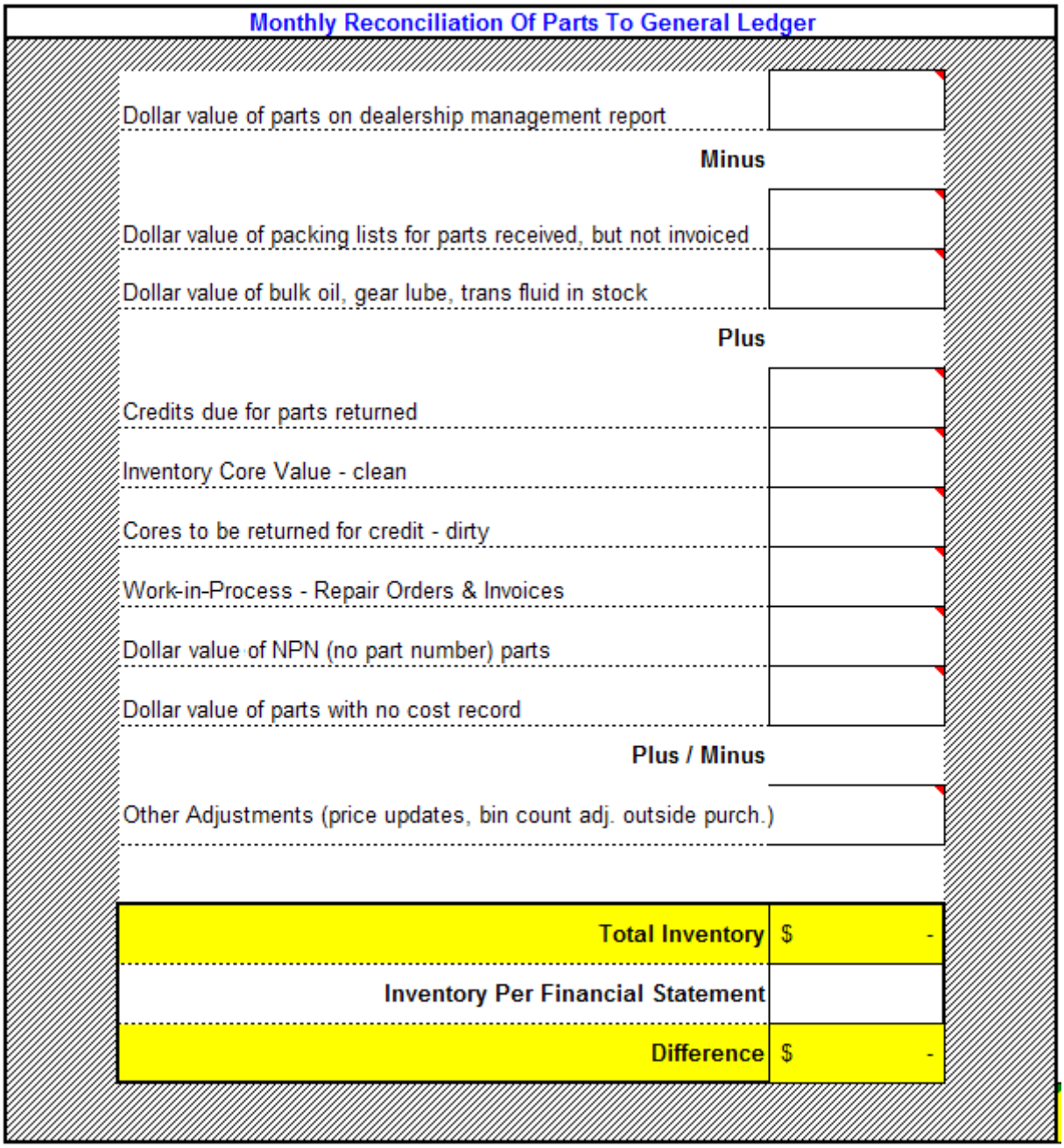
Red Light Customers

- They rarely buy from you.
- You are the last chance option for them.
- Low gross profit due to rare purchases.
- May have higher accounts receivable.
- Zero to low volume.
- High returns.
- Long distance.



Reward your green light customers with the maximum discounts and faster service.
Offer less to the yellow and minimal to the red.

Monthly Reconciliation of Parts to General Ledger



Monthly Reconciliation Of Parts To General Ledger

Dollar value of parts on dealership management report	
Minus	
Dollar value of packing lists for parts received, but not invoiced	
Dollar value of bulk oil, gear lube, trans fluid in stock	
Plus	
Credits due for parts returned	
Inventory Core Value - clean	
Cores to be returned for credit - dirty	
Work-in-Process - Repair Orders & Invoices	
Dollar value of NPN (no part number) parts	
Dollar value of parts with no cost record	
Plus / Minus	
Other Adjustments (price updates, bin count adj. outside purch.)	
Total Inventory	$ -
Inventory Per Financial Statement	
Difference	$ -

Memo:

1. _____

2. _____

Lost Sale Quiz

Read each situation below and indicate whether or not your parts department would post a lost sale.

	Situation	Yes	No
1	A technician needs a part to complete a repair. The part is not available in your inventory. You locate the part at a neighboring dealership and inform the service advisor managing the job. The advisor authorizes you to order the part. The part is given to the technician later that day and the repair is completed.		
2	A technician needs a part to complete a repair. The part is not available in your inventory, nor is it available locally. You find that plenty are available in your facing PDC. You inform the service advisor managing the job. He/she authorizes a daily order and places the vehicle in a down condition. The next morning, the part arrives and the technician completes the repair.		
3	A technician needs a part to complete a repair. The part is not available in your inventory, nor is it available locally. You find that plenty are available in your facing PDC. You inform the service advisor managing the job. Since the vehicle is safe to drive, he/she requests that you order the part for later and the customer takes possession of the vehicle. The needed part is added to that week's stock order as a customer order.		
4	The customer described in Item 3 above prepays for the special order part.		
5	A customer comes in to buy a part that is available in your inventory. However, upon learning that the part's cost is more than he is willing to pay (even after you offer him a reasonable discount), he leaves without making the purchase.		
6	About two months after the customer special order described above in Item 3, the customer has not returned to have the part installed. Your manager gives you a new bin location and tells you to relocate the special ordered part from the special order bin to the new location.		
7	A local dealership calls looking for a part needed to complete a repair in their service department. You check but discover that you don't have the part in stock.		
8	A service customer asks to have a repair done, but the needed part is not available in your inventory. You learn that a local dealership has several in stock but is unwilling to sell to you because the part is on national back order. You offer to place a special order for your customer, but he/she declines and leaves.		
9	A customer is leaving town tomorrow morning at 5:30 a.m. and needs their car back today. The needed part is not available in your inventory, nor is it available locally. At the customer's insistence, you locate an after-market part and the technician completes the repair before the day ends.		
10	A customer calls and requests a door handle for a 1971 "insert your make and model" and to your amazement, you don't have the part.		

Lost Sale Decision Tree