

FINAL CASE STUDY

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CLASS N377



THE FEELING IS GENUINE

Obsolescence

- Obso position is not favorable! Potential obso is higher than guide at 4% and technical obso is extremely high at 43% where guide is 2% as well
- Total obsolescence is \$268,803 (46%)
- We got in this position because more than half of our business is comprised of emergency purchases and wholesale stock
- Parts manager needs to cut ties with aged parts. Garage sales, one-time special returns to manufacturer, trading with other dealers, donations, or auctions are all ways to help get rid of remaining obsolescence
- To KEEP obso away we need to:
 - Implement a special order system to focus on installing the product
 - Have policy to balance wholesale customer needs and dealership profitability
 - Educate techs on diagnostics and ensure proper parts orders



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

REASONS TO SELL PARTS AT COST

1. Selling an obsolescent part to move it out of inventory. (Good)
2. Discounting the parts to cost to secure a CP job in the lane (Not Good)
3. Doing good will work that the dealership is absorbing the cost of the parts and labor to policy. (Could go either way)
4. Sales associates throwing in accessories to make a deal and parts counter bills out at cost. (Not Good)
5. Sales associate asking to sell a part at cost for a “good customer” (Not Good)
6. Employees buying parts for their personal vehicle and they are billed out at cost (Not Good)
7. Internal work on used cars discounted to cost to keep used car GP (Not Good)
8. Parts wholesaled at cost to develop a relationship with a new account that deals with a different OEM dealer. (Not Good)
9. Selling a SOP that was never picked up by the customer. (Good)
10. Selling a part that was ordered and cannot be returned because the box/carton was damaged (Could go either way depending on the part)

Sales Distribution YTD		
Category	Sales	% Of Total
Repair Order	345555	0.20740177
Repair Order B.S.	289252	0.17360877
Counter Retail	105808	0.06350586
Warranty	222777	0.13371054
Internal	346007	0.20767306
Wholesale	356715	0.2141
Accessories		0
Quick Service		0
Total Department (MTD)	1666114	1

If our department were at NADA Guide of 38%, we would have made an additional \$256,116.



3 ways to improve and get to guide:

1. Bill internal at retail cost
2. Eliminate counter sales discounts
3. Work on warranty increase to make sure we are billing at what customers pay or higher.



Gross Profit Contribution YTD					
Category	Gross	% of Total	% of Sales	YOUR BOC	Profile %
Repair Order	110507	0.29311657	0.319795691		41%
Repair Order B.S.	33801	0.08965616	0.116856582		25-35 %
Counter Retail	30041	0.07968287	0.28391993		41%
Warranty	51661	0.13702929	0.231895573		28-40 %
Internal	50996	0.13526539	0.147384301		41%
Wholesale	100001	0.26524972	0.280338646		20+
Accessories	0	0	#DIV/0!		20%
Quick Service	0	0	#DIV/0!		20%
Total Department (MTD)	377007		1	0.226279234	38%

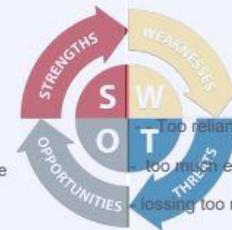
MONTHLY RECONCILIATION

Monthly Reconciliation Of Parts To General Ledger	
Dollar value of parts on dealership management report	\$ 584,621
Minus	
Dollar value of packing lists for parts received, but not invoiced	\$ 339
Dollar Value of bulk oil, gear lube, trans fluid in stock	\$ 6,658
Plus	
Credits due for parts returned	\$ 5,856
Inventory Core Value - clean	\$ 15,031
Cores to be returned for credit - dirty	\$ 7,550
Work in Process - Repair Orders & Invoices	\$ 33,610
Dollar Value of NPN parts	\$ 4,766
Dollar value of parts with no cost record	\$ 29,265
Plus / Minus	
Other Adjustments (shortage claims, damage, etc.)	\$ 25,612
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Total Inventory	\$ 648,090
Inventory Per Financial Statement	\$ 627,903
Difference	\$ 20,187

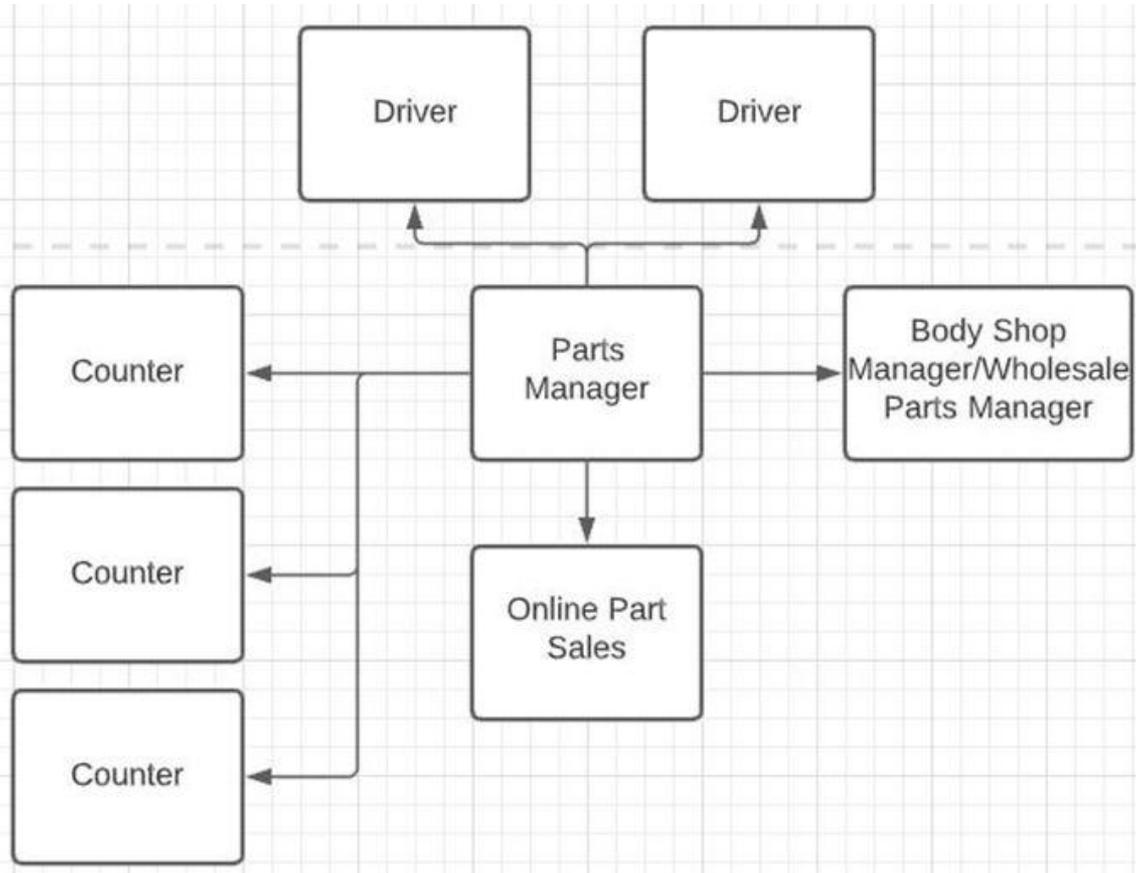
3.21%

SWOT ANALYSIS

Strengths (+)	Weaknesses (-)
<ul style="list-style-type: none">- Strong Sales numbers- No lost sales- very little bin adjustments- Great wholesale department- Healthy inventory for 0-3 months	<ul style="list-style-type: none">- high rate of emergency purchases- too many parts over 12 months old- not collecting receivables timely- Below average gross profit- Dirty Cores not being returned- below average of proficiency
<ul style="list-style-type: none">- Filling parts first time more often- Happier customers with quicker service- more growth with proficiency- potential for increasing gross profit- We have a lot of work in progress to complete	<ul style="list-style-type: none">- too reliant on other distributors- too much excess inventory- losing too much money because we aren't collecting- Compliance issues with OEM- Are we really at \$0 for loss sales?
Opportunities (+)	Threats (-)



8 PART POSITIONS



POSITIONS EXPLAINED

- 1) We have decided to fire one individual from our parts department. We ended up making the Body Shop Manager the Wholesale Parts Manager as well.
- 2) The Parts Manager will oversee everything, even the body shop due to making sure excessive parts are not ordered for vehicles such as sheet metal that is not returnable to the OEM.
- 3) We will have a individual in charge of Online Parts that will confirm the order and check the VIN#, package the part, ship the part and ask the customer several times if they want the dealership to install the part.
- 4) We will have 3 counter parts people. Two of them will be in charge of ordering parts for mechanics. The third will be in charge of ordering specific items for the Body Shop and also where help is needed. (Online Part Sales or the parts window).
- 5) We will have two drivers for parts deliveries, part pick ups and searching for new wholesale accounts. A bonus structure will be set in place for these new accounts.

Would you Buy? **YES**

- We will do a one time return on obsolescence parts at time of purchasing the Dealership with the OEM.
- Return any Parts during the 15 month return window since we are a GM store.

