

# Parts Case Study

---

By: Patti Marshall, Charles Brooks, Shawn Jeffrey, Tim Wilcox, Ryan Matheny, and Tara Vogel

# Obsolescence

The total technical Obsolescence is \$251,784. Adding \$22,693 in potential for a total of \$274,477.  
46% of reconciled inventory is Potential/Technical Obsolescence.  
43% being Technical Obsolescence

Total Purchases for 8 months : 1,482,680.00  
Factory stock orders purchases: 447,665.00

Non stock inventory purchases (special order, emerg purchases) 1,035,015.00  
We know OBSO is made up 50% special orders ,30% returns , 20% wrong parts

Payment for special orders needs to be collected upfront.  
Print, circle and sign on all non stock part orders binding technicians.

Posting parts for sale at cost on third party sites, contacting dealers that carry as stock, return any that the manufacture will accept, garage sale aged parts, and donate parts to local technical schools.

# Sales Statistics Given

## 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

# Average months sales with no gross profit = \$61,240

## Reasons why a dealership would sell parts at cost:

### Good reasons:

- to free up capital from aged out parts
- to free up capital from parts that have been ordered and are not normal selling stock (wrong part ordered, never picked up)
- good will or fix customer heat cases
- to establish relationships with wholesale clients

### Not-so-good reasons:

- giving friends and family discounts on repairs
- employees buying parts to do repairs as a side business (moonlighting)
- parts cost imputed incorrectly

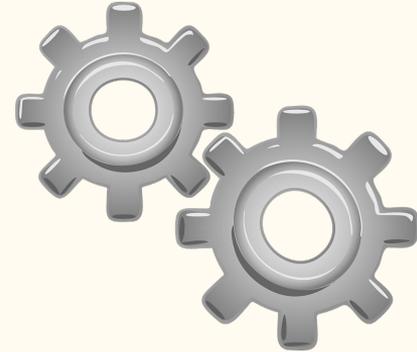
# Parts Gross Sales

- NADA guide calls for a 38% gross profit margin in the parts department
- From the data given, the current parts department was achieving a 22.6% GP from \$1,666,114 in gross sales
- If the parts department had achieved the NADA guide of a 38% GP, they would have made an additional \$256,106 for a total Gross Profit of \$633,113

# Increasing Gross Profit

- Start phasing in high demand parts to increase FTFR and reduce the amount of emergency purchases
- Reducing emergency purchases will increase the profit margin by paying cost rather than wholesale prices
- Decrease Days' Supply from 66-92 down to 45
- Create processes to increase inventory accuracy
- Implement processes to collect aging parts and service receivables

# Monthly Reconciliation of Parts to General Ledger



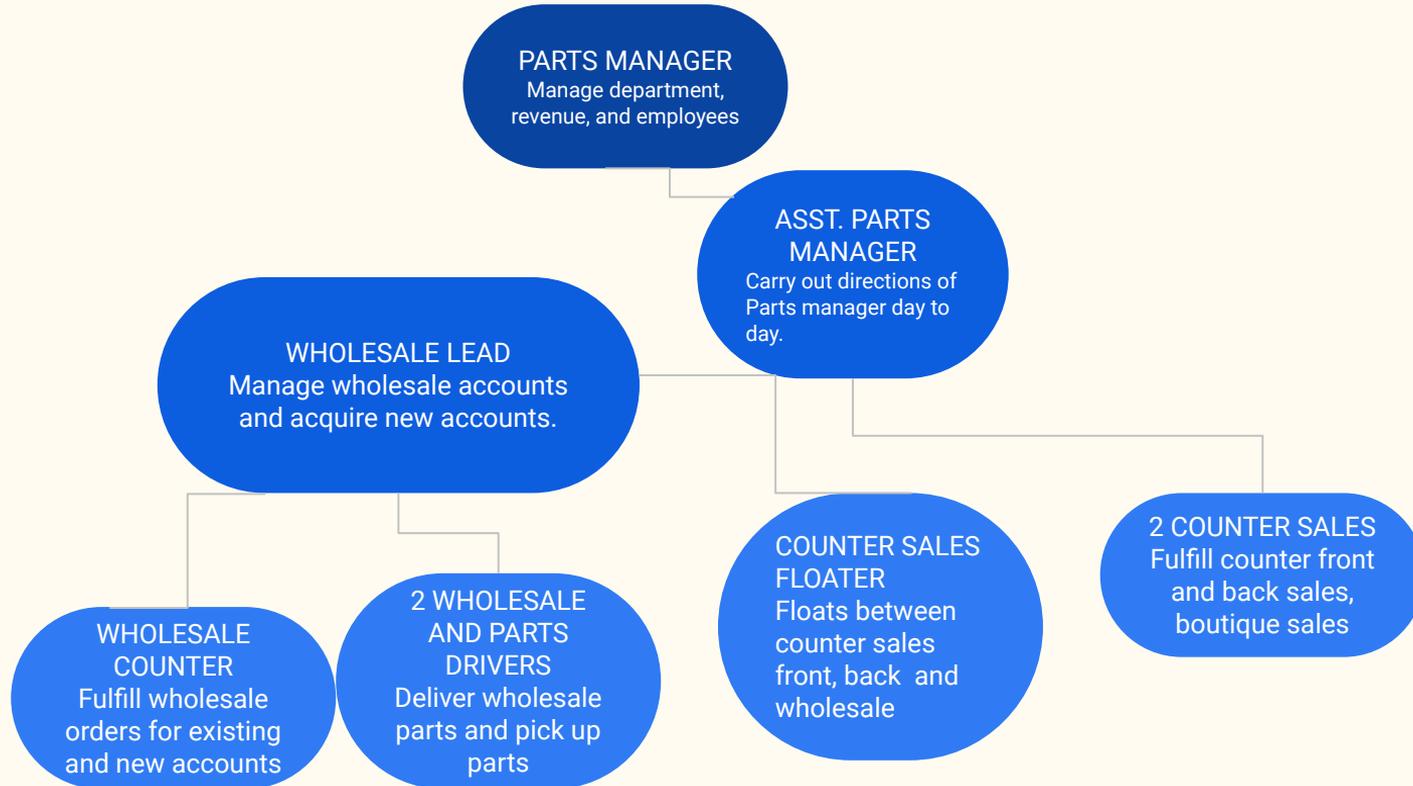
Dollar value of parts on dealership management report	\$	584,621
<b>Minus</b>		
Dollar value of packing lists for parts received, but not invoiced	\$	339
Dollar Value of bulk oil, gear lube, trans fluid in stock	\$	6,658
<b>Plus</b>		
Credits due for parts returned	\$	5,856
Inventory Core Value - clean	\$	15,031
Cores to be returned for credit - dirty	\$	7,550
Work in Process - Repair Orders & Invoices	\$	79,350
Dollar Value of NPN parts	\$	4,766
Dollar value of parts with no cost record	\$	29,265
<b>Plus / Minus</b>		
Other Adjustments (shortage claims, damage, etc.)		
<b>Total Inventory</b>		\$ 627,903
<b>Inventory Per Financial Statement</b>		\$ 627,903
<b>Difference</b>		\$ -

# SWOT Analysis

Subject: PARTS CASE STUDY

Strengths (+)	Weaknesses (-)
<p>Strength wholesale sales</p> <p>Counter retail sales</p> <p>Repair Order Mechanical</p> <p>Raise parts warranty work to capture more service business and increases first time fill rate.</p> <p>Raise Body Shop sales to capture more shop repair business.</p> <p>Raise of internal sales allows us to put out a better used vehicle product to our customers. Raises reputation of the dealership.</p>	<p>Weakness is internal (new/used) sales</p> <p>Repair Body Shop sales</p> <p>Warranty sales</p> <p>Loss of parts warranty work to competitive dealers</p> <p>Loss of Body Shop sales has business going to other locations</p> <p>Loss of internal sales effects used cars not being reconditioned and repaired to appropriate standard</p>
Opportunities (+)	Threats (-)

# Parts Department Summary Flow Chart



# Recommendation

Our recommendation is to buy the store with the following plans:

- Implement processes to promote our goals
- Get to NADA guide on gross metrix
- Control costs
- Transform the store into a profitable business