

Better Buy Motors

**BEST
DEAL**

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Agenda

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 reason a dealership would sell parts at cost. Include both good and not-so-good reasons

3. Parts gross profit. If your gross profit 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 necessary to reduce the staff number. Provide an organizational chart and justify each position. Be prepared to explain why you are letting people go (if applicable).

7. Recommendation. Would you recommend Mark & Brian purchase the store based on the parts department?

1. The dealership's OBSO position.

Total dealership obsolescence- \$251,784 (37.9% of reconciled inventory)

The obsolescence problem is due to the following:

- $\frac{2}{3}$ phase in
- Lack of awareness/curtailing on ordering stock purchases
- Poor or no process for getting rid of aging parts
- Overall inventory mismanagement

Solutions:

- 3/9 phase in
- Perform an immediate physical inventory
- Training and management on stock order purchases. (Don't just go with recommended)
- Develop a process for managing and selling/returning aging parts
- Train on inventory management. Assign an individual as responsible
- Stock orders corrected to mitigate need for emergency purchases
- Initiate cycle and bin counts on a daily basis
- Take advantage of current OEM OBSO credit
- Ask factory representative for any possible assistance
- Ebay and any other eCommerce sites to sell inventory through
- Cost smaller value parts (\$10 and less to start) to used cars R.O.'s, 1 per R.O.
- Write off parts
- Donations

2. Average month's sales with no gross profit.

Bad reasons

1. Selling counter parts at cost due to lack of sales strength
2. Selling internal at cost. Current internal parts gross is 14.7%.
3. Poor warranty markup from factory (need to go through increase).
4. Service discounting parts instead of their own work.

Good reasons

1. Necessary for an internal issue for customer care (caused by us).
2. Remediating a used car issue.

3. Parts gross profit.

1. Go through a warranty parts increase
2. Stop internal discounts on parts. Make sure service is not discounting customer RO's against parts (some DMS have a built in 80/20 discount split)
3. Lessen customer pay discounts on parts items
4. Lessen discounts on body shop (if internal). If external, look into possibility of making an internal body shop.
5. Improve stocking to mitigate emergency purchases
6. Push to increase wholesale business
7. Take advantage of OEM OBSO credits
8. Train parts staff to sell all related parts on each transaction.

4. 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	\$ 21,551
Inventory Core Value - clean	\$ 15,031
Cores to be returned for credit - dirty	\$ 5,856
Work in Process - Repair Orders & Invoices	\$ 33,610
Dollar Value of NPN parts	\$ 4,766
Dollar value of parts with no cost record	\$ 29,265
Plus / Minus	
Other Adjustments (shortage claims, damage, etc.)	\$ 5,076
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Total Inventory	\$ 663,853
Inventory Per Financial Statement	\$ 627,903
Difference	\$ 35,950

5.73%

SWOT Analysis

Subject: Parts Department

Strengths (+)	Weaknesses (-)
<ul style="list-style-type: none"> - Wholesale gross profit % is strong. - Properly staffed - Solid amount of customers - Good cash flow 	<ul style="list-style-type: none"> - ELR \$49 - Too many discounts - Obsolescence is a problem - Technician proficiency is poor - Too reliant on what DMS suggests to stock - Too many emergency purchases - Underperforming in gross profit - Staff not properly trained - Poor inventory tracking overall
<ul style="list-style-type: none"> - Stocking correct parts - Minimize advisors ability to discount - Recording lost sales - Decrease obsolescence - Change from 2/3 phase in to 3/9 phase in - Implement proper training for staff - Good opportunity to increase gross in body shop - Good opportunity to increase gross in parts dept. - Expand on overall wholesale operation 	<ul style="list-style-type: none"> - Sales - Incorrect stocking predictions - Poor management oversight on training and discounts - Overwhelmed - Worse cash flow position - Wholesale team too bloated.
Opportunities (+)	Threats (-)

Write your goal statement:

Fix stock order purchases in order to simultaneously eliminate excessive emergency purchases and obsolescence, which will result in a net gross increase. Properly train staff on inventory management. Take advantage of current wholesale success.

6. Employees

Do not fire anyone – We do not know what we have for talent!

- Parts Manager (1)
 - Assistant Manager (1): Should know how to do all the ordering, receiving, and work every counter, has a command in place, staggering in/out schedule to incur least amount of overtime, internal inventory audit.
 - Counter people (3)
 - Wholesale counter (2)
 - Parts driver (1)
 - Shipper/receiver that drives too
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- Observe for 90-days then look at ROI growth from training. Reassess current personnel needs (less employees, or possibly more)
 - Hire third-party to assist with audit – work with Parts/Assistant Manager for training..

7. Purchase Recommendation.

YES....

This Parts Department is clearly *doing* business, and there is ample opportunity to increase gross profit. We believe that all of the gross profit percentages are extremely low due to incorrect stocking and lack of standard operating procedures. With proper training, processes, management and direction, this parts department will be an animal!

Please find our recommendations for short/long term strategy we will implement in the following months.

7. Recommendation.

Short Term Objectives (within 90 days)

- Fix the markup on internal to more appropriate industry standards (MSRP)
- Limit advisor discounting abilities
- Ensure advisors cannot change parts prices without service/parts manager override
- Adjust phase in from $\frac{2}{3}$ to $\frac{3}{9}$
- Start tracking lost sales
- Implement training
- Make a dent in obsolescence problem through all solutions listed above.

7. Recommendation.

Long Term Objectives (90+ days)

- Facilitate proper training to managers and parts staff. Parts manager should prioritize training on suggested ordering
- Evaluate staffing after 90-day trial period
- Shave obsolescence to where it should be (under \$10,000 per month) to free up inventory dollars to make emergency purchases. Implement SOP for emergency purchases.