

# Successfully Coping With Factory Order Programs



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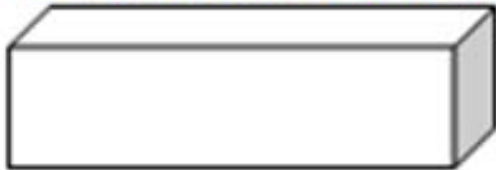
# A Little History Reality...

# The “Ancient” Card File Method; one card per part number

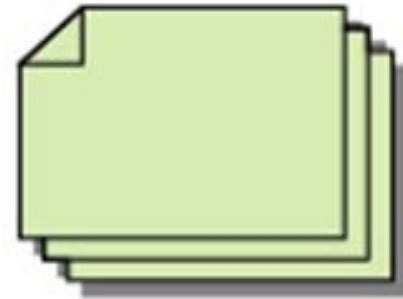


# Methods of Controlling Inventory

## Manual Card Systems



**Cards Had all the  
Data a Parts Manager  
Needed for Decisions**

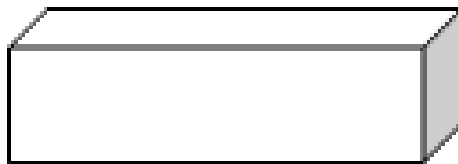


**Batch Pad Systems  
Short Life, but First  
Automated Systems**

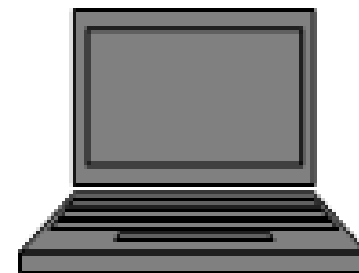
**About 1969**

# Methods of Controlling Inventory

## Manual Card Systems



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Data a Parts Manager  
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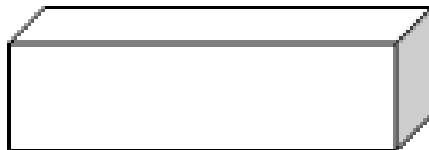
## On-Line Systems

Connected by a phone line  
To a computer....somewhere

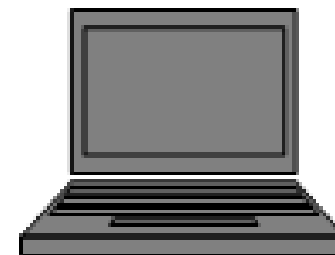
**Mid 1970's**

# Methods of Controlling Inventory

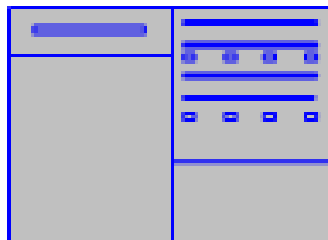
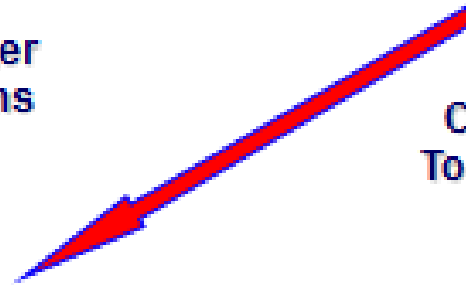
## Manual Card Systems



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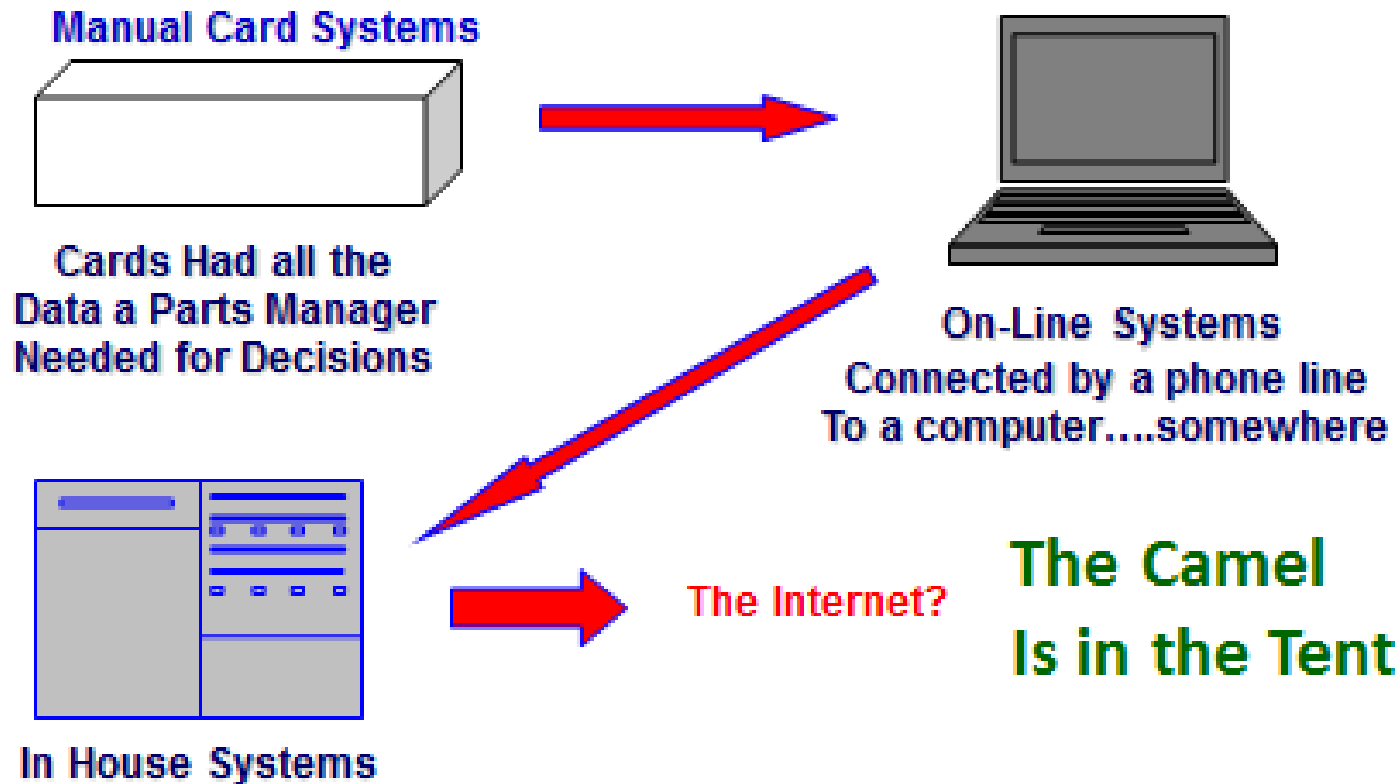
On-Line Systems  
Connected by a phone line  
To a computer....somewhere



In House Systems

Early 1980's

# Methods of Controlling Inventory





# Coping with Factory ASR Systems

- **Automatic Stock Replenishment Systems**
- **Entry into the marketplace in 1988 with Saturn**
- **Parts Marketing Systems for the Factory**
- **Not Parts Inventory Control Systems for the Dealership**

# Who Then... (Factory vs. Dealership) is Right?

# Final Responsibility lies with the Parts Manager... using the Dealer's Money

# The Parts Managers

Just what do they do?  
?

# The Parts Manager



*is a Money Manager*

# The Parts Manager is a Money Manager

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How Did You Spend The Dealer's Money?

# It's All About Demand

## **CREATE DEMAND:**

1. Advertising
2. Marketing
3. Merchandising

## **RESPOND TO:**

### Inventory Control

That is what this  
Course is all about:  
It is what the Parts  
Manager does!

# 6 Major Problems and Challenges

1. **Obsolescence**
2. **Wrong Mix of Parts**
  - **Non Stock Testing**
  - **Lost Sales Tracking**
3. **Excess Stock**
4. **Marketing & Merchandising**
5. **Computer Systems Technology**
6. **Distribution changes by the Factory**



**Parts Managers #1 Job:**

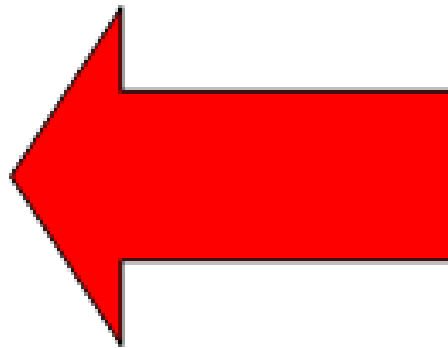
**Feed The  
Technicians**

# A Technician's Perspective:

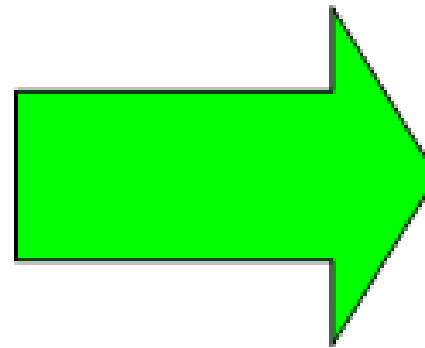
**One of everything per  
Technician**

**A Dealer's Perspective  
Would that small closet be  
enough?**

## Two “Seemingly” Opposing Forces



**The Technicians  
Need to Service  
The Vehicle on a  
Timely Basis**



**The Dealer's  
Need to Preserve  
Capital Assets:  
\$Cash\$**

# Both Are Correct But Approach The Challenge Differently



# Inventory Management: Fundamental Principles

- **Managing or chasing the problem**
- **Managing for growth or spending time stomping out fires**
- **Managing The Inventory Cycle**

**Learn The Principles**

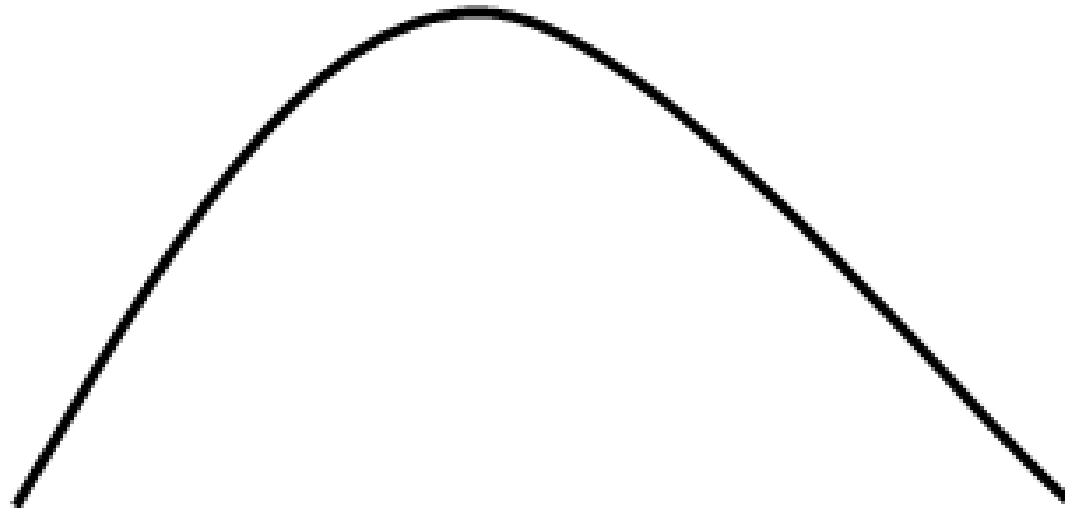
**Manage The Inventory**

**Don't Let The**  
**Inventory Manage**  
**You**

# Learn the Inventory Cycle

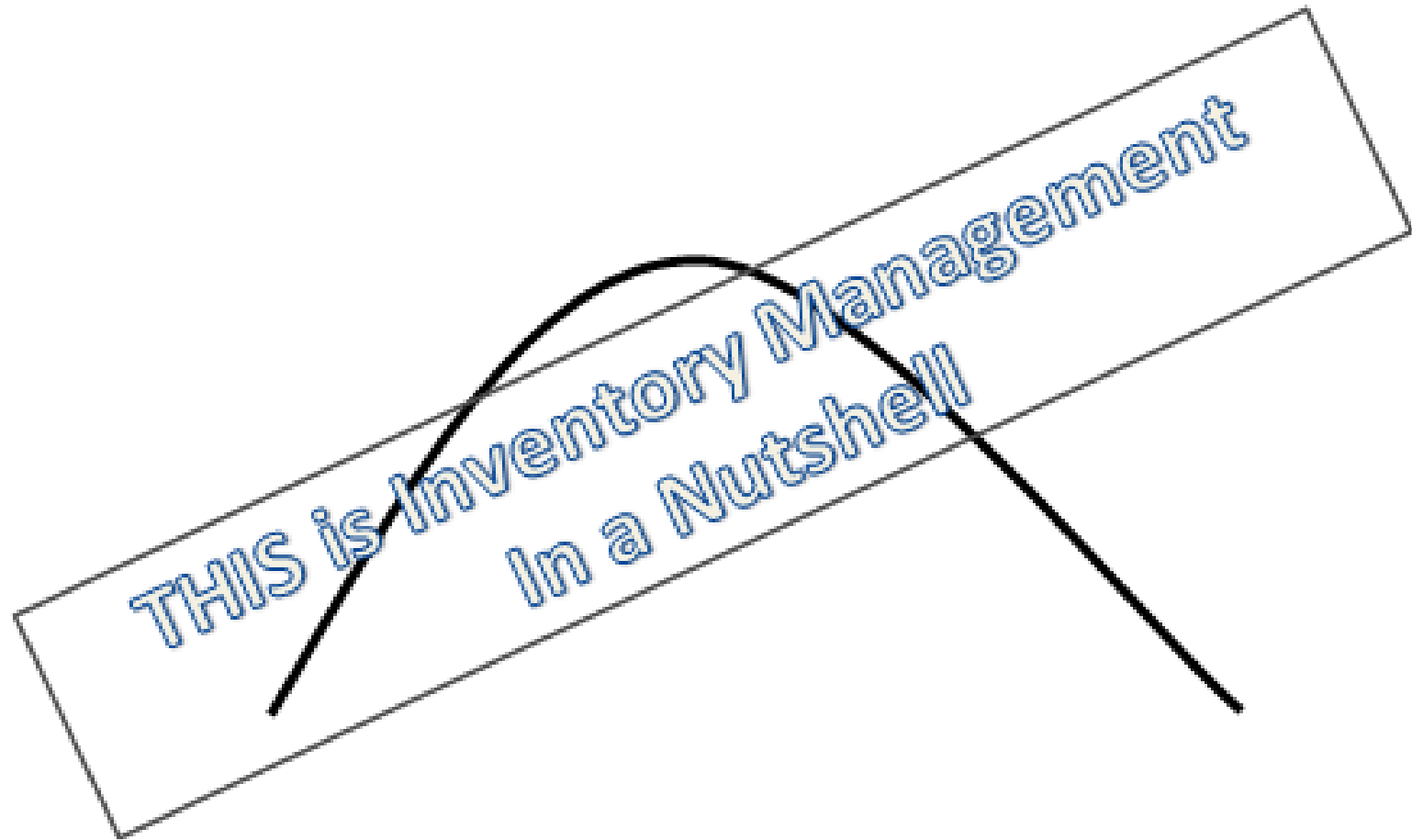
- When to Stock (what to stock) the use of NS and Watch in DMS programs
- How much to stock; the use of buying guides; min/max; days supply; EOQ; BEOQ in the computer system
- When to stop the process; Auto phase out techniques and variations
- The length of the cycle

# The Life Cycle of a Part





# The Life Cycle of a Part



# **The Life of a Part**

## **Is Affected by:**

- 1. Quality of Manufacturing**
- 2. Units in Operation**
- 3. Regular Maintenance Cycles**
- 4. Cost of the Part**
- 5. Local Conditions**
- 6. Customer Handling**

# The Numbers

- Where Performance is Measured,  
Performance Improves



Measure....Against  
Yourself  
Not Somebody Else!

# Measure the Numbers –Against What?

When we deal in **generalities** we will **never succeed**. When we deal in **specifics** we will **seldom fail**. Where performance is measured performance improves; and where performance is measured and reported, the rate of improvement accelerates!

Thomas Monson

# The Monthly Checklist

- **A Work in Process**
- **A Process, Never Ending**

MONTH \_\_\_\_\_  
DEALERSHIP \_\_\_\_\_  
DATE \_\_\_\_\_

**PARTS DEPARTMENT MONTHLY EVALUATION CHECKLIST (v.2015)**

- |   |   |
|---|---|
| 1. PART NUMBERS CONTROLLED _____  | 19. EXCESS STOCK \$ _____ / _____ %   |
| 2. TOTAL CONTROLLED INVENTORY \$ _____  | 20. TRUE EXCESS STOCK \$ _____ / _____ %<br>LINE 19 MINUS LINE 21 = TRUE EXCESS STOCK                                 |
| <b>3. RECONCILED INVENTORY</b> _____  | 21. PARTS > 6 MONTHS NO SALES (Technical Obsolescence) \$ _____   |
| 4. NS PART NUMBERS # _____ / _____ %  | 22. ALL PARTS > 6 MONTHS NO SALES _____ %   |
| <b>5. NON-STOCK DOLLAR VALUE</b> \$ _____ / _____ %   | 23. PARTS > 12 MONTHS NO SALES (Absolute Obsolescence) \$ _____   |
| 6. GROSS SALES (Annualized) \$ _____  | <b>24. PARTS &gt; 12 MONTHS NO SALE</b> _____ %   |
| 7. GROSS PROFIT (Annualized) \$ _____   | 25. NEW PARTS NO SALE \$ _____<br>(No Movement New) _____ %   |
| 8. COST-OF-SALES (Annualized) \$ _____  | 26. TOTAL DEMAND (Pieces) _____   |
| 9. GROSS PROFIT MARGIN _____ %  | 27. EMERGENCY PURCHASES+ CUSTOMER ORDERS (Pieces) _____   |
| <b>10. INVENTORY F/S</b> \$ _____<br>(Actual Cash Value Inventory from the General Ledger)  | 28. LOST SALES (Pieces) _____   |
| 11. LIFO RESERVE, IF USED \$ _____  | <b>29. FILLED FROM STOCK RATIO</b> _____ %<br>Calculated with 'pieces'  |
| 12. GROSS TURN RATIO (COS ÷ INV.) _____   | 30. MONTHS/DAYS OF SUPPLY (F/S INV. ÷ AVG. MO. COS) _____   |
| 13. PURCHASE EFFICIENCY (Factory Stock Orders) (Annualized) \$ _____                        | 31. # of PARTS PERSONNEL _____  |
| 14. PURCHASE EFFICIENCY (Other Sources for stock) \$ _____                                  | 32. NET PROFIT (% of Sales) PARTS DEPARTMENT _____ %  |
| 15. PURCHASE EFFICIENCY (Optional, Other Factory) (Annualized) \$ _____                     | 33. PERSONNEL EXPENSE (PERS EXP ÷ GP) _____ %   |
| 16. TOTAL EFFICIENT PURCHASES (Total Lines: 13 thru 15) \$ _____                            | 34. PRODUCTIVITY (Pieces/Employee/Month) _____<br>(Dollars/Employee/Month) \$ _____                                   |
| <b>17. PURCHASE EFFICIENCY (TEP \$ ÷ COS\$) TOTAL EFFICIENT PURCHASES FOR STOCK</b> _____ % | <b>35. ABSORPTION RATE</b> = _____ %<br>[GP Parts, Service & Body (YTD)<br>(YTD) Total Dealer Fixed Overhead Expense] |
| <b>18. TRUE TURN</b> (TEP % x GROSS TURN) _____   | <b>36. SERVICE PROFICIENCY</b> _____ %  |

You may copy this checklist as necessary

# Source of the Information

1. The Financial Statement
2. The Monthly or Weekly Summary Reports
3. Selected Accounts Payable Records
4. Information from the Factory
5. Calculations
6. Service Manager

**So: Exactly How  
Much Inventory  
Should I have?**

**As Much as You Need**





**Who makes the decision about WHAT to Stock?**

## The Factory Representative



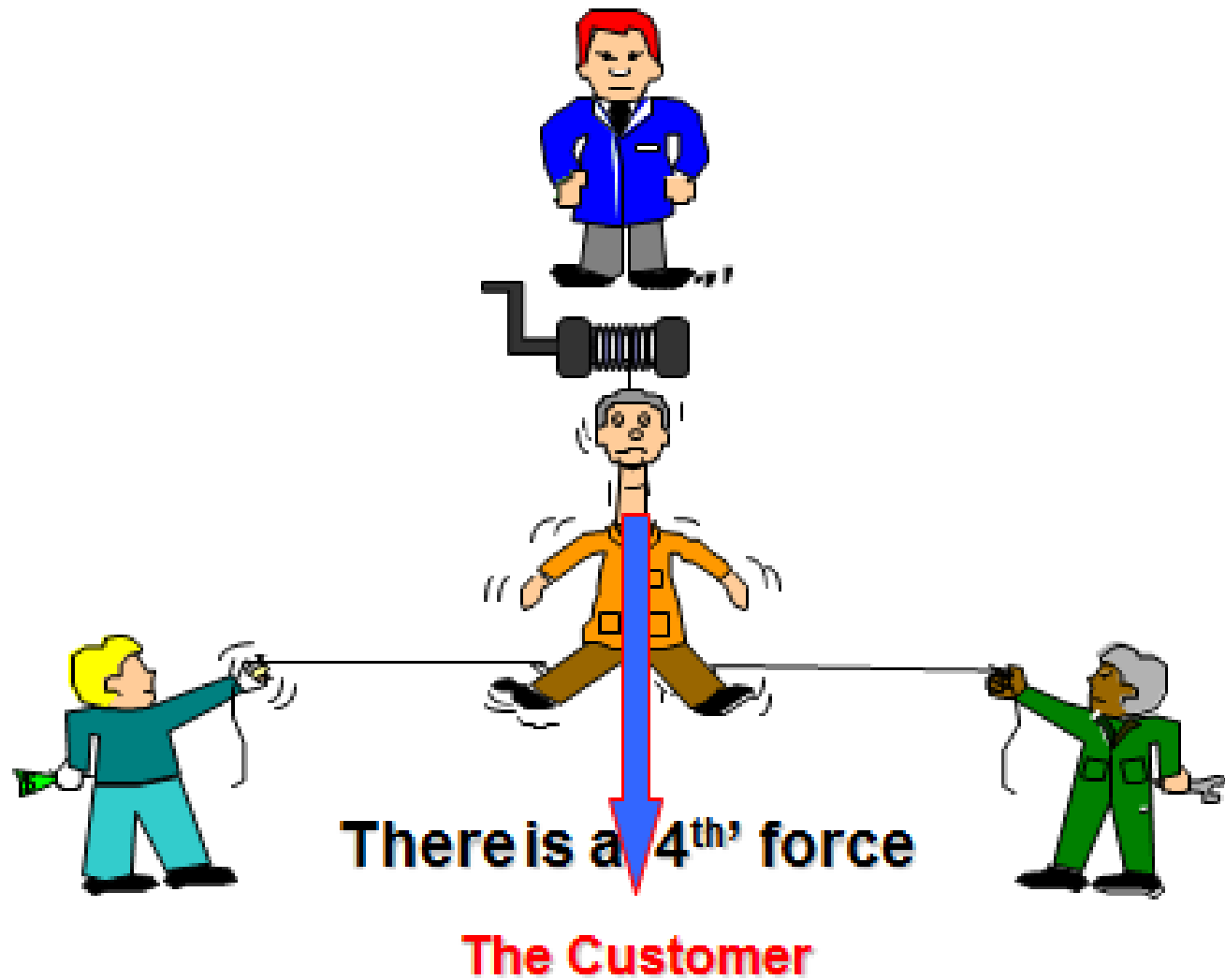
## The Dealer/Owner



## The Technician/Mechanic



Many 'Forces' Applied at the same time; with different 'Reasons'



# Non-Stock Testing:

The ability to 'pre-test' Demand before physically stocking the Part.

Next to the production of a Stock Order, NS  
is the most important feature of Good  
Inventory Control

# Non-Stock (Testing) Guidelines

- 4. The numbers on a Non-Stock or Testing Status should be greater than 50%. Over 70% is unusual
- 5. The Non-Stock Dollar Value Should be less than 5%.

In theory, NS Value should be zero.

# Purchase Efficiency

Also Called Stock Order Performance

- The method in which a part is purchased from a supplier has everything to do with the profit produced on the sale of the part.
- There are three primary types of purchases that when sold, maximize the highest net and gross profit possible on the sale of the part.

# Purchasing Performance

## “Efficiency” \_\_\_\_\_% (Calc)

(Previously Called Stock Order Performance)

- Total Parts Purchased Efficiently  
Cost-of-Sales

**Both Numbers must use annualized or  
month-to-date figures**

# True Turn Guides

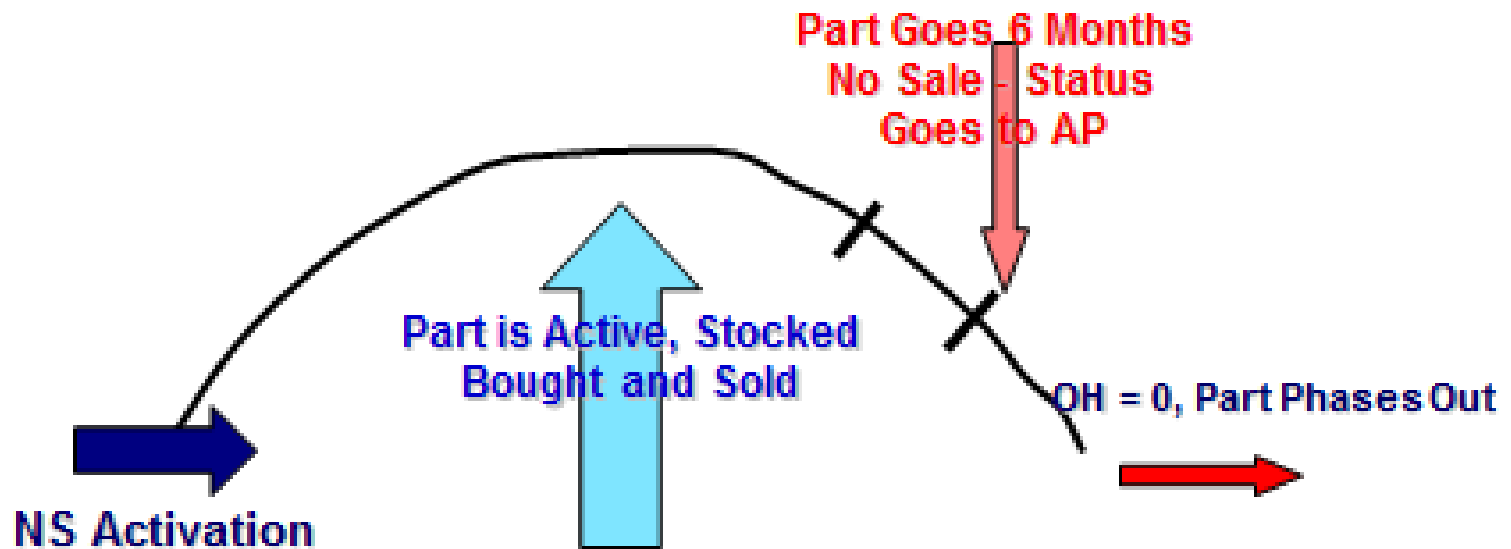
- **Heavy Truck Weekly Stock Order 2.5 - 5**
- **Heavy Truck Daily Stock Order 3.5 – 5**
  
- **Automobile: Weekly Stock Order 3 - 5**
- **Automobile: Daily Stock Order 5 - 7**



# Obsolescence Handling

- **Controls, Causes & Cures**

# Obsolescence Handling



Here is what we know  
about the  
dynamics of demand  
Frequency of stocking parts

Using 'Probability Mathematics'

# Potential Obsolescence Statistics

1. 65% of parts that go 6 months-no-sale will never sell again
2. 85% of parts that go 9 months-no-sale will never sell again.
3. Parts Over 12 Months No Sale: The holding cost exceeds the Gross Profit Margin

# Phase Out Controls

- The best phase-out control is:
- >6 Months-no-sale...Part goes to AP
- True Seasonal Parts >12 Months no sales  
(put these in a separate source or control group)
- Exceptions are the venue of the Parts Manager.
- Watch for Increased Obsolescence

# Primary Causes of Obsolescence

## Treat the 'Disease', not just the Symptoms

1. Natural Occurring (4-6% per year)
2. Ordered in Error
3. Special Orders Not Picked Up
4. Speculation
5. Returns from Body Shops
6. Returns from Mechanical Shops
7. Improper Calculations from ASR

# Lost Sales

# Types of Lost Sales

1. Availability
2. Price
3. Locator Systems (Blind Demand)
4. From Service “Pricing” Requests



# Lost Sales

**If you don't post 'em, You'll  
never know!**

# Line #29: Fill-off-the-shelf (1988)

AKA: filled from stock ratio

This is a Major Change in Measurement

>Use Piece figures<

$$\text{FOS} = \frac{\text{T.D.} - (\text{E} + \text{L} + \text{C})}{\text{T.D.}}$$

**T.D. = Total Demand**

**E = Emergency Receipts**

**L = Lost Sales**

**C = Customer Special Orders**

**Major Differences?**  
**Fill-off-the-Shelf uses:**

**Pieces**

**Not Dollars or Part Numbers**

# **Lines #29: Fill off the Shelf Desired Levels**

- **Heavy Truck: Daily Stock Order: 85-94%**
- **Automotive: Daily Stock Order: 85-92%**

# **Fill off the shelf vs. Service Efficiency**

## **Clock Hours :: Flagged Hours**

**When we “feed” the technicians**

# Fill off the shelf vs. Service Efficiency

When we “feed” the technicians

**4 Repair Orders =  
One Truck Sale  
11 Repair Orders =  
One Car Sale**

Used with permission: Randy Johnson: [www.cargoplemarketing.com](http://www.cargoplemarketing.com)

# Remember...

**Fill off the Shelf does not tell you what to stock. It defines the efficiency of those parts already placed into stock, on an active stocking status, by the system and/or the parts manager.**

## Months/Day of Supply The Buying Guide Calculation

# The DMS (System) order point calculations

These are calculated differently  
by different DMS systems; Know  
Yours well



## **Additional Formulas to the basic 'Days Supply' Calculation**

- 1. EOQ: Economic Order Quantities**
- 2. Source by Movement also known as ABC Sourcing**
- 3. Fixed minimum/maximum quantities**

**Remember in Parts—**  
**It's not the MONTH that is most important**  
**It's the TREND that is most important**

# Monitoring Progress:

1. Do it Monthly
2. Monitor the “Trend”. Don’t fixate on a single number
3. Identify Strengths: Capitalize on them
4. Identify Weaknesses: Dissect them and fix them
5. Get in the habit of “Repetition” of good habits

# Questions?

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