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NADA MANAGEMENT SERIES

SP5

A DEALER GUIDE TO

Parts Management and Profitability

THIRD EDITION



NATIONAL
AUTOMOBILE
DEALERS
ASSOCIATION

The National Automobile Dealers Association (NADA) has prepared this management guide to assist its dealer members in being as efficient as possible in the operation of their dealerships. The presentation of this information is not intended to encourage concerted action among competitors or any other action on the part of dealers that would in any manner fix or stabilize the price or any element of the price of any good or service.

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Parts Management and Profitability

I. INTRODUCTION

Even in an age when rapid growth and large amounts of money are commonplace, a number like \$5.7 billion demands attention. That's how much total parts inventory U.S. automobile dealerships carried in 2007 (*NADA DATA 2008, AutoExec*, May 2008) in an effort to meet the varied needs of wholesale, retail, and internal parts customers. With such an investment at stake, dealers must keep their parts departments efficient and profitable.

If the number and type of parts in that \$5.7 billion inventory were what dealers need to fill 90–95 percent of sales demand (the fill rate recommended by *NADA/ATD 20 Group Domestic & Import Guides and Expense Profiles, 6th Edition*; see also “Level of Service” in Section IV of this guide), most dealerships would be in good shape when comparing expenses to profits. Unfortunately, industry experts estimate that obsolete parts make up about 20 percent of parts inventories, tying up millions of dollars that could be better used elsewhere, particularly considering

the drop in new-vehicle profits as compared with the percentage of profits from parts and as shown in *Figure 1* below.

There are challenges in the parts and service markets, despite the slight increase in parts department profits. The number of repair orders written was unchanged from 2006 to 2007. Also, manufacturers are willing to cut parts prices to compete with independent parts suppliers, thereby reducing the value of dealership parts inventories and warranty repair profit potential.

Still, internal work is up, thanks to the reconditioning demands of the used-car market, and opportunities for factory-authorized service and maintenance grow with each wave of off-lease vehicles. You can seize these opportunities to increase parts department profits by working with your parts manager to implement the management practices and inventory controls outlined in this guide.

2007 DEPARTMENTAL OPERATING PROFIT AS A PERCENTAGE OF TOTAL DEALERSHIP OPERATING PROFIT

Department	2006	2007
New-vehicle	(-5.58%)	(-8.49%) ↓
Used-vehicle	28.29%	27.12% ↓
Service	24.12%	24.78% ↑
PARTS	53.17%	56.59% ↑

Figure 1

Averages are provided by NADA Industry Analysis Division.

II. THE PARTS MARKET

A. Market Potential

Sales in the new-vehicle market are down, but the automotive aftermarket for all vehicles in service is growing more quickly thanks to an increase in both the number and durability of vehicles on the road. As of June 30, 2007, there were more than 248 million vehicles in use in the U.S., an increase of more than 26 percent over the last 12 years. Also, the median age for passenger cars (currently 9.2 years, according to R.L. Polk & Co.) has increased or held steady every year since 1989, showing that vehicles are lasting longer. With more and older vehicles in use, more parts are needed to keep them running.

Statistics suggest a tremendous market for parts and service on older vehicles. But in franchised dealerships, service loyalty among retail customers generally lasts as long as their vehicle warranties. Once warranties expire, independent garages and parts stores, gas stations, and specialty stores (such as tire stores, oil and lube shops, and muffler shops) seem to prevail. Parts sales depend on the reputation and merchandising efforts of dealership parts and service operations.

B. Major Market Segments

There are five main sources of parts sales; recent data for each market segment are based on dollar figures provided in *NADA DATA 2008*:

1. Retail parts

Retail parts are parts you sell at full markup to retail customers for mechanical and non-insurance body-shop repairs. Retail parts sales also include parts and accessories sold over the counter to new-vehicle owners and do-it-yourself customers. In 2007, retail parts sales accounted for 41.1 percent of total dealership parts sales.

2. Wholesale parts

Wholesale parts include parts sold to body shops, garages, gas stations, parts stores,

other dealers, tire stores, and other retail businesses that sell or install vehicle parts and accessories. In 2007, wholesale parts sales accounted for 27.8 percent of total dealership parts sales.

Wholesale customers represent a large segment of the automotive parts market, but the profit margin is less than that on sales to retail and internal customers. Many dealers weigh the extra cost of maintaining adequate inventory and related expenses against the reduced profit margins and decide to limit their involvement in wholesale parts. Dealers who do sell discounted parts to other automotive-related businesses should run their wholesale operation as a separate business within a business.

3. Warranty and extended contract parts

Warranty parts are parts sold to complete manufacturers' warranty repairs. Extended contract parts are parts sold to complete service contract repairs beyond manufacturers' warranties. These businesses may include manufacturers themselves, the dealership, or third-party service providers. In 2007, warranty and extended-contract parts sales were 16.8 percent of total dealership parts sales.

4. Internal parts

Internal parts are parts sold within the dealership for work such as reconditioning used vehicles, installing accessories, and preparing new vehicles for delivery. In 2007, internal sales made up nine percent of total dealership parts sales.

5. Other parts

Different manufacturers classify parts sales in different ways. Parts that don't fall into any of the above categories may include vehicle accessories or parts used for sublet service repairs. In 2007, sales of these parts accounted for 5.2 percent of total dealership parts sales.

III. PROFIT-CENTERING

Many dealerships find profit-centering to be an effective management approach. The concept is simple but important: when each department is profitable, the entire dealership is profitable. In a profit-centered dealership, all revenue-producing departments are viewed as separate businesses. Each department has its own profit objectives, and the department manager is considered the responsible operating executive.

The parts department manager can begin profit-centering his or her department by completing the form shown in *Figure 2* below.

Profit-centering requires parts managers to supervise several areas: inventory control (including purchasing), net profit (including pricing), staff utilization and compensation, and marketing, all of which are discussed below.

IV. INVENTORY CONTROL

Inventory control plays a major role in parts department profitability. Good inventory control procedures tell you what to buy, how much to buy, and when to buy it. The factors outlined below are crucial to effective inventory control.

A. Phase-in/Phase-out

When a part that a dealership doesn't carry in inventory is requested repeatedly (individual dealerships' phase-in criteria range from three requests in 90 days to three requests in 10 months), then that dealership should begin stocking, or "phase in," the part. Parts should be removed from inventory, or "phased out," after nine to 12 months without sales. Remember that outside factors such as seasonal demand can influence the number of requests for a particular part.

PARTS AND ACCESSORIES PROFIT-CENTERING FOR MONTH OF _____		
	DOLLARS	% OF DEPT. GROSS
Personnel Expense/Month	\$ _____	_____ %
Semi-fixed Expense/Month	\$ _____	_____ %
Fixed Expense/Month	\$ _____	_____ %
Unallocated Overhead/Month*	\$ _____	_____ %
AGGREGATE COST TO SELL/Month		
(Sum of above)	\$ _____	_____ %
 GROSS (TOTAL) PROFIT/Month	 \$ _____	 _____ %
AGGREGATE COST TO SELL/Month	\$(_____)	(_____) %
OPERATING PROFIT/Month	\$ _____	_____ %

Figure 2

* Parts expenses must include a portion of any unallocated/overhead expense that may appear on your statement. If your financial statement does not specifically break out this account, 14 percent is a generally accepted proration of unallocated overhead expenses for the parts department.

B. Breadth vs. Depth

Breadth refers to the quantity of individual part numbers a dealership carries in its inventory. *Depth* refers to the quantity carried for each part number. Most manufacturers now deliver parts as frequently as every day, and most dealerships can comfortably carry as little as a month's worth of inventory at any given time. An inventory is sufficiently broad when all in-demand parts are stocked and all obsolete parts are phased out. An inventory is sufficiently deep when a 30- to 45-day supply of each part number is carried, according to NADA 20 Group.

C. True Turn

To understand inventory turn, it's important to distinguish between gross turn and true turn.

Gross turn, or "dollar" turn, is simply a ratio between the parts on the shelf and the parts ordered for a particular time period. Gross turn is calculated as follows:

$$\frac{\text{Annualized Cost of Sales}}{\text{Average Inventory}} = \text{Gross Turn}$$

The problem with gross turn is that it is not a real measure of the *effectiveness* of your inventory.

True turn is the number of times the dealer's investment "turns," or actually works off the shelf. True turn measures the frequency of stock-order dollars on a monthly basis in relationship to overall parts inventory dollar value. On average, profitable parts departments buy 82–92 percent of their inventory from stock-order purchases (according to NADA 20 Group) because they are the most cost-effective way to buy parts. Stock-order purchasing fills demand without additional cost (such as freight charges) to the dealer. As long as *all* purchases, including outside/emergency purchases, are entered in your computer inventory, true turn can be a more valid method of measuring inventory than gross turn. To achieve an ideal true turn, you need to put as many necessary parts on the stock order as you can. Minimize emergency purchases and special orders by phasing in parts that have been requested

enough times to carry in inventory. Calculate your true turn as follows:

$$\frac{\text{Stock-order Purchases}}{\text{Total Inventory Stocked}} = \text{True Turn}$$

A rule of thumb for true turn for successful parts departments is 6–9 times per year, according to NADA 20 Group. If you achieve fewer than six true turns per year, you likely have too much inventory or make excessive emergency purchases. If you achieve more than nine turns per year, you may not be carrying enough inventory to regularly fill the needs of your service department and other customers.

Note: For dealerships using last-in, first-out (LIFO) accounting, parts inventory values should include the LIFO amount in the total parts inventory dollar investment.

D. Level of Service

Level of service is another way to measure inventory efficiency—your ability to provide parts on demand to your customers. Determine your level of service with the following calculation:

$$\frac{\text{Total Demand - (Emergency Purchases + Lost Sales)}}{\text{Total Demand}} = \text{Level of Service}$$

Profitable parts departments generally try to meet the goal of 90–95 percent level of service (*NADA/ATD 20 Group Domestic & Import Guides and Expense Profiles, 6th Edition*).

- **Total Demand** is the total number of customer demands (sales opportunities) you have in the period of time you are measuring, e.g., one month. A demand can be a true lost sale, an emergency-purchase sale, or a stock sale.

- **Emergency Purchases** are those parts you had to buy from anyone who could provide them and at any price because you had to have them immediately and could not afford to go through normal stock-order or special-order procedures.

• **Lost Sales** are sales lost because the dealership did not have the part at the time of request. A *lost sale* should not be confused with a *delayed sale*, in which case the dealership does not have the part at the time of request but still sells the part to the customer once the part is in stock. An inquiry about the pricing of a particular part that is not in stock is usually not considered a lost sale, either.

E. Shelf Life

Freezing helps preserve meat for a short time, but the longer meat stays in the freezer, the more it loses its appeal. It's the same with parts. The longer they stay on the shelf, the less desirable they are. Parts that stay on the shelf without demand for six months seldom sell for a profit (*NADA/ATD 20 Group Domestic & Import Guides and Expense Profiles, 6th Edition*). Your ideal inventory profile should be as shown in *Figure 3* below.

There is a fine line between oversupply and under-supply. As you track sales (demand) history and monitor current market demands, you develop a better sense of where that line is.

F. Purchasing

Purchasing creates special challenges for parts departments. Managers tend to buy and hold more inventory than they should, fearing that parts won't be in stock when customers request them. The better business practice is to purchase parts on demand and not try to hoard parts on the off-chance that someone, sometime, might need them. The main goal in purchasing is to minimize special or emer-

gency parts orders, but there are times when it's better to place special orders than to incur added expenses from excess and overaged inventory.

1. Stock-order Purchases

The factory stock order is the most cost-effective way to buy inventory because of the benefits it provides:

- Stock-order discounts (for some franchises)
- Obsolete parts return allowances (for most franchises)
- Manufacturer-paid freight charges
- Easy return

To make the most of these benefits, most of your inventory should come from stock-order purchases. While weekly stock orders are still done, most manufacturers have gone to daily stock-order purchases that permit daily delivery of fast-moving inventory. Both weekly and daily stock orders can be handled automatically by online computer systems linked to the manufacturer; to maintain good inventory control, however, parts managers should review stock orders with an eye on past sales history and anticipated demand before sending orders to the manufacturer.

As we mentioned earlier, emergency purchases are parts you have to buy because you must have them immediately, and, due to time constraints, you can't afford to use more cost-effective channels. In the event of an emergency purchase, however, parts

TIME ON SHELF	PERCENTAGE OF TOTAL INVENTORY
0 to 3 months	Ideally, 75 percent or more of total parts inventory. These parts should represent the greatest dollar value having movement.
4 to 6 months	Should be roughly 23 percent of total parts inventory.
7 to 12 months	Should be roughly 2 percent of total parts inventory. Additional parts beyond 2 percent are likely seasonal or soon to be obsolete.
Over 12 months	Ideally, 0 percent of total inventory. Obsolete parts have no value and should be sold if possible or eliminated (see Section IX for ideas).

Figure 3

managers need to be careful not to record the sale twice. Too often, when a part is not immediately available, it is first recorded as a lost sale; when the part is then obtained from another dealership by way of an emergency sale, the sale is recorded a second time. This error can cause the dealership to mistakenly purchase more inventory than is needed.

The parts manager typically should not automatically reorder a part based on a one-time emergency sale. The parts department may never need to sell that part again, and an automatic reorder can result in the stocking of obsolete inventory.

The example in *Figure 4* below shows how costly emergency purchases can be compared to stock-order purchases, even if the part's initial cost is the same.

NADA 20 Group recommends 82–92 percent of inventory or more should come from stock-order purchases. To find out if your department is operating within that range, track your inventory sources monthly,

watch for trends, and make necessary changes. Appendix A includes a Parts Department Trend Analysis worksheet.

2. Special-order Purchases

Special-order purchases (parts not in regular inventory that cannot be purchased through regular stock orders) can be expensive. Not all manufacturers provide the same discounts, benefits, or allowances for special orders as on stock orders. Establishing the following special-order procedures may help offset the disadvantages:

1. All special orders should be approved by the parts manager, service manager, shop foreman, or service advisor. No other authorization is acceptable.

2. Customer-pay special-order parts must be paid for *before* the order is placed. If a customer objects, explain that special-order parts are required to make necessary repairs. Attach a copy of the special-order form to customer repair orders. Remember there is a limited time in which to return

COST VARIABLES	STOCK ORDER	EMERGENCY
Cost of part	\$1.00	\$1.00
Cost plus 10 percent (may be higher)	NA	.10
Stock-order discount (may vary)	(.05)	NA
Obsolescence allowance (may vary)	(.08)	NA
Freight (12 percent; varies)	NA	.12
Phone (long distance increases cost)	NA	.10
Labor (\$4.75/hour/runner)	NA	.40 (3 minutes*)
TRUE COST	\$0.87	\$1.72

Figure 4

*Three minutes is the average time invoiced to contact other dealerships to find the emergency part needed.

parts to the manufacturer without penalty. For this reason, the form should include the following statements:

If not picked up by [Date], Part will be returned to manufacturer on [Date].
Part will not be reordered.

3. Set up an escrow account in the accounting office to accommodate cash received for special orders (though most customers will pay by credit card). Issue a receipt to each customer.

4. Do not bill special-order parts on the repair order. Do not show sale of part prior to receiving. Otherwise a negative on-hand situation will arise. With most financial statements, this money may be entered on the statement as a sub-category of Customer Deposits.

5. Notify customers by phone when you receive special-order parts. It's also good to mail or email a reminder that parts have arrived.

6. Have customers present the cashier with the special-order form and receipt showing part numbers with the amount due. At this point, the parts department may show the part sale on the repair order or counter ticket, which posts the part's demand to the part numbers history field.

7. Return the parts to the manufacturer within the penalty-free period and issue a refund to the customer if the customer doesn't come in for his or her parts by the date specified on the special-order form.

3. Accounting for Purchase Discounts

Typically, when making stock-order purchases from the manufacturer, you receive a discount. When you enter those purchases in inventory, it is critical to your profitability that you enter them at the manufacturer's regular cost. The manufacturer discount you

receive is for *your* benefit, not that of your customers, and should be reflected not in inventory itself but as discounts earned on the financial statement inventory adjustment account. Note these discounts on the sales and gross pages of your statement as positive adjustments.

You are likely to pay more for emergency parts than for stock-order purchases. Emergency purchases should be entered at the manufacturer's regular cost and the additional cost entered as a negative inventory adjustment.

G. Bar-coding

Parts bar-coding inventory systems help dealers receipt parts orders and take cyclical or periodic partial inventory audits as well as annual physical inventories. With a bar-coding system, parts orders can be scanned and placed into inventory up to 50 percent faster than the same tasks can be completed manually. As a result, parts get to the technician or customer quicker. Systems available also manage and report on parts inventory levels, providing the precise information that helps dealers better manage inventory.

Today, many dealerships do all these tasks manually—an approach that is time-consuming, error-prone, and costly in terms of labor. Bar-coding helps pick up the pace of business, reducing administrative time and labor—thus saving money.

If you are considering implementing a bar-coding system, here's what is involved:

1. Lease the hardware needed
 - Laser gun
 - Portable label printer
2. Program the codes into the database
3. Do a full inventory—basically restock your inventory using the bar-code system
4. Train the staff

There are a few obstacles to implementing bar-coding systems at dealerships. The major hurdle

is the high initial financial investment. Other obstacles include the time needed to implement and install the new database, resistance of technology-challenged employees, and the need to integrate the system fully with your current DMS.

For a list of bar-coding inventory systems, refer to the list of NADA Convention exhibitors at www.nada.org.

H. Forecasting

A forecast is an estimate of future sales and profits based on past performance, an analysis of past and current conditions, and projections of sound business judgment. The following steps will help you prepare your forecast:

- Consider last year as your base.
- Compare past totals and averages with current figures.
- Examine current economic trends, available inventory, seasonal variables, and personnel.
- Complete a history report with charts and/or graphs to emphasize trends.

The key to a comprehensive annual forecast is daily, weekly, and monthly analysis. Reviewing past analyses allows managers to predict future department needs.

One area to examine is percentage of sales for each model year compared to the percentage of parts in inventory for each model year. In many parts departments these numbers are out of sync. The percentage of parts sales attributed to vehicles one to two years old may be considerably higher than the percentage of parts in inventory for vehicles of the same age. If you don't have the parts in stock when you need them, you will lose money, either through lost sales or the added cost of emergency orders. If you have too much stock for a particular model year and little demand for it, a substantial portion of your inventory is aging and becoming obsolete. Your goal should be to bring those figures in line. Forecasting can help you accomplish that goal.

The more carefully you analyze your income and expenses, the more accurate your forecast will be. Items considered in your expense analysis, for example, should include salaries, incentives, vacation and other leave pay for all personnel, promotions and training, travel, supplies, advertising, freight, vehicle maintenance, and inventory control.

NADA's Dealer Academy uses a monthly parts department forecast form in its parts department classes. The Academy has provided us with that form (reproduced on the following page) and instructions as completed by an actual dealer. Of course, the dollar figures and percentages are specific to that dealer and are only **examples**. Ideally, your own forecast should not be off by more than 10 percent. The instructions contain five questions, also reproduced with the same dealer's answers.

INSTRUCTIONS

1. Why do you feel this is an achievable forecast for this department?

Wholesale should continue to improve, and we are selling more certified pre-owned vehicles, which should increase our internals.

2. Why does the parts manager feel this is an achievable forecast?

This is an achievable forecast based on recent sales history.

3. If given the opportunity, what changes would you make to improve the operation of this department?

Implement bar-coding.

4. What are the reasons for the variance between your forecast and the actual performance of this department?

We had an off month for counter sales and internals and had more warranty work.

5. Given your sales forecast, what is the maximum dollar value that should be spent on inventory? Please show your calculation.

Forecast Sales - Forecast Gross = Cost of Sale
\$217,000 - \$72,461 = \$144,539

DEPARTMENT ACCOUNTS ON STATEMENT	FORECAST	ACTUAL	VARIANCE	PERCENT OFF FORECAST
Customer RO Parts Sales - Cars & Light-Duty Trucks	\$84,000	\$71,079	\$(12,921)	18.18%
GP % Customer RO Parts Sales	39.7%	37.0%	-2.70%	7.30%
Customer RO Parts Gross	\$33,348	\$26,299	\$(7,049)	26.80%
Warranty Parts Sales	\$68,000	\$65,746	\$(2,254)	3.43%
GP % Warranty Parts Sales	32.7%	34.4%	1.74%	-5.05%
Warranty Parts Gross	\$22,236	\$22,643	\$407	-1.80%
Internal Parts Sales	\$20,000	\$12,162	\$(7,838)	64.45%
GP % Internal Parts Sales	28.9%	36.6%	7.70%	-21.04%
Internal Parts Gross	\$5,780	\$4,451	\$(1,329)	29.85%
Customer RO Parts Sales - Fleet & Heavy-Duty Trucks	\$-	\$-	\$-	
GP % Customer RO Parts Sales - Other	0.0%	0.0%	0.00%	
Customer RO Parts Gross - Other	\$-	\$-	\$-	
Body Shop Parts Sales	\$-	\$-	\$-	
GP % Body Shop Parts Sales	0.0%	0.0%	0.00%	
Body Shop Parts Gross	\$-	\$-	\$-	
Counter Retail Sales	\$9,000	\$6,974	\$(2,026)	29.05%
GP % Counter Retail Sales	34.5%	34.6%	0.09%	-0.26%
Counter Retail Gross	\$3,105	\$2,412	\$(693)	28.71%
Wholesale Parts Sales	\$36,000	\$37,801	\$1,801	-4.76%
GP % Wholesale Parts Sales	22.2%	21.2%	-1.02%	4.82%
Wholesale Parts Gross	\$7,992	\$8,006	\$14	-0.18%
Gas, Oil, & Grease Sales	\$6,000	\$6,726	\$726	-10.79%
GP % Gas, Oil, & Grease Sales	25.0%	27.5%	2.48%	-9.02%
Gas, Oil, & Grease Gross	\$1,500	\$1,848	\$348	-18.84%
Purchase Allowances	\$-	\$-	\$-	
Adjustments to Inventory	1.4%	1.6%	0.20%	-12.50%
Total Gross Profit	\$73,961	\$65,660	\$(8,301)	12.64%
Parts Gross Transfer (GM Only)	\$-	\$-	\$-	
Variable / Selling Expenses	\$1,200	\$1,901	\$701	-36.88%
Personnel Expense	\$27,000	\$29,845	\$2,845	-9.53%
Semi-Fixed Expense	\$14,500	\$15,121	\$621	-4.11%
Fixed Expense	\$7,187	\$7,342	\$155	-2.11%
Peroration of General/Admin. Expenses (GM Only)	\$-	\$-	\$-	
Total Expense	\$49,887	\$54,209	\$4,322	-7.97%
Department Profit or Loss	\$24,074	\$11,451	\$(12,623)	110.23%

For a blank monthly forecast form that you can use in your own dealership's parts department, see Appendix E. As for the instructions, here is how they should be answered: The first question is for the dealer to answer. The second question requires the dealer to interview the parts department manager. The third question asks the dealer to analyze departmental performance and suggest where changes can be made to improve performance. The fourth question, answered when the month is over and the statement is completed, requires the dealer to interview the manager again and record both dealer and manager's comments. For the fifth question, subtract total forecast gross from total forecast sales to determine cost of sales.

As you analyze your department, ask the following questions:

- Who absorbs the additional cost of emergency or special-order purchases—the dealership or the customer?
- How many special-order parts are never picked up by customers? The percentage might be as high as 50 percent.
- Do you require prepayment on all special-order parts? (Recommended)
- Do you take full advantage of regular factory parts returns?
- What percentage of your parts inventory is purchased through factory stock orders? (As we noted earlier, top 20 Group consultants cite 82–92 as the average range for profitable parts departments.)
- Where does your other inventory come from and what percentage of inventory does each of those sources represent?
- What is your inventory true turn? (Again, top 20 Group consultants cite 6 - 9 true turns per year as a standard.)
- What is your level of service? (The range for top-performing parts departments is 90–95 percent, according to *NADA/ATD 20 Group Domestic & Import Guides and Expense Profiles, 6th Edition*.)

I. Cores

Cores are computerized, sealed, or electronically-controlled components such as transmissions, fuel

injector units, pumps, and brakes. Worn or broken cores are completely replaced by the manufacturer rather than being repaired in the dealership. Worn or broken components have return credit value for the parts department, but many dealerships do not take advantage of this option and value their cores at scrap value. When this occurs, parts that could become an additional source of profit instead become a tax liability.

The IRS states that core units should be valued at the manufacturer's credit value, which is considerably higher than scrap value. This position increases the value of the dealer's core inventories and the tax which must be paid on them.

Parts managers need to address the following issues related to cores:

1. Receiving/Stocking

Receiving and stocking cores should be handled in much the same way as weekly stock orders. Check all units or boxes against the packing slip and stock them near where the units will be issued. Designate another area for units that have been replaced and must be returned to the manufacturer. Keep a copy of the repair order with the unit to be returned.

2. Disbursement to Service Department

Don't disburse a new core until the technician turns in the unit to be replaced and the RO number is noted on the box or container. The parts counterperson should sign his or her name beside the RO number on the hard copy of the RO to indicate receipt. This signed and dated copy of the RO is the key to core control. The old core unit should then be stored in a designated, secure area for return to the manufacturer.

3. Record-keeping/Return

Keep a copy of the warranty claim with the old core unit. Close out and submit

warranty claims daily or regularly to the manufacturer for reimbursement. The manufacturer should pay the warranty claim except for the core unit credit. Maintain this record on your warranty register and in parts for submittal date of the core unit to the manufacturer. When the manufacturer issues credit for the core, post the credit against the warranty claim for completed payment. This requires account reconciliation between the business office and the parts department, as well as weekly review of open charges for cores.

The parts manager is responsible for reviewing and maintaining department policies and must understand the manufacturer's core unit return program. The manager must check tags to ensure they are filled out correctly. Keep a copy of the tag with the warranty claims copy in case the manufacturer has any questions. Also, keep a copy of the core returns on the parts department register.

V. INVENTORY CONTROL SYSTEMS

Most inventory control systems are computerized and can generate a variety of reports to help analyze your department's strengths and weaknesses. By using your inventory control system to its best advantage, you should be able to:

- Pre-test part numbers (the best way to tell your system what the customer might have needed or asked for).
- Gain easy access to on-hand, ordered, and back-ordered stock.
- Generate inventory reorder guides as required (daily/weekly stock orders).
- Track emergency orders and lost sales.
- Track sales history to control days' supply, reorder points, obsolete parts, and phase-in/phase-out part numbers.
- Utilize sales history on order and review demand to generate orders.
- Generate individual employee sales reports.
- Determine level of service.

- Identify top-selling parts, obsolete parts, and excess parts to improve inventory mix.
- Facilitate dealer communication with the factory.
- Generate daily operating report containing sales, gross information.
- Maintain gross profit at the desired dealership level (commonly known as a deviation or exception report).

Computerized systems can help manage inventory, provided your employees know how to use them. Training is the key to making the most of your computer system. Check with your system vendor to find out what training programs are available. In addition, NADA, some state associations, and a number of private consultants offer seminars designed to help you make the most of your inventory control system.

VI. NET PROFIT

In addition to effective inventory control, other factors contribute to departmental profitability. Service departments improve labor gross by scheduling and assigning work according to technician skill level. Parts departments increase gross by purchasing and pricing items competitively. Competition drives the parts market, and service and parts departments must work together to establish prices that meet or beat your competition.

A. Receivables Control

Receivables control is crucial in managing the parts department. With all sales it is important to establish a maximum dollar amount of credit you can afford to carry as well as a maximum past-due period (e.g., 30 days from date of purchase). This is particularly true for wholesale receivables. The parts manager should frequently review wholesale accounts and update the account limits. Give these limits to the counterpeople for reference and instruct them to consult the parts manager before increasing a customer's credit amount.

B. Pricing

When pricing your parts, you should ask yourself two questions:

1. Have I purchased the part at the best possible price?
2. From cost, what markup factor is required to produce enough gross profit to cover departmental overhead and produce a satisfactory profit? To generate a satisfactory profit, you may have to sell parts at the manufacturer's suggested retail price or use a separate matrix.

1. Cost to Sell

To determine an appropriate markup and realize your profit goals, you need to know your parts handling cost. The handling cost is the percent of gross that you must cover *above the cost of the part* in order to sell the part at a profit. The calculations below in *Figure 5* will enable you to find your handling cost. The figures for these calculations are found on your dealership financial statement.

DETERMINING YOUR PARTS HANDLING COST

1. First, find the true gross profit you are making on parts by subtracting any stock-order discounts and positive parts inventory adjustments from the Total Gross Profit listed on your financial statement.

Total Gross Profit	\$ _____
- Stock-order Discount	\$ (_____)
- Parts Inventory Adjustment	\$ (_____)
True Parts Gross	\$ _____

2. Next, find the actual cost of parts sold by subtracting the true parts gross from the total parts sales.

Total Parts Sales	\$ _____
- True Parts Gross	\$ (_____)
Actual Cost Parts Sold	\$ _____

3. You also need to know your *total* parts department expense, i.e., personnel, semi-fixed, and fixed expenses *plus* a portion of any unallocated fixed expenses that may appear on your financial statement.

Parts Department Expense (Includes personnel, semi-fixed, fixed expenses)	\$ _____
+ Unallocated Fixed Expense*	\$ _____
Total Parts Department Expense	\$ _____

*Total Parts Department Expense must include a portion of any unallocated overhead expenses appearing on your financial statement. The parts department's share of unallocated expenses is normally 14 percent (*NADA/ATD 20 Group Domestic & Import Guides and Expense Profiles, 6th Edition*).

4. After calculating the actual cost of parts sold and the total parts department expense, you can determine your parts handling cost as follows:

$$\text{Handling Cost} = \frac{\text{Total Parts Department Expense}}{\text{Actual Cost of Parts Sold}}$$

Figure 5

Once you know your handling cost percentage, compare it to the gross profit percentage from each sales account to see if you are making an acceptable profit. If the handling cost is greater than the gross profit percent of sales, you are losing money. If you *are* making a profit, consider: Does your profit come from pricing parts appropriately (giving due consideration to your true cost to sell), or from money you save by taking advantage of benefits offered by the manufacturer when you buy the parts? The latter is critical to your profitability, but it is only half of the picture.

If, after comparing handling cost to gross profit percentage, you find you are not making an acceptable profit, there are several ways to improve gross profit as a percent of sales:

1. Reduce overhead expenses.
2. Increase sales and gross opportunities.
3. Take advantage of all purchasing benefits offered by your parts sources.
4. Price variably, based on the category of account and the level of busi-

ness each account provides. (See “Wholesale Discounts” below.)

5. Price competitively.

2. Markup Factors

To achieve a particular gross profit percentage, apply the appropriate markup factor to the price of each part. To calculate a markup factor, first subtract the desired gross profit from 100 and then divide 100 by the result. For example, for a desired gross profit of 12 percent, subtract 12 from 100 and then divide 100 by 88 for a markup factor of 1.136.

The table in *Figure 6* below shows markup factors for certain profit percentages.

3. Wholesale Discounts

Discounts are expensive. Parts managers should consider establishing minimum order levels for wholesale parts purchases. Audit all discount tickets several times a year to determine if a customer still qualifies as a wholesale customer and merits the same purchase discount. You may wish to offer discounts to wholesale customers

Desired Gross Profit Percentage	Markup Factor
10%	1.11
15%	1.18
20%	1.25
25%	1.33
30%	1.42
35%	1.54
40%	1.67
45%	1.81
50%	2.00
55%	2.22
60%	2.50
65%	2.85
70%	3.32

Figure 6

who pick up their own orders. In addition to pleasing customers, it also helps reduce your delivery staff and delivery expense.

4. Matrix Pricing

Shop retail and counter retail pricing can be regarded in the same context as variable rates in labor sales. Matrix pricing systems use a set of formulas or calculations to determine appropriate parts prices. These formulas are based on the individual department's desired results. As with any program, using matrix pricing must be tempered with common sense. Matrix pricing can be effective in both the retail and wholesale divisions of your parts department.

In retail, the best areas for matrix pricing are retail repair with genuine factory parts and counter retail where the customer wants genuine factory parts. Other areas are controlled by manufacturer warranty rates and competition.

With wholesale accounts, matrix pricing is based on individual account evaluations. All wholesale accounts need not be given the same privileges. Review each wholesale

account on a regular basis with particular attention to purchase volume, timeliness of payments, and rate of return. The return percentage is vital because it fuels your obsolescence position. After evaluating each account, the parts manager should assign a reasonable markup above cost or discount from retail. Developing a worksheet like the one in *Figure 7* below simplifies this process.

Account numbers should be assigned to the computer to key markups or discounts to any part purchased by that customer. Several factors influence the price a customer pays for a particular part: how many parts the customer purchases from the dealership in question, how many parts the customer has returned, whether the part is delivered or picked up on-site, and how promptly the customer pays. Also affecting the price is the overall availability of the part—generally, a dealership will charge less for parts that are widely available from competitors. Assigning each customer an account number will ensure that each customer pays the correct price based on all of these factors.

WHOLESALE MATRIX WORKSHEET

Customer	Account #1	Account #2	Account #3
Account number			
Purchases	\$	\$	\$
Returns	\$	\$	\$
Markup above cost	%	%	%
Discount from retail	%	%	%
Credit limit			
Remarks			

Figure 7

VII. PERSONNEL

A. The Parts Manager

Regardless of the dealership's size, the parts department's sales volume, or the number of employees in the department, the ultimate responsibility for departmental profitability lies with the parts manager. The parts manager's main duties include: 1) buying, 2) stocking, and 3) selling. Major activities related to each duty include:

Buying

- Establishing stock levels to be purchased from the manufacturer and other vendors. These are the stocking criteria set in your system to manage your parts inventory. Review these criteria on a regular basis.
- Maximizing manufacturer's return privileges. Consider these returns as important calendar events, and take them seriously.
- Maximizing stock-order discounts, special programs, and other incentives. Discuss these specials with the dealer or general manager.
- Determining ordering priority.
- Using the inventory adjustment account to bring all prices in at manufacturer cost, not what you paid.
- Analyzing financial statements, including sales, gross profit contribution by category, and salesperson performance.
- Providing the accounting department with precise information on all parts inventory purchases.
- Examining all manufacturer parts and accessory summaries for proper billing.

Stocking

- Developing stocking parameters for phase-in/phase-out of all parts and reviewing these parameters annually.
- Generating inventory aging reports.
- Developing a method for posting sales and receipts.
- Tracking lost sales, emergency purchas-

es, and inventory adjustments. (Record any adjustments *before* paperwork goes to accounting.)

- Developing/tracking special-order parts procedures.
- Conducting physical spot inventories.

Selling

- Utilizing matrix or adjusted pricing where appropriate.
- Qualifying customers for discounts.
- Making follow-up calls to existing and new customers.
- Utilizing personnel wisely and efficiently.
- Ensuring department security and paper flow security.
- Reviewing sales goals in regular meetings.
- Reviewing repair orders and counter tickets.
- Justifying voids.
- Ensuring proper coding.

To handle these responsibilities properly, parts managers must develop a consistent routine. Some tasks must be done daily, whereas others may need to be done weekly, monthly, or annually. Appendix B provides a sample schedule listing the duties performed by successful parts managers, the frequency with which they should be performed, and—in the case of daily activities—the approximate amount of time that should be allotted to each.

Parts managers can manage effectively only if they have the proper tools to do their job, including authority to make necessary changes and access to trend sheets and department financial statements. Without these, your manager can't see the whole picture.

B. Other Parts Positions

A well-run, profitable parts department depends not only on the ability of the manager, but also on well-trained, competent parts personnel. The various duties performed by people in the parts

department can affect sales dramatically. In *Figure 8* below, column one shows several parts department activities, column two shows the average percentage of time spent on these activities, and column three shows the percentage of sales that are affected by these activities. **Note:** The table in *Figure 8* below is only an **example**. Percentages will vary based on a particular parts department's sales volume.

Who performs these activities? It depends on the size of the dealership. Personnel requirements depend to a large extent on your sales sources (retail, internal, wholesale) and the volume of business you do in each source. Larger stores may employ different people for each position listed below, whereas smaller stores may rely on fewer people and combine job functions. Your parts department personnel must perform these job

functions, but you don't have to employ someone for each position.

- Parts manager
- Parts counterperson (front) or retail
- Parts counterperson (rear) or service shop
- Outside parts sales representative
- Parts driver
- Inventory control administrator
- Shipping/receiving clerk

Appendices C and D include job descriptions for the parts manager and parts counterperson. NADA Management Education's *Job Descriptions Online!* can help create descriptions for all the jobs listed above.

Parts Activity	Percentage of Time Spent (Total Personnel Hours)	Percentage of Sales Affected
Service counter	25%	60%
Outside customer telephone calls (retail/wholesale)	29%	37% (6% + 31%)
Inventory stocking	24%	100%
Body shop (if applicable)	8%*	17%
Pickup and delivery**	10%	30%
Administrative	4%	100%

Figure 8

* Our percentage differs from *NADA DATA 2008*, which attributes seven percent of parts sales to body shop activity, but remember that *NADA DATA* averages are based on figures from *all* dealerships included in the study. Approximately 63 percent of dealerships do not have body shops. In dealerships which *do* have body shops, the percentage of sales attributed to body shop activity is higher.

** Delivery of parts is great — it means you're selling. But pickup means you didn't have the parts in stock when you needed them and had to get them from another source. On average, this problem affects 30 percent of sales. Better inventory control reduces this percentage.

VIII. PAY PLANS

Good pay plans for parts department personnel are designed to accomplish several things:

- Produce profits sufficient to recoup the investment, secure an adequate return on the investment, and protect the investment against inflation
- Attract and retain good employees
- Stimulate additional sales and increased profits

There are as many pay plans as there are dealerships. Pay plans must be flexible and serve as incentives to achieve specific objectives. The following rules will help you develop effective pay plans.

TEN CARDINAL RULES FOR PAY PLANS

1. No pay plan is a substitute for good management.
2. No plan is designed to last forever.
3. Before designing the plan, study what you want the individual to control, what you want him or her to be responsible for, and what you want him or her to accomplish.
4. Don't penalize or compensate employees for things beyond their control. If you have a used-vehicle tent sale, for example, don't use parts department funds to pay for sale expenses and don't compensate parts employees with sale proceeds.
5. Never mix weekly plans with monthly plans.
6. A tiny incentive is seldom much of an incentive.
7. Set actual dollar amounts for minimum, average, and excellent performance. Test your plan to make sure it meets your standards.
8. Keep your plan simple. Complex plans defeat their purpose by confusing employees and making it difficult to focus on primary goals.
9. Set up specific review dates to be certain your plan is accomplishing what you want it to do.
10. Pay from accounting records whenever possible.

It is also wise to consider salaries for comparable parts department positions in the same local area. You can find such information in NADA Management Education's *Paying to Motivate*, which is updated every two years.

A. Manager

An effective pay plan for parts managers starts from a firm base, automatically rises when sales volume and profits increase, and falls when profits decline. Pay plans for the parts and service managers should each be based on the combined gross profit from both the service and parts departments. Tying these pay plans together gives the parts and service managers additional incentive to work closely together toward the same goal.

To select the best pay plan for your dealership, focus on a primary objective and then tailor your pay plan to meet that objective. If your objective is to curb parts department expenses, for example, you can pay the manager a base salary plus a commission based on a percentage of net operating profit; make the parts manager accountable for expenses that he or she can control. If you're trying to control inventory, you can pay a base salary plus a bonus for achieving goals in true turns and level of service to the technicians. Work closely with your parts manager when selecting the most appropriate pay plan for your circumstances.

B. Counterperson

Parts counterpeople may be paid a base salary, an hourly rate, a percentage of sales, gross profit, net profit, or any combination thereof. It is just as important to provide incentive plans for counterpeople as it is for salespeople in other departments. Consider what the counterperson controls and design a pay plan that motivates employees to achieve the results you want. Consider the number of hours sold in the service department as a possible incentive.

C. ASE Certification

You will probably want to provide each of your parts specialists and counterpeople with financial

incentives to earn a certification from the National Institute for Automotive Service Excellence (ASE). ASE provides certification testing to improve sales, promotion, and marketing of parts and service; auto parts specialists and parts counterpeople covering communication skills, sales skills, and vehicle systems knowledge are eligible for certification. ASE-certified parts department personnel are a valuable asset to your business—they are recognized as professionals in their field and provide reliable customer service that inspires greater confidence in your parts department. Any mention of your dealership's ASE-certified technicians can also strengthen your marketing materials. Because of the benefits of ASE certification, most dealers either provide funding for their employees' certification testing or provide ASE-certified employees with salary increases—some do both. As of fall 2007, there were 42,913 certified parts specialists registered with ASE.

IX. MARKETING

Parts marketing is as important to dealership profitability as the marketing of goods and services in other departments. Ideally, each department shares parts marketing responsibility. If you track your parts sales for a year, buying patterns will emerge as information on customer needs increases. Use this information to develop future marketing plans.

A. Marketing Ideas

Parts marketing plans should include a variety of ideas in order to reach the retail, wholesale, and internal segments of your market. Possible strategies include:

Internet Sales

Offer kits, individual parts, and accessories to retail and wholesale customers through your dealership website.

Parts Kits (Retail)

Parts kits make sense for new- and used-vehicle buyers and should be marketed at the time of

sale. They should include replacement parts normally used in the first two years or 30,000 miles of vehicle use, such as wiper blades and oil, fuel, air, and cabin filters. Parts kits and coupons for free oil changes and tire rotations plus diagnostic services are generally offered to introduce customers to the parts and service departments.

Self-Service Display Area/Parts Shop (Retail)

Self-service parts displays are becoming increasingly popular. They are generally located off the showroom floor, but in or near well-populated customer areas such as coffee stations or customer waiting areas. Many dealerships have built-in glass display cases for this purpose, but items may also be displayed on walls, tables, or counters. In some dealerships, large items are suspended from the ceiling. Be prepared to keep these items clean and fresh.

Display items range from small novelty items such as T-shirts, bumper stickers, key rings, hats, and jackets to fast-moving parts, accessories, and car-care products. Some dealerships display larger options such as spoilers and sound system upgrades.

Although many vehicles are now sold with option packages already installed, listing dealer-installed options and prices on a well-designed poster can still be an effective marketing tool.

Discount Coupons (Retail)

Leave discount coupons in service customers' vehicles for future parts or service that may be required, especially routine maintenance work.

Garage Sale (Retail)

A dealership garage sale can bring in extra profit. There may be a market for obsolete or overstocked items that can't be returned to the factory. Garage sales may also include depreciated shop equipment, technicians' tools,

and miscellaneous used-car supplies. Make sure you advertise garage sales through your dealership website.

Diagnostic Parts (Internal)

As vehicles become more complex, the service department may want to invest in test parts (particularly complex electronic components) to be used as special tools. Test parts help speed up the diagnostic process and reduce friction between the parts and service departments caused when a service technician requests a new part, tries it out, discovers it is *not* the problem, and returns it opened to the parts department. The service department can buy the part outright and keep it as a test part for future repairs, eliminating the need to order the part every time the problem occurs. At the end of the year, the part can be used (at the depreciated cost) to recondition a used vehicle.

Cooperation (Internal)

Ideally, 60 percent of your parts sales occur at the service counter. Because internal customers are your largest market segment, it is vital to cooperate with service technicians. Parts and labor sales increase when service and parts work together. Product knowledge is just as important in the parts department as it is in vehicle sales. Parts counterpeople should familiarize themselves with the Related Parts screens on their computers. They also should take part in new-vehicle sales training, with emphasis on accessories and vehicle controls.

To help your service and parts departments work together, one copy of each repair order should follow the car and the second copy should go immediately to the parts department. When the RO comes in from the service department, the parts counterperson can pull the parts and have them ready at the service counter when the technician arrives. Counterpeople can also use their computer screens to identify parts that are related to those requested on the RO. Pre-pulling these parts and placing them near

the technician's order can help the technician if he or she discovers wear on related parts that should be reported to the customer. If the customer approves the replacement, the parts are ready when needed.

Some manufacturers have electronic parts catalogs online that are linked to their online dealer computer systems. When a service advisor enters a customer's VIN, the computer automatically brings up parts information for that specific vehicle line. Once the service advisor locates the needed parts and purchases them from dealer inventory, he or she can download the part number to the daily stock order for reordering.

Prospecting (Wholesale)

If you do not have a current customer list for selling wholesale parts, use a list of your own wholesale counter customers supplemented by potential customers from the web, Yellow Pages, and other sources. Some dealerships employ outside parts salespeople to solicit new wholesale customers from franchised dealer body shops, independent repair and body shops, gas stations, service centers, and parts stores. If you do this, track results carefully to ensure the sales volume increase justifies the corresponding increase in fixed, semi-fixed, and variable expenses. In some dealerships, the parts manager performs this prospecting function.

Complimentary Merchandise (Wholesale)

Keep your name out there. Consider printing scratch pads or post-it notes with your dealership name and parts department phone number. Mail two pads every other month to insurance adjusters, local body shops, and service stations. Have some on hand for delivery people to take on their rounds, and at the parts counter for counterpeople to give to wholesale buyers.

Obsolete Parts (Retail, Internal, Wholesale)

Ideally, you will eliminate unwanted parts before

they become obsolete. However, if you do have obsolete parts, consider these suggestions:

- Offer the parts online through your dealership website.
- Sell the parts online using sites such as eBay and Craigslist.
- Sell individual parts to antique car buffs or used-parts dealers.
- Install as many obsolete parts on vehicles as possible, including wheel opening moldings and wheel covers.
- Give the parts to vocational-technical schools. You may not recoup a financial investment, but you can build valuable community relations.
- Ask the manufacturer for a special one-time return. Most manufacturers will fund a return through the sales side of the relationship, particularly if the dealership is a large new-vehicle sales organization.

B. Advertising

Clear, concise parts advertising builds additional parts traffic, helps sell service specials, brings in new customers, and creates a parts and service image for the dealership. Ads should highlight the part or service being offered and list a competitive price. Whenever time or space permits, ads should include directions to your dealership and list your dealership website. Your advertising should promote your dealership as *the* place to buy parts and service.

Traditional advertising media include direct mail, newspaper, radio, and television (both network and cable). Definitely continue your menu and direct mail ads. But today's advertising includes the Internet. Most dealerships have their own websites and find that regularly advertising parts and service specials encourages customers to return to their websites and physical dealerships. Some stores offer additional discounts to customers who place orders or make appointments online. Be sure to include your website in all your advertising.

Each medium offers certain advantages and may have some drawbacks as well. For further reference, the NADA Management Series includes several advertising publications that describe the media available, their advantages and disadvantages, as well as suggestions for developing your advertising budget and targeting your advertising to your desired market segment.

X. CONCLUSION

With nearly \$6 billion in parts carried in U.S. dealerships in 2007, more than 248 million vehicles on U.S. roads, and vehicles lasting longer than ever before, there is an enormous market for the parts carried in your dealership's inventory. For your dealership to remain competitive with independent garages, parts stores, gas stations, and specialty stores, ambitious marketing efforts and a solid reputation are absolutely vital.

Your numbers don't lie, either—gross turn, true turn, parts obsolescence, and level of service need to be constantly monitored if your parts department is going to compete in today's market. Carefully monitor your inventory so that in-demand parts are always accessible and obsolete inventory is eliminated efficiently. Calculate your parts department's true turn and work to achieve six to nine turns a year. Strive for at least a 90 percent level of service and forecast your parts department's sales numbers month-to-month. It's all about efficiency, and efficiency—in any market—is the key to profitability.

Appendices

Appendix A

Parts Department Trend Analysis

Period	Weekly Stock Order Percentage	Daily Stock Order Percentage	Emergency Parts Order Percentage	Other Dealer Purchases Percentage	Jobber Purchase Percentage	Return Allowance Funds Used/ Available
January						
February						
March						
April						
May						
June						
July						
August						
September						
October						
November						
December						
Year						

Period	Trends/Observations	Recommended changes
January		
February		
March		
April		
May		
June		
July		
August		
September		
October		
November		
December		

APPENDIX B

The Parts Manager's Routine

Daily Responsibilities

(1½ hours)

- Open the parts department. Establish a counterperson for service. Open shop counter in conjunction with service advisors. Turn on computer(s). Check security. Start perpetual inventory counts.
- Check arriving personnel to open parts counters, set deliveries, check in stock and enter into inventory. File appropriate paperwork, including updating MSDS binder. Check with service department and body shop to give any updates on vehicles carried over which are waiting for parts.

(1-1½ hours)

- Review invoices and counter tickets for coding, costing, discounts, purchases against the purchase order book or electronic account; turn in paperwork to the business office with appropriate account coding.
- Post inventory adjustments, emergency sales, lost sales; run order updates; review any electronic messages.

(1 hour)

- Complete reports for shortages, overages, errors, and transportation claims; match invoices to packing slips.
- Enter daily orders and spot-check parts and invoices in delivery trucks.
- Justify cash receipts against the driver's log.

(2 hours)

- Update bin locations, parts numbers, and inventory counts. Correct any bin count irregularities and post the variances.
- Review lost sales and emergency purchases.
- Review special-order bins for aging and customer notification.

(1 hour)

- Check with service department and body shop to give any updates on vehicles carried over waiting for parts.
- Review purchases from aftermarket vendors in purchase order book.

(1 hour)

- Check condition and maintenance of delivery vehicle.
- Oversee the turning in of all money; secure the department or transfer management responsibility to the next shift.

Weekly Responsibilities

- Review perpetual inventory adjustments in light of previous week's efforts. Observe any trends or reasons for missing or additional parts counts.
- Enter stock order and supplemental orders and follow up the next day.
- Review compliance and eligibility requirements of manufacturer's programs to make sure you are getting any discounts, freight charge waivers, etc. to which you are entitled.

Monthly Responsibilities

- Review security controls of parts department and paper flow.
- Generate and review management reports, aging report (by high model year); set up obsolescence returns; dispose of non-returnable parts; look for any trends.
- Review purchases for inventory by source; audit return credits and discounts to determine who is purchasing, how much gross profit is earned, and what percentage of sales were returned.
- Calculate parts inventory gross and true turns. Calculate level of service to shop customers. Obtain technician proficiency percentages to justify inventory month's supply.
- Run updated special-order parts report. Investigate changed and deleted part numbers. Correct and adjust specials or menu prices.
- "Mystery-shop" your competition for parts prices. Spot-check past invoices to ensure receiving previously agreed-upon discounts.
- Review departmental financial statement for gross profit and expense control; get a report from accounting and substantiate any variances from forecasts.
- Follow up and collect any accounts receivables (overdue accounts).
- Conduct monthly employee meetings to introduce any new programs, products, training, sales promotions, or contests. Review group performance as a whole and any individual success stories during meetings.
- Meet with dealer or general manager to discuss forecasts, current value of inventory, and the disposition of excess and obsolete inventory.
- Attend dealership department managers' meetings.

Monthly Reconciliation

Monthly reconciliation to a zero balance allows dealers to balance the financial statement parts inventory with the management reports parts inventory. Reconciling monthly helps eliminate variances. The main reasons for variance are:

1. Perpetual inventory irregularities
2. Manufacturer price updates (inflationary trend)
3. Outside purchases brought into parts inventory at other than manufacturer cost

Annual Responsibilities

- Conduct a physical parts inventory; substantiate and reconcile inventory to book value, taking appreciation value into consideration.
- Consider inventory adjustments (plus or minus) for the value of any parts that may have been purchased above or below the manufacturer's cost, but brought into inventory at the manufacturer's price (see above).

APPENDIX C

Sample Job Description—Parts Manager

Job Title: Parts Manager

Department:

Reports To:

FLSA Status:

Prepared By:

Prepared Date:

Approved By:

Approved Date:

Revised Date:

SUMMARY

Strives to return a satisfactory profit on dealer capital invested in parts inventory. Accomplishes objectives through the use of proper purchasing procedures, inventory control, staff utilization, security, pricing, merchandising, displaying, and advertising.

DUTIES

Forecasts goals and objectives for the department and strives to meet them.

Hires, trains, motivates, counsels, and monitors the performance of all parts department staff.

Prepares and administers an annual operating budget for the parts department.

Maintains a balanced inventory consistent with the requirements of the service department, body shop, wholesale accounts, and the do-it-yourself public.

Establishes pricing parameters in each customer category that generate sufficient gross profit to produce a satisfactory profit while maintaining customer loyalty.

Establishes individual parts inventory levels and balances them for maximum turnover.

Ensures that parts inventory turns _____ times per year.

Monitors and adjusts inventory to minimize obsolescence.

Ensures that all parts are properly tagged so that the dealership recovers full credit from the factory.

Supervises stock-order procedures.

Sets and enforces a policy on the special ordering of parts. Ensures that stock orders represent at least _____ percent of all orders.

Analyzes sales, expenses, and inventory monthly to maintain profit goals.

Develops and administers an aggressive wholesale parts program to produce profit.

Ensures that the same high-quality level of service provided to outside customers is also provided to internal dealership customers.

Works with the service manager and body shop manager to ensure a timely turnaround of parts needed for internal jobs.

Attends managers' meetings.

Holds weekly department meetings.

Analyzes departmental operations and storage layout and revises as needed for maximum effectiveness.

Provides technical assistance to parts department employees.

Monitors parts department employees' payroll records.

Coordinates a prompt, efficient, and timely flow of paperwork.

Directs shipping and receiving efforts to ensure timely processing.

Monitors daily reports such as DOE, DOC, and sales productivity.

Develops and utilizes a lost sales tracking report.

Directs outside parts and counter sales efforts, including a telemarketing program to keep in contact with customers.

Develops sales promotions.

Takes advantage of all manufacturers' inventory co-op advertising.

Develops, enforces, and monitors guidelines for working with customers to ensure maximum customer satisfaction.

Handles customer complaints immediately and according to the dealership's guidelines.

Ensures that all dealership purchases are properly accounted for before payment is made.

Assists in the collection of past-due accounts.

Supervises custodians to ensure that work area is kept clean.

Enforces safety requirements, including but not limited to forklift training and operation, processing of MSDS sheets on all products carried, and OSHA Right-to-Know.

Understands, keeps abreast of, and complies with federal, state, and local regulations that may affect parts sales.

Maintains professional appearance.

SUPERVISORY RESPONSIBILITIES

QUALIFICATIONS To perform this job successfully, an individual must be able to perform each essential duty satisfactorily. The requirements listed below are representative of the knowledge, skill, and/or ability required. Reasonable accommodations may be made to enable individuals with disabilities to perform the essential functions.

EDUCATION and/or EXPERIENCE

LANGUAGE SKILLS

MATHEMATICAL SKILLS

REASONING ABILITY

CERTIFICATES, LICENSES, REGISTRATIONS

PHYSICAL DEMANDS The physical demands described here are representative of those that must be met by an employee to successfully perform the essential functions of this job. Reasonable accommodations may be made to enable individuals with disabilities to perform the essential functions.

WORK ENVIRONMENT The work environment characteristics described here are representative of those an employee encounters while performing the essential functions of this job. Reasonable accommodations may be made to enable individuals with disabilities to perform the essential functions.

NOTE:

This is not necessarily an exhaustive list of responsibilities, skills, duties, requirements, efforts, or working conditions associated with the job. While this list is intended to be an accurate reflection of the current job, the dealership reserves the right to revise the functions and duties of the job or to require that additional or different tasks be performed when circumstances change (i.e., emergencies, changes in personnel, work load, rush jobs, or technological developments).

I have carefully read and understand the contents of this job description. I understand the responsibilities, requirements, and duties expected of me. I also understand that this job description does not constitute a contract of employment nor alter my status as an at-will employee. I have the right to terminate my employment at any time and for any reason, and the dealership has a similar right.

_____	_____	_____
Employee's Name	Employee's Signature	Date

_____	_____	_____
Supervisor's Name	Supervisor's Signature	Date

We are an Equal Opportunity Employer

APPENDIX D

Sample Job Description—Parts Counterperson

Job Title: Parts Counterperson

Department:

Reports To:

FLSA Status:

Prepared By:

Prepared Date:

Approved By:

Approved Date:

Revised Date:

SUMMARY

Sells parts to all customers, over the counter, through the shop, or on the phone.

DUTIES

Assists all customers (retail and shop) in selecting required parts in a friendly, professional, and efficient manner.

Informs customers of companion part requirements and specials, and ensures that the customer is exposed to the full product line.

Answers phone calls, providing price quotes and other information.

Reviews body shop estimates to be sure the parts that are ordered are correct and all pricing is in line with the estimate.

Provides high level of service to internal and external customers.

Pulls and fills orders from stock.

Notifies parts manager of out-of-stock parts or shop materials that need immediate attention.

Locates out-of-stock parts from outside source and submits an emergency order, if necessary.

Notifies the service advisor and the customer when special-ordered parts have been received.

Notifies the body shop when all parts have arrived and when they will be delivered.

Pulls orders for delivery to body shop, making sure all parts are tagged with customer names and job number.

Follows up on back-ordered parts.

Verifies will-call and back-order files weekly and returns to vendors, or stocks those items not picked up or required.

Replenishes assigned inventory daily.

Assists outside sales representatives with their orders.

Makes sure all internal requests for parts are billed on service repair orders.

Receives payment from retail customers or obtains credit authorization.

Ensures that all charge sales are signed by the customer.

Ensures that all customers receive their copy of the invoices.

Issues credit for parts returned, ensuring that the original invoice, or its number, is available so that purchase and pricing can be verified.

Issues and tracks requested shop tools to technicians.

Keeps orderly records of all repair orders, invoices, insurance estimates, and special-order parts.

Sets up orders for daily shipment, delivery, or pick-up.

Solicits assigned accounts by phone.

Keeps front and rear counter areas clean and uncluttered.

Participates in all training programs that are made available.

Keeps current on new products and product updates.

Participates with the parts manager in maintaining a lost sales tracking program.

Maintains professional appearance.

SUPERVISORY RESPONSIBILITIES

QUALIFICATIONS To perform this job successfully, an individual must be able to perform each essential duty satisfactorily. The requirements listed below are representative of the knowledge, skill, and/or ability required. Reasonable accommodations may be made to enable individuals with disabilities to perform the essential functions.

EDUCATION and/or EXPERIENCE

LANGUAGE SKILLS

MATHEMATICAL SKILLS

REASONING ABILITY

CERTIFICATES, LICENSES, REGISTRATIONS

PHYSICAL DEMANDS The physical demands described here are representative of those that must be met by an employee to successfully perform the essential functions of this job. Reasonable accommodations may be made to enable individuals with disabilities to perform the essential functions.

WORK ENVIRONMENT The work environment characteristics described here are representative of those an employee encounters while performing the essential functions of this job. Reasonable accommodations may be made to enable individuals with disabilities to perform the essential functions.

NOTE:

This is not necessarily an exhaustive list of responsibilities, skills, duties, requirements, efforts, or working conditions associated with the job. While this list is intended to be an accurate reflection of the current job, the dealership reserves the right to revise the functions and duties of the job or to require that additional or different tasks be performed when circumstances change (i.e., emergencies, changes in personnel, work load, rush jobs, or technological developments).

I have carefully read and understand the contents of this job description. I understand the responsibilities, requirements, and duties expected of me. I also understand that this job description does not constitute a contract of employment nor alter my status as an at-will employee. I have the right to terminate my employment at any time and for any reason, and the dealership has a similar right.

Employee's Name

Employee's Signature

Date

Supervisor's Name

Supervisor's Signature

Date

We are an Equal Opportunity Employer

APPENDIX E

Forecast Form

1. Why do you feel this is an achievable forecast for this department?

2. Why does the parts manager feel this is an achievable forecast?

3. If given the opportunity, what changes would you make to improve the operation of this department?

4. What are the reasons for the variance between your forecast and the actual performance of this department?

5. Given your sales forecast, what is the maximum dollar value that should be spent on inventory?
Please show your calculation*.

*Subtract total forecast gross from total forecast sales to determine cost of sales.

DEPARTMENT ACCOUNTS ON STATEMENT	FORECAST	ACTUAL	VARIANCE	PERCENT OFF FORECAST
Customer RO Parts Sales - Cars & Light-Duty Trucks				
GP % Customer RO Parts Sales			%	
Customer RO Parts Gross	\$	\$	\$	
Warranty Parts Sales			\$	
GP % Warranty Parts Sales			%	
Warranty Parts Gross	\$	\$	\$	
Internal Parts Sales			\$	
GP % Internal Parts Sales			%	
Internal Parts Gross	\$	\$	\$	
Customer RO Parts Sales - Fleet & Heavy-Duty Trucks			\$	
GP % Customer RO Parts Sales - Other			%	
Customer RO Parts Gross - Other	\$	\$	\$	
Body Shop Parts Sales			\$	
GP % Body Shop Parts Sales			%	
Body Shop Parts Gross	\$	\$	\$	
Counter Retail Sales			\$	
GP % Counter Retail Sales			%	
Counter Retail Gross	\$	\$	\$	
Wholesale Parts Sales			\$	
GP % Wholesale Parts Sales			%	
Wholesale Parts Gross	\$	\$	\$	
Gas, Oil, & Grease Sales			\$	
GP % Gas, Oil, & Grease Sales			%	
Gas, Oil, & Grease Gross	\$	\$	\$	
Purchase Allowances			\$	
Adjustments to Inventory			%	
Total Gross Profit	\$	\$	\$	
Parts Gross Transfer (GM Only)			\$	
Variable / Selling Expenses			\$	
Personnel Expense			\$	
Semi-Fixed Expense			\$	
Fixed Expense			\$	
Peroration of General/Admin. Expenses (GM Only)			\$	
Total Expense	\$	\$	\$	
Department Profit or Loss	\$	\$	\$	

APPENDIX F

Further Reference

To learn more about the topics presented in this guide, please refer to the following NADA Management Education publications:

- *Accessories: Not Your Usual Parts Department (SP27)*
- *Forecasting for Success (BM9)*
- *Parts Checkup—Performance Level Analysis (SP7)*
- *A Dealer Guide to Parts Inventory Management (SP21)*
- *A Dealer Guide to Performing a Monthly Parts Inventory Reconciliation (SP26)*
- *Top Five Ideas to Boost Parts Department Inventory Performance (SP30)*
- *A Dealer Guide to Service and Parts Communication: Creating a Fixed Operations Team (SP22)*
- *A Dealer Guide to the Three Ps of Effective Service Management: Profit, Productivity, Personnel (SP23)*

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