Driven

NADA MANAGEMENT SERIES SP7



Parts Checkup: Performance Level Analysis

NADA
NATIONAL AUTOMOBILE DEALERS ASSOCIATION

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Parts Checkup: Performance Level Analysis

EXECUTIVE SUMMARY

Though the parts department is consistently the most profitable department in the dealership, 85 percent of dealers start out in the new or used vehicle departments. So it's not surprising that the parts department is the least understood department in the dealership. This guide aims to help dealers and general managers better understand the parts department, so they can help their parts managers make their departments even more profitable. Use the definitions, checklist, and formulas in this guide to calculate your current performance levels.

DEFINITIONS

A/P — Automatic phase-out. The DMS automatically stops suggesting new orders based on demand history.

Emergency Purchase — Any part purchased at any time, in any quantity, from any source, in any dollar amount, where part or all of the profit that is expected to be earned upon the sale of the part has been spent in the acquisition of the part.

DMS — Dealership Management System, a dealership's IT system.

Excess Stock — Any situation in which the on-hand, combined with on-order and back-order quantities, is in excess of the best stocking level or high days' supply. Excess stock is an indicator of too much active inventory in the parts department.

Fixed Expenses — Includes rent, amortization, leaseholds, real estate repairs and maintenance, building improvements and depreciation, real estate taxes, buildings and improvements insurance, interest real estate mortgage, other insurance, other taxes, equipment depreciation, equipment rental, equipment repair and maintenance, heat, power, and water.

Gross Turn — Cost of sales divided by financial statement inventory (i.e., the ratio of parts on the shelf compared to the parts purchased for a particular period of time). Guide is six to eight times per year.

Level of Service — An efficiency rating of the parts department's ability to supply parts, on demand and off the shelf, to the customer. Should regularly fall between 90 and 95 percent.

Lost Sales — Demands against those part numbers within the controlled inventory that are not filled via an emergency purchase or a sale off the shelf.

Personnel Expenses — Includes owners' salaries, supervision compensation, other salaries and wages, absentee wages, payroll taxes, employee benefits, Workers' Compensation, and pension fund.

Semi-Fixed Expenses — Includes advertising, company car expense, office supplies, small tools and other supplies, uniform and laundry, contributions, outside services (including Internet server and IT data charges), travel and entertainment, membership dues and publications, legal and auditing expenses, training expenses, telephone and fax, invalid claim expenses, printing and photocopying expenses, customer relations adjustments, freight and express shipping, and miscellaneous.

True Turn — The guideline is that stock inventory is working for the dealership if it turns four to six times per year.

PARTS CHECKUP CHECKLIST

☐	1. Review the suggested parts order from your system compared with the actual order. This will help ensure that parts and accessories orders are based on your inventory control system rather than on guesswork.
☐	2. Does your dealership have a DMS? _____No _____ Yes Almost all dealerships have a DMS that the parts manager uses to order parts for your parts inventory. You should understand how the parts manager decides which parts should be ordered for stock.
☐	3. At the end of every month, check the increases and decreases in the financial statement inventory with the parts manager. (This could be done through the monthly reconciliation.)
☐	4. At the end of every month, check inventory turnover. True turn (stock) should be four to six times per year.
☐	5. Get the parts manager to create a list of non-moving part numbers. (The total number can be found on the "Monthly Summary.") Include the non-moving parts in your next return, if you have accrued dollars for this purpose.
☐	6. Check the ratio of parts sales to labor sales per repair order. This ratio will depend on the labor rate in your area. The value of the part does not change much compared to the labor. As the dollar amount of your labor increases, you should see a corresponding increase in parts sales. By tracking your parts/labor ratio over a period of months, you can track performance increases.
☐	7. On an ongoing basis, check the bins containing special-order parts. Are parts being held for more than 30 days? If so, implement SOP process improvements.
☐	8. Are customers notified promptly that their special-order parts have arrived? (Fifty percent of current obsolescence nationally comes from uninstalled SOPs.)
☐	9. Use matrix pricing on customer-pay repair orders and counter retail transactions.
☐	10. Check the DMS to ascertain which parts were sold to the service department on repair orders to help provide enough gross profit to cover a pro rata share of parts overhead. All internal parts sales should be marked up to customer retail. (The markup factor to use is 170 percent from cost.)
☐	11. Personnel expenses should not exceed 20 Group guidelines for the month's gross profit. (See the expenses table for personnel percentages of various franchises. Based on an average number of parts personnel, plus a percentage for a cashier and warranty clerk—but not including the owner, general manager, or office management—an effective parts person can be expected to produce between $40,000 and $50,000 in sales per month, and may generate $13,000-$17,000 in gross profit each month.)

PARTS DEPARTMENT ANALYSIS

Performance Levels

The figures in the center column are averages of successful NADA 20 Group dealership performance levels. In the right column, enter your current levels and compare.

	Performance Level Averages NADA 20 Group	Current Level Your Dealership
Order Efficiency		
Stock order	80%	_____%
Special order	15%	_____%
Unit down – critical	5%	_____%
Gross Turn (See "Definitions")	6-8 turns per year	_____
True Turn (See "Definitions")	4-6 turns per year	_____
Stock Order Allowance as a % of sales (Manufacturers vary on this allowance, depending on the percentage of obsolescence.)	Maximum available	_____%
Inventory Profile–Sales Movement Range		
0-3 months	75% of inventory	_____%
4-6 months	23% of inventory	_____%
7-12 months	2% of inventory	_____%
More than 12 months	0% of inventory	_____%
Parts Sales per Parts Employee	$40,000 to $50,000	$ _____
Parts Gross per Parts Employee	$13,000 to $17,000	$ _____
Parts-to-Labor Ratio (Your ratio may differ depending on the labor rates in your area.)	$.80 to $1.00 is the national average.	_____
Pricing Policy	Matrix, when possible, by part number	_____
First-Time Fill Rate	90%	_____%
Same Day Fill Rate	95%	_____%
Parts Gross Profit as a percentage of sales (without parts gross transfer)	38%	_____%

Expenses

Dealers who sell the same car makes tend to have similar levels of expenses as a percentage of parts department gross profit. So it's useful to compare your dealership's expenses with those of dealers who sell the same makes. The chart below can help you gauge where your business stands. The percentages shown are averages of data provided by successful NADA 20 Group dealers. Enter your current percentages across the bottom row. (Definitions of personnel, semi-fixed, and fixed expenses are given in "Definitions.")

Manufacturer	Personnel expense as a % of gross	Semi-fixed expense as a % of gross	Fixed expense as a % of gross	Total fixed overhead as a % of gross
Chrysler	40%	14%	11%	65%
Ford	40%	12%	12%	63%
GM	35%	12%	10%	57%
Honda	34%	13%	14%	61%
Mazda	37%	14%	16%	67%
Mercedes-Benz	32%	15%	16%	63%
Nissan	41%	15%	15%	71%
Toyota	35%	15%	12%	62%
Your Percentages	_____%	_____%	_____%	_____%

Profitability

Use the following formulas to analyze your financial statement profitability.

1. Are you running a profitable parts department?

$_____ — $_____ = $_____

Total parts gross | Total parts expense* | Parts department profit (or loss)

*__Ford Dealers__: Parts expenses must include a portion of any unallocated/overhead expense that may appear on your statement. Many dealers use 14 percent as a fair overhead expense allocation for the parts department.

2. What is your operating profit as a percentage of sales in the parts department?

$_____ ÷ _____ = $_____

Parts operating profit YTD | Number of months | Operating profit per average month

$_____ ÷ _____ = $_____

Total parts sales YTD | Number of months | Sales per average month

$_____ ÷ $ _____ = _____%

Operating profit per average month | Sales per average month | Operating profit as a % of sales per average month

Profitability *(cont'd)*

3. What supply of parts (how many months' worth) do you typically keep on hand?

$_____ — $_____ = $_____
Total parts sales YTD — Parts gross YTD — Parts cost of sales YTD

$_____ ÷ _____ = $_____
Parts cost of sales YTD — Number of months — Parts cost of sales per average month

$_____ ÷ $_____ = _____
Total parts inventory — Parts cost of sales per average month — Months' supply of parts (versus profile of 1.5 months with dealers on a Daily Stock Order, or DSO)

4. What is your true inventory turn?

$_____ — $_____ = $_____
Parts cost of sales for average month — Average month's outside parts purchases — Average true cost of parts sales

$_____ ÷ $_____ = _____
Total parts inventory — Average true cost of parts sales — True months' supply

12 months ÷ _____ = _____
True months' supply — Annual number of turns (versus profile of 4 to 6)

5. What is your parts sales mix?

	Parts sales YTD		Number of months		Average monthly parts sales
A. Customer sales	$_____	÷	_____	=	$_____
B. Warranty sales	$_____	÷	_____	=	$_____
C. Counter sales	$_____	÷	_____	=	$_____
D. Wholesale sales	$_____	÷	_____	=	$_____
E. Internal sales	$_____	÷	_____	=	$_____
			Total parts sales, average month		$_____

Profitability *(cont'd)*

6. Using the figures from question 5, calculate the percentage of total sales.

$_____ ÷ $ _____ = _____%
(A) Customer sales per average month — Total sales per average month — Percent of total sales

$_____ ÷ $ _____ = _____%
(B) Warranty sales per average month — Total sales per average month — Percent of total sales

$_____ ÷ $ _____ = _____%
(C) Counter sales per average month — Total sales per average month — Percent of total sales

$_____ ÷ $ _____ = _____%
(D) Wholesale sales per average month — Total sales per average month — Percent of total sales

$_____ ÷ $ _____ = _____%
(E) Internal sales per average month — Total sales per average month — Percent of total sales

BREAK-EVEN ANALYSIS

What is your parts department's overall gross profit as a percentage of sales? The guide is 38 percent. To calculate this crucial ratio for your parts department, you'll need to know the parts department's handling cost, in addition to the actual parts cost, and determine your markup for each of these categories: retail, counter, wholesale, internal shop, and body shop. Refer to your financial statement to complete the formulas below.

$_____ — $_____ = $_____
Total parts sales — Total gross profit — Cost of parts sold

$_____ — $_____ = $_____
Actual cost of parts sold — Total department expense — Handling cost (should be less than warranty markup)

$_____ — $_____ = $_____%
Total department expense* — Total department sales — Break-even % of sales

*__Ford Dealers__: To calculate your actual department expense, add a 14 percent allocation to the total of the dealership's fixed expense plus the dealer salary.

DMS DATA GOALS

The following are DMS goals that are presented during the Fixed Operations 1 course at the Academy. You might adopt these goals at your dealership.

DMS Management Observations	Goals
% of your DMS parts inventory that is active (in dollars)	70% plus
% of your DMS parts inventory in A/P (in dollars)	30% plus
% of your DMS parts inventory ($) in N/S (non-stock status)	1% or less
% of your DMS parts inventory (part #s) in N/S status	1% or less
% of your DMS parts inventory on M/O (manual order)	1% or less
% of your DMS parts inventory on D/P (dealer phase-out)	1% or less
Dirty Core Inventory (ADP does not show dirty core on summary)	Low #s
Negative on-hand or minus on-hand	Low #s
Parts with no cost	Very low #s
Parts with no bin location	Very low #s
Stock order versus non-stock order percentage	75-25%
OBSO position as a % of total inventory (parts no sale 12 months or older)	5% or less
New parts no sale; low #s for ADP % and $	1% or less
Lost sales numbers	3-5 per person per day
Opening inventory & closing inventory difference	2-4%
Inventory percent changed (look for major variances)	2-4%
Net inventory adjustments, (+) or (—) (look for major variances)	Low #s, (+) or (-)

Most of these DMS Management Observations are provided in the monthly summaries of mainstream DMS providers.

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