



Managing the Parts Inventory vs. the New- and Used-Vehicle Inventory



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"Eight Habits of Highly Successful Parts Managers"



Presentation Highlights:

- Managing The Inventory, Whether Parts Or Vehicles!
- Using Math, Including Algorithms to Manage Inventory
- Increasing Service Productivity by Increasing Parts Productivity!



Before We Start...

Keep This One Quote In Mind Throughout This Presentation:

“You May Think You Already KNOW It?...But, How Good Are You AT It?”



The Eight Habits:

- Belief System
- Definitions & Terminology
- NADA Guidelines
- DMS Set Ups & Controls
- Return On Investment
- Obsolescence Control
- Parts Profitability
- Service Productivity



Habit # 1: Belief System

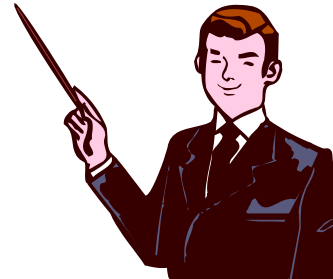
First and Foremost, We Must Be Reporting
Accurately and Honestly into the Dealer
Management System, (D.M.S.)



Fact:

Most Parts Managers Have Three Prime Concerns:

- Parts Obsolescence
- Parts Overall Fill Rate
- Inventory Dollar Amounts



Question:

“What’s The Number One Fear For Most Parts Managers?”





Answer...

Buying And Stocking Parts
That May Never Sell



The Primary Reason For Having The Right Fundamental Beliefs?

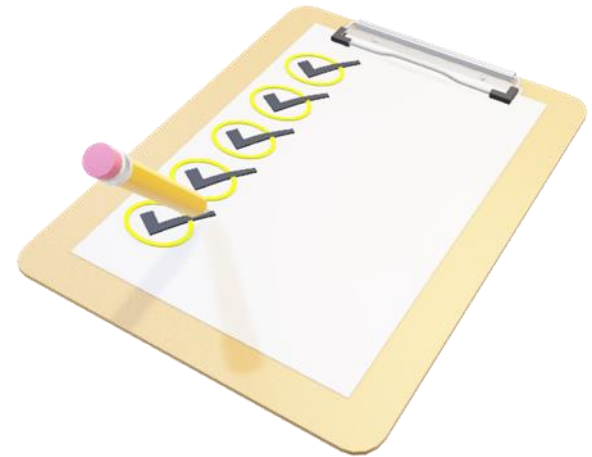
“To Provide The Right Part The First Time!”



Habit # 2:

Definitions - Parts

- Lost Sales
- Emergency Purchases
- In & Out Sales
- Customer Orders
- Stock Orders
- Normal Stocking Parts
- Non-Stock Parts
- Outside Purchases



Habit # 2:

Definitions - Sales

- “Ups”
- Dealer Locates
- Dealer Swaps
- Factory Special Order
- New Vehicle Inventory Orders
- New Vehicle Stock Units
- Special Orders
- Auction Purchases



After All....

“Couldn’t a New or Used Vehicle Stock Number Be Considered Just a Part Number?”



Habit # 2 Question...

What's The TRUE Definition Of A
Lost Sale?



But Wait A Minute!...

Before We Answer That
Question...Why Do We Call It “Lost
Sales” To Begin With?



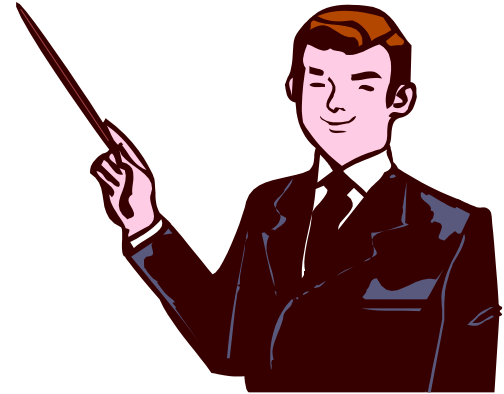
Are We Truly Missing A “Lost Sale”, Or Could They Really Be?...

“Potential Missed Opportunities!”



Habit # 3:

Let's Look At Some NADA Parts Guidelines



NADA Parts Guidelines:

- Stock Order Performance – 90% - 95%
- Overall Off Shelf Fill Rate – 90% - 95%
- First Time Off Shelf Fill Rate – 80% - 85%
- Lost Sales Reporting – 10% of Total Cost of Sales



NADA Parts Guidelines:

- Emergency Purchases – 10% or Less
- Non-Stock Parts (In Stock) – 10% or Less
- Parts to Labor Ratio – 100%
- Special Order Parts Aging – 30 Days or Less



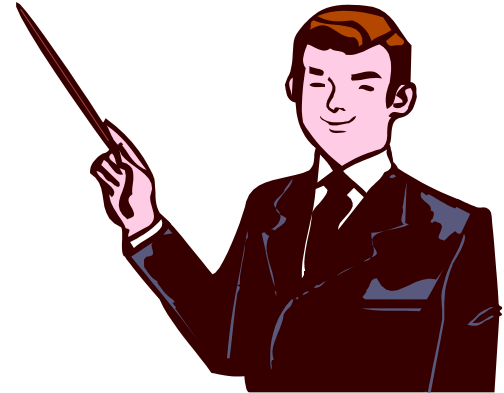
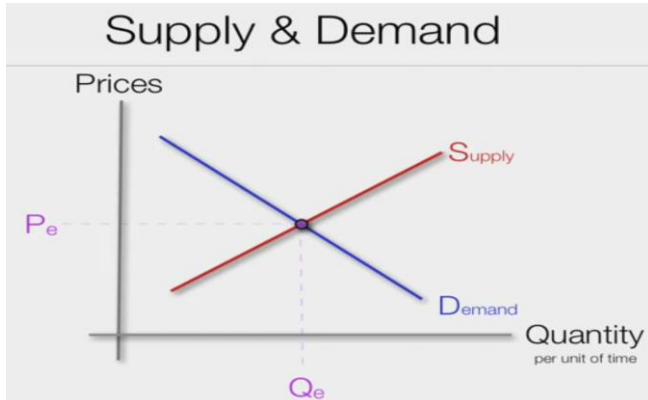
NADA Parts Guidelines: Sales Activity

- 0 – 3 Months Sales Activity – 75%
- 4 – 6 Months Sales Activity – 23%
- 7 – 12 Months Sales Activity – 2%
- Over 12 Months Sales Activity – 0%



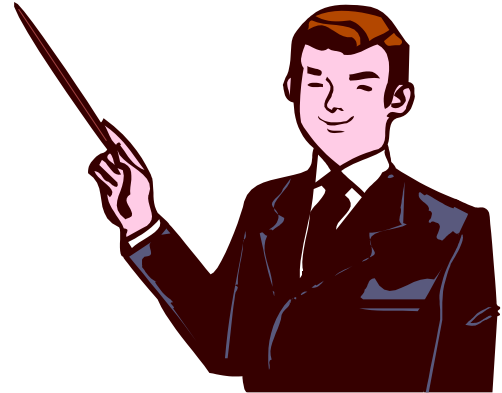
Parts Phase In:

Total Number of Demands, (Sales and Lost Sales)
over a Pre-Determined Amount of Time in Days
or Months.



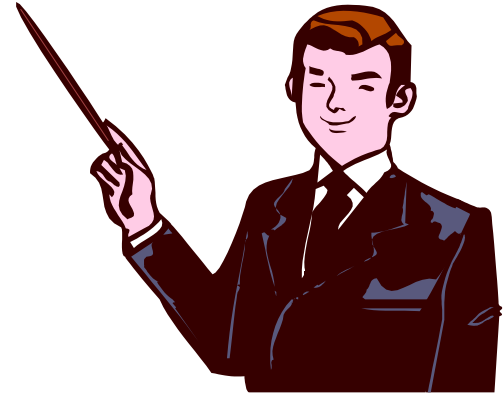
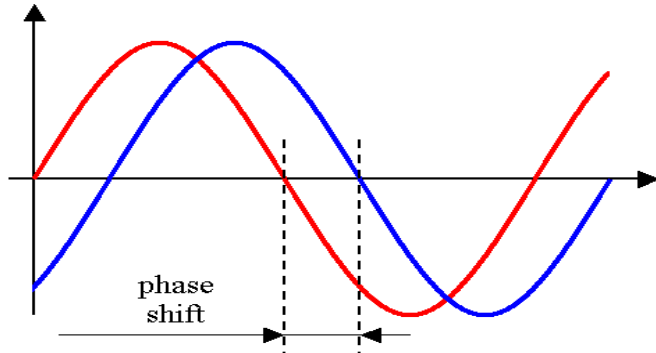
Parts Phase In Example:

Demand in Three Separate Months Over a
Total of Seven Months with a Total
Demand of Three.



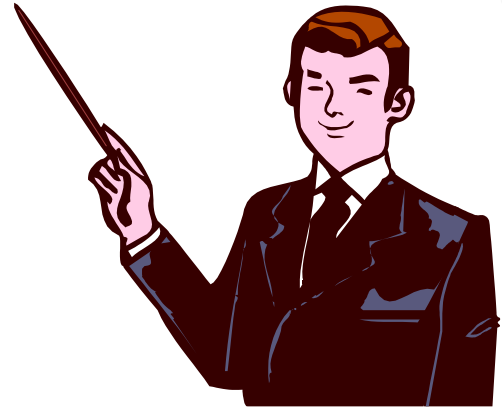
Parts Phase Out:

Parts with No Sales Activity over a Pre-Determined Amount of Time in Days or Months



Parts Phase Out Example:

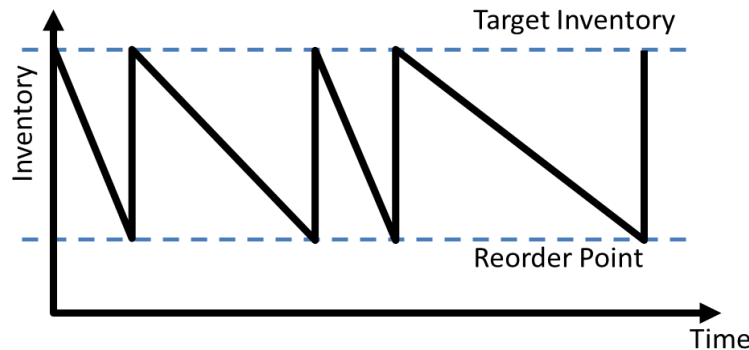
Parts with No Demand in Sales Over Eight Months.



Days Supply

Best Reorder Point, (BRP) and Best Stocking Levels, (BSL)

The Minimum, (BRP) and Maximum, (BSL) Amount of Days Parts are Stocked to Meet Demand and Proper Stocking Levels.



Algorithms

Using “Algorithms” to Measure
Weighted Daily Demand, (W.D.D.)



Algorithms - Definition

“A Process or Set of Rules to be Followed in Calculations or Other Problem-Solving Operations, Especially by a Computer.”



Algorithm Sample - Parts

For Example, 70% of the Weight is Placed is on
the Demand in the Most Recent 30 Days and
30% of the Demand is Placed on the Remaining
365 Days...



Algorithm Sample - Parts

If We Sold 40 Parts Over the Last 365 Days, 10 in the Last 30 days, the Average Would Be Selling the Part Once Every 4 Days...



Algorithm Formula:

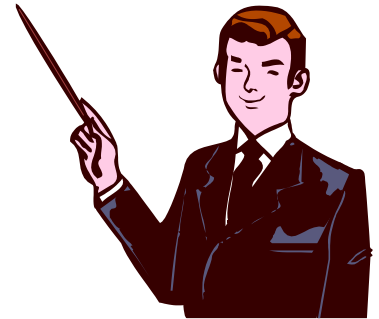
$$\begin{aligned} 10/30 (.70) + 40/365 (.30) &= .333 (.70) \\ + .109 (.30) &= .233 + .033 = \underline{.266} \end{aligned}$$



Source Ranking By Piece Sales

Definition:

Ranking Parts Inventory By Annual Piece Sales into Different “Sub Sources” to Allow for Different Stocking Levels. (BRP and BSL)



Habit # 5:

Return On Investment



Gross Turns

Definition

Total Sales at Cost for the Last Twelve Months –
Divided By – Average Inventory Investment for
the Last Twelve Months.



True Turns Definition

Last 12 Months Stock Order Receipts – Divided
by Last 12 Months Sales at Cost – Divided by
Last 12 Months Inventory Investment.



NADA Guidelines:

8 Annual Gross Turns

5 Annual True Turns



Habit # 6:

Obsolescence Control

It's The Number One “Monkey On The Back” for Most Dealers and Parts Managers, Preventing Higher “First Time Off Shelf Fill Rates”



“What Is Obsolescence?”

The Answer from Mike Nicoles...

- No Sales In 6 Months = 49% Chance, No Future Sales
- No Sales In 9 Months = 67% Chance, No Future Sales

And?.....



“What Is Obsolescence?”

Forget About It Because...

If a Part Does Not Sell after 12 Months or More,
There is a 98% Chance that Parts Never Sells
Again!



One Has To Wonder...

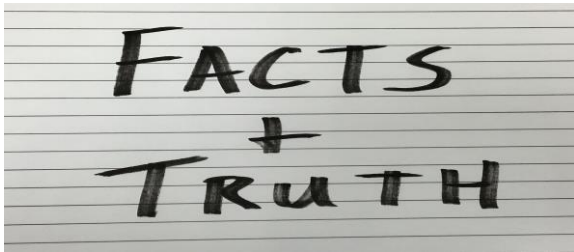
Do These Truths About Parts Becoming
Obsolete Over Time Hold True With The
New & Used Vehicle Inventories?





Simple Facts...

- All Parts Will Eventually Become Obsolete.
- Current Average Dealer Parts Obsolescence Exceeds Industry Guidelines.
- Obsolescence Needs To Be Managed “Before” It Happens.



So!...Question Is:

“Why Don’t We Treat Our Parts Obsolescence
Like Our Inventory Of Aged New & Used
Vehicles?”



Habit # 7:

Parts Profitability

- Installing The “Right” Parts Escalation Matrix
- Having The Right Part At The Right Time
- Maximizing Stock Order Allowance
- Parts Monthly Reconciliation



Habit # 8:

Service Productivity

“How Does The Parts Department Impact Overall Service Productivity?”

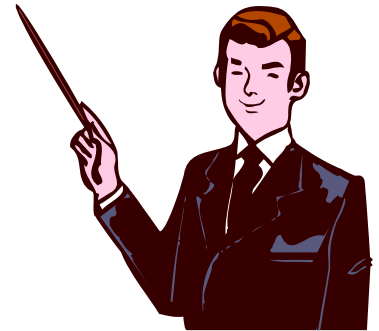
$$\text{Productivity} = \frac{\text{Output}}{\text{Resources}}$$





Another Fact:

In Most Dealerships Today, The Service Department Generates Approximately 70% Of The Parts Department's Gross Profit.



Time Is Money!

The Average Service Department Loses a Minimum of 10% - 15% of Service Productivity Due to Low Parts First Time Off Shelf Fill Rates.



Again!...

QUESTIONS?



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