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THE MOTOR DEALER REPORT FROM AUSWILD & CO
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WORK SMARTER, NOT HARDER IN YOUR PARTS DEPARTMENT

The road to success and continued profitability is having the right combination and quality of product, processes and people. This is true of any business, in any industry.

In the dealership's parts department, it goes without saying that selling parts is the key. But selling more with less effort – now, that takes skill and knowledge. Better to work smarter and not harder, right?

From the pages of *The Parts Manager*, the official publication of the *DealersEdge Parts Manager Network*, we bring you five tips for working smarter, not harder to make money in parts.

Tip One: Focus on inventory control

Sales are important. No sales equals no money. However, a parts department, in large measure, is defined by its inventory. So along with watching what is selling, keep a wary eye on what is not selling. Because, what's not selling is either obsolete or approaching obsolescence. Best to keep the 12 months-no-sale category at less than 5 percent of the total inventory, and never let it get above 10 percent, and start looking at potential obsolescence at about 6 months-no-sale. At 6 to 9 months-no-sale the probability of selling the parts starts to decline sharply. Nine to 12 months-no-sale and parts are at the threshold of obsolescence. If, say, as much as 75 percent of your inventory is selling, then that means 25 percent is not. That's \$25,000 for every \$100,000 of inventory that's non-productive and costing you profits.

Check your inventory control parameters and settings (phase-in, phase-out, BRP, BSL) at regular intervals, twice a year at a minimum. Believe it or not, there are a good many parts inventories utilising the same setup guides for years. Keep a close track of special order parts and have an organised system in place to contact the customers that ordered them. These things, unsold, go right to obsolescence.

Train your staff about the significance of lost sales reporting and continuously communicate the message. Lost sales are important building blocks of an efficient and profitable inventory. All dealership parts departments will have lost sales. However, there is no way to determine a set amount or normal amount that any parts department should have. Do not expect or insist on a specific quota or level of lost sales reported on a monthly basis. If you do, your staff will comply by making certain enough lost sales are posted to attain the desired level.

The key to working smarter and not harder is to explore all avenues for continuously improving your inventory control and inventory management. There are a lot of good and innovative ideas as well as new techniques out there to make your job easier and more profitable. But remember, it's not a one-size-fits-all world. What has worked for one may not be right for you.

Tip two: Purchase for profit

Order as much inventory on scheduled stock orders as possible without impacting customer service. Stock orders represent the best method for acquiring parts that will yield the highest return on the investment, but not if it is done at the expense of customers who need parts quickly. In that case, emergency purchases and emergency orders are healthy and necessary. However, they are the costliest way to go. Remember, inventory control and management influence purchases. Again watch the settings and guides.

Tip three: Watch your financial reports

Parts managers should be reviewing two important documents monthly: your month-end management report, and the department's income statement. The month-end management report includes all the department's key performance indicators. Particular attention should be paid to inventory turnover - both gross and true turnover, inventory movement, level of service, stock order performance, receipts.

True turnover offers a better performance measurement of the inventory because unlike gross turnover (which measures all parts sold from stock, intermediate orders, emergency orders and purchases, etc.), true turns measures only those parts sold from stock. Hence, true turnover is the only valid indicator of how well the dealerships inventory investment meets customer demands.

Level of service or off-the-shelf-fill-rate measures how well your parts department is filling customer demands from stock. Moreover, there is a direct correlation between parts department level of service and service department performance. When the parts department level of service is high, the service department is in a better position to complete repairs faster, thus, increasing labour hours billed while producing a higher level of customer satisfaction. An approximate range for level of service to strive for is 85% to 95%.

The income statement is the scorecard, the sum of all your efforts. In the final analysis gross profits pay the bills and net profits keep the company going. When analysing financials look for trends and compare performance periods. Look at sales and gross profits relative to expenses. Out of line expenses can reduce net profits.

Total sales should be planned on a yearly basis and not determined as some arbitrary percent of increase over the previous year. Gross profit percentage should cover operating expenses and still provide a reasonable return on the owner's investment. As with sales the total gross profit expected by the parts department should be determined logically and together with senior management. Pricing policies must support this gross profit goal.

Expenses are the normal costs of doing business. Under regular operating conditions expenses seek their level in every line. No one expense - be it personnel or otherwise - should be singled out. Instead, on a monthly basis, look at all expenses relative to total sales and gross profit. If your gross profit is on target so are your expenses.

Tip four: Use your human resources

Satisfied employees lead to higher productivity and happy customers, which means higher profits. Product and inventory being equal, the only thing that separates your parts department from your competition is the people. The key here for working smarter and not harder is to create a positive work environment that attracts, rewards, and cultivates the talents of star performers.

Tip five: The WOW factor

Happy or satisfied customers are good. When customers are "WOWed" that's even better. Don't simply strive to keep customers happy or satisfied. How do you WOW customers? At all times keep your service promise. Do what you said you will do when you said you will do it. Accomplish this efficiently and you will be rewarded with loyal customers and a profitable operation.

DealersEdge is a publisher of automotive related publications such as the Parts Manager. It has also been providing automotive dealerships with top of the line training materials for over 30 years. *DealersEdge* has teamed up with *Auswild* to bring you the latest in top notch dealership training at specially discounted prices. Visit our Online Resource Centre at <http://AUSWILD.dealersedge.com>

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