

Learning Without Scars

Quarterly Newsletter

Dynamic Internet Based Learning
TRAINING SOLUTIONS FOR EQUIPMENT DEALERSHIPS
Construction • Mining • Agriculture • Cranes • Trucks • Trailers

The Parts Business

Winter 2021

Our mission in the parts business is rather simple, it is Slee's First Law of Parts: Find every part that every customer needs and do it the same day they ask for it. Tell them where the part is available, if it is not in your stock. Make this contact before you go home for the day. You need to do this every day. Measure it in the same manner as you measure your safety records. Every day and very visibly.

We are living in a very complicated time for all of us. Covid, Supply Line Difficulties, Education not delivering the work ready employees we need is making it difficult to find and hire talented people. There is a lot of noise out there. And in all of that, I still believe that we continue to have one thing that is a universal truth. Everyone wants to do a good job in what they do for a living. Everyone wants to feel that they do worthwhile work. But I come around to a question on this very area all the time. How many of you actually tell your employees what doing a good job looks like?



Performance Standards

Key Indicators

Key Indicators are those salient measurement facts and reporting data units by which a function or department can be measured. An illustration of a significant key indicator is the absorption factor. Absorption measures the amount of the expenses in the sales and administration departments covered by the net income of the parts and service departments. Sales, Gross Margin, Sales/Employee, Net Income and Net

Income/Employee are some other examples of Key Indicators.

It is necessary as part of the overall Dealership's management reporting to create and constantly monitor a group of Key Indicators. This monthly report would be called a scorecard or a progress report. These indicators all will have a similar thrust, that is, they are clear, concise, and objective indicators of performance of the department. They are all controlled by a first level supervisor and they all contribute to the overall Return on Equity of the Dealership. This scorecard allows the recognition of problem areas and adjustment to programs and activities in a timely fashion that will ensure success regarding overall goals.

Without these indicators, it would be extremely difficult to develop and control an intricate series of plans in the Dealership. Sales, Rental, Parts, Service, and Administration Management needs to review these scorecards monthly with the Branch or Executive Management.

General Comments on Overall Measures

Each scorecard will start with the key financial measures: Sales, Gross Profit, Expenses and Income. These Key Indicators need to be reported for the forecast year, the previous year actual and the current year-to-date actual. This will allow a quick review of the status.

Sales Revenue can be broken down into various categories and by department that is significant for the department in other areas of reporting. Parts Department Sales are for New Parts, Used Parts, Exchange Parts and Remanufactured Parts. Furthermore, the sales should be reported by vendor, customer, industry, salesman, or model.

Gross Profit, the definition of which can vary from Dealer to Dealer, covers the difference between the selling price of the product or service and the cost of the acquisition of the product. Operating Managers want to have access to the Gross Profit for all subcategories within their departments. It should not be necessary to report all of them at the financial

report level. For instance, a company that carries multiple machinery and parts lines might not want the financial statements to report all of the product gross margins.

We need to limit the variables in the overall management of a department so as to allow clear focus on the mission at hand. If the operating standards and guidelines are not being met then there is a need to “bore down” more deeply into the causes of the variance.

Expenses also need to be reported according to the ability of the first level supervision to maintain control over the expense. Expenses fall into Personnel, Operating, and Fixed categories. Personnel and Operating expenses are directly controllable by the Operating Manager.

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Fixed expenses are part of the infrastructure and the control over these expenses by the Operating Managers is limited. Capital Expense budgets need to be submitted by Operating Management for their departments annually. Thus, even on some of the fixed, expenses the line managers have some level of control.

Personnel expenses can be controlled to the extent that there are salary and wage guidelines followed. Similarly, if there is an Operating Standard tied to Sales per Employee, then the management tool also is the number of employees. Currently dealerships are maintaining low levels of fixed expenses and high variability dependent on performance in the personnel category. Much of this Industry is driven by sales per employee measures and personnel costs are one of the highest percentage of sales items in the operating statement. The ability to have this expense variable as to sales and/or profit levels is an advantage. There would also be the need to report expenses for personnel as a percentage of sales as each department has a blend of employees' skill requirements and as such a blend of wages or salaries.

There is a series of standards of performance that relates to each operating department that is not

financial only. For the category of sales revenue, for instance, we need to be able to meet the share of market objectives, market coverage goals, salesman call coverage etc. Sales per employee, inventory turnover, customer service levels, and stock order efficiencies are critical for the Parts business.

These items fall into the category of Management Measures for dealerships and need to be reported on a monthly or regular basis. These management reports are different from the financial reports and as such are called scorecards or progress reports.

Measures Specific to a Parts Business

Of the main elements specific to the Parts Department management of the Inventory Asset is one of the most significant. It is critical that the Inventory Asset is utilized to the maximum. The overall dollar value of the inventory and the turnover are both critical key indicators. The component part of the inventory that is non producing is also significant. This is the inventory that has either not sold in the last twelve months or as yet has never sold. The standard for this non-productive inventory varies but it is necessary that this inventory is held at or less than 10% of the total to reach the turnover standard of 4.0 times minimum.

Turnover is also reported in the scores section against standard. There are two measures for turnover. One is the gross turnover which is calculated in the normal manner. The other is true turnover. True turnover is calculated by multiplying the gross turnover times the stock order to total orders ratio. Some manufacturers call this the Order Efficiency. If the ratio is 60% of the dollar value of orders placed is on a stock order then you would multiply the gross turnover by 60%.

The Service Level Measures are in items and dollars. The item measure allows insight into the value of the inventory investment to the customer. The overall item service level standard should be at or above 80%. The dollar value measures are becoming more important as the OEM's apply incentives/penalties to the Dealers for holding an Ordering Efficiency level at or above a certain percentage of the purchases being on Stock Orders. The usual standard for dollar value service level from the OEM's is 60%.

In the section on scores Inventory Performance (INV PERF) is measured against the standard. Inventory Performance is the product of the Turnover times the Inventory service Level in Dollars or Items depending on the focus of the particular dealership. An illustration is when Turnover is 4.0 and Service Level

is 80%, the Inventory Performance is 320. There are many other areas that need to be isolated and controlled in a parts department and each dealership has a focus that is unique. As a result, the scorecards need to be customized to a particular dealership. Transportation recovery, personnel expenses as a ratio of sales, market share, discounts given are a few pther examples.

Gross Margin is critical in Parts as the dealership is very dependent on the margin in Parts to sustain a healthy, prosperous business. Either an approach similar to a Matrix Parts Pricing, or C3, makes the gross margin more variable and controllable. These tools provide significant contributions to the Gross Profit being maximized. All measures in the Parts Department are improved with a higher gross profit. We need to be able to reduce prices as well as increase gross profit. The result is market driven and we must become merchandisers. It is not good enough to continue to process orders and be in the “part number” business, dealers must get into the “parts” business!

Parts Operating Standards - New Parts, Used Parts and Exchange or Remanufactured Parts

<i>Sales/Employee</i>	\$480,000 - \$600,000 - \$720,000 (Annually)
<i>Net Income/Employee</i>	\$120,000 - \$150,000r - \$180,000 (Annually)
<i>Gross Margin</i>	30.0% - 35% (Dependent on Products)
<i>Sales/Employee</i>	\$480,000 - \$600,000 - \$720,000 (Annually)
<i>Net Income/Employee</i>	\$120,000 - \$150,000r - \$180,000 (Annually)
<i>Gross Margin</i>	30.0% - 35% (Dependent on Products)
<i>Department Expenses</i>	10.0% - 8% (Dependent on Gross Margin)
<i>Net Income</i>	20.0% - 27.0% (Dependent on above)
<i>Department Expenses</i>	33% of Gross Profit
<i>Department Net Income</i>	67% of Gross Profit
<i>Sales/Forecast</i>	+/- 5%
<i>Sales/Previous</i>	Varies due to Business Cycle/Market Share
<i>Net/Forecast</i>	+/- 5%
<i>Net/Previous</i>	Varies
<i>Stock Order Efficiency</i>	> 60% on stock orders
<i>Gross Turnover</i>	5.0 Times minimum
<i>True Turnover</i>	3.0 Times minimum
<i>No movement inventory</i>	< 10% of total
<i>Inventory Service Level</i>	> 80% on all items
<i>Inventory Performance</i>	> 320 minimum
<i>Personnel Expense</i>	< 7%
<i>Operating Expense</i>	< 2%
<i>Fixed Expense</i>	1% maximum
<i>Number of documents</i>	Dependent on the dealer
<i>Number of Part Numbers</i>	Dependent on the dealer
<i>Number of Pieces</i>	Dependent on the dealer
<i>Absorption Ratio</i>	> 60%
<i>Break-even Point</i>	Needs to be calculated for each dealer.
<i>Contribution to Total Sales</i>	> 25%
<i>Number of machines</i>	Needs to be calculated for each dealer.
<i>Average working hours</i>	Needs to be calculated for each dealer.
<i>Parts Potential</i>	Needs to be calculated for each dealer.
<i>Market Realization</i>	Needs to be calculated for each dealer.

Glossary of Terms

Sales/Employee

The total sales of the department for the year divided by the number of employees in the department.

Gross Profit/Salesman

This is the gross profit dollars earned in the department for the year divided by the number of salesmen in the department.

Net Income/Employee

This is the Net Operating Income earned for the department for the year divided by the number of employees in the department.

Gross Margin

This is the dollars of gross margin, the difference between the selling price and the cost of goods sold, divided by the sales price of the department.

Department Expenses

This is the total expenses, other than interest and other, for the department.

Net Income

This is the Net Operating Income dollars divided by the sales of the department.

Sales/Forecast

This is the difference between the actual sales to date and the forecast sales for the period to date expressed as a percentage.

Sales/Previous

This is the difference between the sales this year to date compared to the previous year to date expressed as a percentage.

Stock Order Efficiency

Expressed as a percentage this is the stock orders divided by the total orders placed to each supplier.

Gross Turnover

The total sales at cost for the past twelve months divided by the average inventory value over the same period.

True Turnover

The gross turnover multiplied by the stock order efficiency this measure reflects the turnover of an inventory by comparing it to the stock sales from the inventory.

Personnel Expense

This is the total cost of the employees in the parts department; Salaries and wages, overtime, benefits, holidays, pension payments, medical insurance, etc.

Number of Documents

This measure is the total sales documents created by the department.

Learning Without Scars



As a third-generation educator, it is easy to say that teaching and training are in the blood for Ron Slee. From his beginnings as a coach, through his time at McGill University, Ron developed a foundation for the work he does today.

Learning Without Scars provides comprehensive online learning programs for employees starting with an individualized skills assessment. These assessments allow us to then create a personalized employee development program. From their assessed skills, the employee is asked to select from classes designed for their skill level which allow them to address the gaps in their knowledge level. This allows the employees to move through four progressive categories of learning: Basic, Intermediate, Advanced and Expert.

Class References

- [Standards of Performance](#)
- [Best Practices](#)
- [Basic Management](#)

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Do You Know The Answer?

The major construction equipment companies are Caterpillar, Komatsu, Deere and Volvo.

Which one of those four was the first one founded?

Educational Resources

All of the resources listed below can be found on our website : www.LearningWithoutScars.com under the Resources menu.



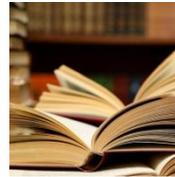
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This quarterly newsletter is offered for free. Please visit our website to sign up to receive industry specific information in areas such as parts, service and sales. We highlight some of the issues people face in their jobs. We ask that you share this newsletter with your peers.



We created a list of recommended books that have come across our table and that we thought you would enjoy reading. They are sorted by category and cover a wide range of topics to enhance your knowledge.



In collaboration with Reedz, we are offering educational audio tracks in multiple languages! We hope that you find the content engaging and beneficial to your work.



Your opinion is important to us! We are always looking to help people through engaging material. If you have a question or a specific topic you would like us to cover in a future newsletter, please email Ron ron@learningwithoutscars.com