



Who Has The Check Book?

The typical dealer has a very tight control over who has the checkbook and who can sign checks. This privilege is usually reserved for the Owner, General Manager, Controller and perhaps one other trusted long term manager. Many stores require two signatures to add another layer of security.

Pretty safe? Pretty secure? The cash is well under control.....

Upon closer inspection, we find the typical dealer has on average, at least 40 active check signers. Some as many as 150, some as few as 20, but all have many more than the owner and the bank have authorized or realized.

Every technician, every service advisor, every counterperson, every department manager and many wholesale customers are walking around with YOUR check book in their back pocket! And they're not afraid to use it.

How can this be? Enter the Special Order Part. A technician can walk up to the counter and order the most obscure part in the book, (whether they really need it or not), whip out your checkbook, write the check and like magic you just traded your cash dollars for the oftentimes obscure part that ends up not being used after all. Service advisors can do the same thing, sales managers can order tons of accessory items that may or may not get installed and sold, and we can even extend this privilege to the local body shops we deal with.

We have discovered that after the harsh reality that "we don't really need this part after all" sets in, that the time honored phrase "put it on the shelf, it will sell" does not work. All the hope in the world will not sell that obscure part that is not failing and that nobody wants.

One important fact to consider is that once you hit the button to transmit your order to the factory, it's a done deal. Your check has been cashed. The only way to manage out of this problem now is to actually sell the part (Plan A) or target it for return as soon as possible (Plan B). If you do even a casual survey, you will discover that only a small percentage of special order parts actually perform to Plan A. Roughly 50% to 60% of all special order parts end up as Plan B. So what is the problem with Plan B? You earn obsolescence credit to manage just this type of event. Yes you do, however, that obsolescence credit is designed to help manage Naturally Occurring Obsolescence along with a small percentage of unsold special orders.



How Much of This Inventory Do I Own?

A large majority of these Unsold Special Orders are very easy to recognize amidst that big pile of cash known as a parts inventory. Every part has a "Stocking Status" and the Unsold Special Orders will carry a stocking status of "NS" for Non Stock. Simply calculate the total value of NS (non stock) parts from your parts department management report (MGR for ADP and 2213 for R&R). You should have Less Than 5% of all inventory dollars in Non Stock inventory. Typically, any value over 5% has a very high probability of never selling. Anything over 5% should be targeted for return ASAP. The funny thing about these parts is that you do not have to wait for 12 months no sale to determine they won't sell. Once they have been on the shelf for 90 days or more, the chance that they will sell is near zero.

New Trends from the Manufacturers

The trend with all manufacturers is to reduce the amount of obsolescence credit and either not replace it at all or offer an alternative way to earn some of it back. (Purchase targets, CSI targets, program compliance etc.) Some dealers forget that this newfound "Gross Profit" is actually substituting for what used to be obsolescence return credit. If your franchise is offering this type of obsolescence credit replacement, make sure you are using it for its intended purpose if you need it. Otherwise, you will quickly find yourself awash in excess obsolescence and no way to get rid of it except to let it pile up or take the dreaded "Write Off".

Think about the math involved here. If you are receiving a generous 7% obsolescence credit on what you purchase, you must buy \$14,286 to earn \$1,000 of credit. If you are earning 5% then you need to purchase \$20,000 for every \$1,000 returned. The next time the local body shop wants to return that \$1,100 body panel that now all of a sudden they don't need, you have to purchase over \$15,000 to earn the credit to deal with that one part. Has that body shop been adhering to only returning an amount equivalent to the return allowance percentage? Or are they double or triple your own factory return rate?

Back to the Check Book

The problem here is that the possession of the company check book is essential to get the job done, for our customers and our profitability.



It is not feasible to insist that every special order be run through a purchasing committee to determine if it is legitimate and if we should spend company cash on this acquisition.

So we need to implement two very important processes. We need to make sure we have a committed customer for EVERY special order. **Commitment** is either payment in advance, holding the car hostage or at the very least a firm agreement to a service appointment sometime in the very near future to have that part installed. Absent one of these three, I would not order the part. Period.

The second element that must accompany every special order is an **Accountable Person**. Who wrote the check? They should own this order from cradle to grave. A regular review of special order parts which are in stock and are coming must be performed and the Accountable Person must take responsibility for every order in their "Book of Business". They must have a game plan in place to handle this purchase as a Plan A transaction. (remember Plan A is to actually sell the part). Of course we cannot rely on a consistent Plan A result if we don't engage the customer. Now we're back to the Commitment from the customer before we ever order the part. The Accountable person must get the commitment, just as a salesperson needs a commitment from a customer before we buy a new or used vehicle or perform a dealer trade for them.

Do yourself a favor. Determine your current level of unsold special orders on hand right now. Review all the check writers and take an inventory of all of your checkbooks floating around the dealership right now. Use the built in Special Order Process management function in your DMS (that means no handwrites, everything is in the system electronically). And hold every check writer accountable for every dollar they insist you spend on acquiring special order parts.

Do a comprehensive review of your wholesale business and target every customer who exceeds your earned obsolescence credit amount on the parts they have purchased.

The results are happier customers, (they get their parts installed and their cars fixed), a happier dealer, (no lost investment and wasted dollars) and happier employees, (they are not fighting about return parts, lack of accountability and dealing with huge returns). Then you can spend your money on parts your technicians really need to accomplish their job.