

CASE STUDY:

Consistent Parts Management = *PROFIT!*

A common question from dealers who are considering contracting with KEA Advisors is "How long should we expect this to take? The contract is for a year, but..." This Case Study is a recap of a 5 year-plus parts project that KEA Advisors performed for a large dealer group. The initial phase introduced practices and procedures that enabled the progress reported below.

The project began in January 2010. The deliverables were: increased true turns and first time fill rates, decreased obsolescence and increases in both dollars and percentage of sales and gross profit. Because of the level of detail provided, the dealer's name has been withheld. However, they regularly provide us with referrals and they love the competitive advantage provided by KEA Advisors' services.

Phase One of the engagement consisted of:

- Identifying and correcting process and DMS gaps in the parts department
- Building and utilizing a daily reporting and coaching process to instill operational disciplines
- Daily identifying process and operational processes and correcting
- Bringing consistency in customer pricing
- Building a standard operating manual and process for the parts department
- Building and implementing best practice DMS setups, reporting, etc.
- Identifying and building outside parts salesperson measures and accountability

Phase Two (ongoing):

Phase two consists of a daily reporting, monthly performance analysis and monthly group conference calls to review performance, identify performance issues and develop solutions. In addition, accountability for implementation of the solutions is instilled in the monthly calls.

The impact over the past five years has been as follows:

- An increase in monthly sales of over 30%
- An increase in monthly gross profit of over 45%
- An increase in monthly total gross profit % of over 2% points - from approximately 24.5% one year after completion of the initial phase of the project to 26.9% average month for the past six months.
- An increase in monthly physical inventory true turns (the comparison of cost of sales directly from inventory vs. inventory) of over .8 turns - from approximately 4.1 true turns one year after completion of the initial phase of the project to over 4.9 true turns average month for the past six months.



- An increase in monthly first time fill rate of over 5% points - from approximately 80% one year after completion of the initial phase of the project to over 85% in February 2015.
- A decrease in monthly frozen capital (actual inventory vs. guide inventory based on 7 gross inventory turns) of over \$420,000 - a significant decrease in GL to physical reconciliation variance on a monthly and annual basis.
- Significant accuracy improvement in on-hand counts.
- Significant accuracy in true demand data.
- Most importantly, the disciplines implemented in the project have stuck after the exit of KEA. This is the benefit that keeps on giving. Because of this, the overall estimated cash flow impact on the dealership is several million dollars annually over the life of the project. Or, to measure the improved performance in terms of the cost of KEA Advisors' services, the improved performance over the last five years is over a 2,000% return on total investment in KEA services. This does not take into account the reduction of obsolescence write-off, write-offs from poor GL to physical reconciliation, increased service department production because of increased back counter fill rate, etc. The project has paid itself numerous times over the cost and the implemented practices and procedures have stuck!

2000%
ROI

The dealership group has been patient with and diligent about the design and implementation of the best practices and unique process, setup and practices for their Parts Departments. The result has been a more focused Parts Management Team that leads their department on a daily basis.

The constant focus of the department is on customer service, profitability and inventory performance. The results, both financial and in customer satisfaction, have been significant as well as long lasting. Performance is consistently being evaluated and continuously improved.

