

Creating An In-House Parts Department



Parts are an integral part of your business. In fact, very little of your service business is done without them. That's why I think it's important that you consider developing an in-house parts department.

"How do I begin?" you ask. Just like a journey of 1000 miles begins with one small step, you start off small. We began our parts department with an order of 100 dollars. Our total parts inventory now runs in the six figures.

Why did we develop our parts department? We decided that the time we spent running to the parts store every few days could be better spent servicing our customers. It took a lot of time and experience to develop our parts department to where it is today. I'd like to share some of that experience with you. Also contributing to this article is Matt Jacobs, parts manager for an import specialty shop in the midwest. Matt's shop services two lines of vehicles, and has a parts inventory in excess of \$100,000.

The eight questions we answer here don't cover everything you need to know about parts departments. Rather, they serve as a springboard—a starting point from which you can go on to learn more about parts, and decide what type of a parts department you ought to have.

Should I Have a Parts Department?

Steve: Every repair shop should have a parts department, even if it's just a small one. You don't need a parts department to be in business, but if you want to better service your customers, and make more money on the parts you install, you should have one. Even if you're a general repair specialist, there are parts you use every day that you should stock. If it's just nuts and bolts, you're still saving time and money by having them on hand.

Let's look at some of the advantages an in-house parts department offers:

Lower Prices For Parts. One of the advantages to having a parts department is that you're buying in volume, so you're getting parts at a lower price. If you use 25 oil or air filters a month, and purchase them 100 at a time, you can get a much better price than if you purchase five filters on 20 invoices. Buying in volume to get a lower price—that's known as economy of scale.

Shop Efficiency. It costs you a lot of money to leave a car on a lift, and a technician standing idle while your runner drives five miles to pick up a one dollar bolt. If you had that bolt in stock, you could make the

best use of everyone's time and increase your labor sales. The quicker you can supply your technicians with the proper parts, the quicker the car can be delivered. Your lift and your technician are both freed up for another car. You've got more money to invest in more parts. This is called efficiency in the shop, and turn over in the parts department. Whatever you call it, it translates into more profits.

Customer Service and Convenience. I've got a customer who just drove his '89 BMW into my shop. One of the car's headlight bulbs burned out and the customer wants it fixed while he waits. Last year I noticed that the '89 BMWs used a new style headlight bulb, so I told my parts manager to keep at least three in stock. Because I've got the part in stock, I don't have to tell the customer that it's on order, or run around town trying to find the bulb while the guy wonders why in the heck someone in the repair business doesn't have a bulb for his car. Not having something as common as a headlight bulb in stock could drastically affect the customer's perception of my business. He might think to himself, "If he doesn't even have a replacement light bulb for my car, what happens when I need brakes? Or my engine needs to be repaired?"

By having a parts department, no matter how small, you're anticipating your customers' needs, and are better able to service both current and potential customers.

Matt: If you want to make more profits from parts, you need a parts department. You can control your profit margins on parts, depending on where you buy them. There's a fairly fixed upper end on how much you can charge for most parts, but the bottom end—how much you pay for parts, is wide open, depending where in the parts structure you're buying. We'll look more closely at the parts chain when we talk about where to buy parts.

Any repair business needs a parts department. It just depends what size is needed. And that depends on what type of business you do. If you specialize in one or two vehicle lines, you should stock parts for those vehicles. It enables you to have immediate turn around, service your customers better, and increase profit margins.

If you are a general foreign car repair specialist, you probably still have a pretty good idea what parts you use most often. And even if you don't know exactly what to stock, you should always stock a minimum of air, oil, and fuel filters, spark plugs, and tune-up items. Tires are also a commonly overlooked profit source.

If you want to make more money, you need a parts department.

How Do I Find Parts Suppliers?

Steve: I like to buy parts from local suppliers when possible. When I can't, I buy from coast to coast. How do I find suppliers? I literally dig them out. I look at

advertisers in trade and consumer publications, I consult the Automotive Parts and Accessories directory—I look anywhere that I think might have listings of parts suppliers.

(Editor's note: For information about the APAA 1989 Membership Directory, phone 1-301-459-9110.)

Once you've found several sources, they can connect you with others, depending on what parts you're looking for. Then it's a matter of picking and choosing your suppliers, something we'll talk about shortly.

Matt: Let's look at the traditional parts structure: Manufacturer ➔ Importer/WD ➔ Distributor ➔ Parts Store ➔ You. Generally, the further down the line you buy your parts, the more you'll spend. So you've got to do research to find out where you can enter the chain—who you can buy from. Read trade publications, go to trade shows to make personal contacts, consult the AT&T toll-free directory.

(Editor's note: You can usually find the directory at your local library. If not, phone 1-800-555-1212 to find out how to obtain your own copy.)

Ask other people in the industry where they're buying their parts. You find suppliers by reading, listening, and asking questions.

What Do I Look For In A Supplier?

Steve: Here are the three main criteria that I use to choose parts sources:

Quality. Sell and use only parts that are O.E.M. quality or better. Stay away from companies who would sell you plain brown wrapper parts of questionable origin. You can't afford the liability.

Price. Be careful of a price that sounds too good to be true. It usually is. Look for a supplier who will give you a fair price, and a liberal return policy. How do you know a fair price? You've got to be familiar with the parts market. Ask questions, and consult parts manuals. In time, you'll develop a knowledge of which prices are fair, and which aren't.

Availability. Does the supplier have the stock you need on hand? How quickly can he get parts to you? Is he easy to reach before, during, and especially after the sale?

I evaluate potential sources based on these three things. Then I judge them like my customers judge me, based on their: integrity, image, expertise, reputation, service, and longevity. Ask yourself the following questions about a supplier:

- Are the parts salesmen and counter people order takers, or are they professional parts people? A professional parts person has experience in the field, knows parts and their applications, and understands your needs. Find a professional parts person, and he's priceless.
- Does the supplier give you the "red carpet" treatment? Does he offer 30, 60, or 90 day terms? C.O.D.? You don't want to work with a supplier who makes you feel like he's doing you a favor.

- What types of support can a supplier provide? Most suppliers can provide you with product information, training, technical bulletins, return policies, and specials on parts and promotional items. Just ask.

One last thing. Be careful not to get locked into just one supplier. You need to develop a broad sup-

plier base so that you have a better chance of finding the part you need, when you need it.

Matt: We rated our suppliers beginning with the one who provides the best prices and best service, and ending with the one who provides the worst prices and worst service. When you're looking for a supplier,

you want to find one with excellent product, price, and service. If I find a company that's got a great product, is 30 percent cheaper than the parts store, and will ship immediately, I'll use them.

Ask yourself the following questions about companies when considering whether or not to buy from them:

- Do they stand behind their products? What types of warranties do they offer?
- Are the salespeople knowledgeable? Are they pleasant and easy to work with?
- Do they ship immediately? If they don't have the parts you need in stock, can they get them and get them to you quickly?
- Do they offer a no hassles return policy? Can you return dead inventory for credit?

How Do I Pay For Parts?

Steve: Start out with a small order—100 dollars or so. Your suppliers will offer terms, net 30, 60, or 90 days. At the end of that time, you can pay for the parts. If you don't have cash on hand, you may consider borrowing money from the bank to open up your parts department.

Matt: When we first opened, and weren't established yet, we had to order C.O.D. Now we've got open accounts, and are billed according to the supplier's terms—30, 60, 90, or 100 days net.

How Do I Know What Parts To Buy?

Steve: Start off small. You can order a beginning inventory of points, plugs, filters, distributor caps. Be sure to include a selection of washers and o-rings that you need to install other parts. A complete inventory of small hardware is essential.

Before you decide to expand your parts inventory, you need to know what to stock. Go through your invoices for 90 or 180 days and write down common part numbers. To get an accurate view of what you need to order, it's important that

you base your order on the 90 or 180 day sales history.

If you're in a part of the country where the season's change, be careful of seasonal parts. You don't want to be stuck with a large inventory of air conditioning parts in October, unless, of course, you can get them at a great price, and have got plenty of cash to spare. Remember you won't get a return on that investment for several months.

If this parts department becomes a full time venture, you ought to hire a full time parts person. If you've got someone working for you who knows parts—their applications, strong and weak points, replacement intervals, life spans—you've got an invaluable employee.

Matt: As I said before, if you're an import repair specialist working on only one or two vehicle lines, you know what parts you use, and how often you use them. Look at your invoices, and then order in volume so you can save money. If you're a general import repair specialist, you've probably still got a fairly good idea what parts you use most often, and need to order. Once you get your parts department going, hire a parts man, and get organized, you can keep track of inventory so you know when and what to reorder.

How Do I Store And Organize Parts?

Steve: A well organized inventory is a must. You can't sell it if you don't know you have it or can't find it. Stock should be neat, clean, and easy to locate. Stock that's strewn everywhere, and is dirty and dusty is a sure sign of mismanagement.

To keep current on part numbers and prices, we use either microfiche or a laser disc. Those bulky parts books take up too much valuable space. We've got current parts information at our fingertips, so we can quickly organize and price parts.

Once your parts department has

expanded to a point where it's difficult to keep track of it manually, a computer can be an invaluable tool. You can use a computer program to tell you how much stock you've got, how much you need to order, even how much you've made on a part. It can also keep you from losing money on parts.



One more thing, while we're on the subject of today's technology. I've found that a fax machine is an invaluable tool for locating parts. Since we're an import repair specialist and do repair work on some rare and exotic cars, we need some strange parts at times. When we do, we fire off a fax to every supplier we think may have the part. If we're not sure what the part number is, and can't really describe it, we can even draw a picture of the part and fax it.

Whether it's used for locating hard to find parts, or doing something as simple as placing a stock order, a fax machine can save you hours of phone time.



Matt: If it's a small inventory, you can place divided bin boxes on shelves and identify them by part number, cost, and supplier. You can also label the bin boxes by location. For example, shelf A, section 1, box 1 could be A11. Then write up index cards with the part number, quantity, cost, supplier, reorder criteria and location label of the bin.

As your inventory gets larger, you'll want to get a computer to manage it. (Editor's note: For a more in depth look at automotive computer systems, refer to the *Computer Basics* articles in the July and August 1988 issues of *Import Service*.) Whether you use index cards or a computer, the quality of your inventory will only be as good as the records you keep. Updating on a regular basis (every time you pull a part out of stock and use it) is a must.

The key to making money from parts is organization. Unless you're organized, your parts department can be more hassle than it's worth, because you don't know what you have, what you need, or even how much you paid for it. So you can end up selling parts for less than you paid for them!

How Do I Price Parts?

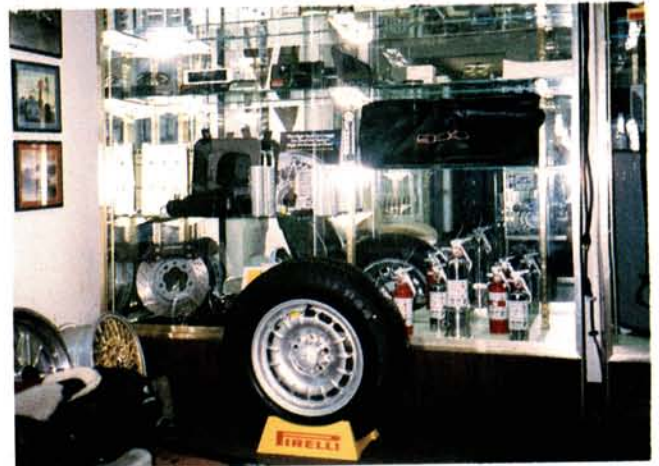
Steve: Your market and your perceived value will determine your selling price. How much are your competitors charging for a part? Call around. Ask your parts suppliers. You'll find that there's a slight variance in retail price, but not much. Your selling price is controlled by your market. If you're perceived to be the best in town, your price could be a bit higher than elsewhere. For fairly common parts/services, your customers will probably have a good idea how much they

expect to pay. So you've got to stick pretty close to that price. If it's a small part, like a nut or a bolt, you may be able to mark it up more than other parts. Mainly, though, the purchase price determines your profit potential. The cheaper you can buy quality parts, the more money you'll make from them.

Matt: How much you can charge is based on the competition. If you're in a specialty market, you've got to be competitive with the dealer. Know your market—how much parts are worth. If you ask around, you'll find that people can give you an idea how much parts are going for. It's the non-competitive items that you can mark up. We may take a 200 percent markup on a 15 cent bolt, since the customer doesn't perceive it as an expensive part to begin with.

What About Accessories?

Steve: Accessories are the frosting on the cake. While there's a fairly steady demand for the hard parts, the demand for accessories is less stable. You have to make an effort to sell accessories. Display accessories so your



customers can see them. Whether you sell parts or accessories, you're selling your customers the service and convenience you can offer by having them in house.

Tires can be viewed as either an accessory or a repair/maintenance item. Your customers either need tires, or they want to upgrade. Either way, you've got to sell them. Let's say Mr. Smith's car is on the lift for a brake job. You notice the rear tires are almost smooth and the front tires are worn to the steel belts on the inside. It's an immediate opportunity to sell four tires and an alignment.

Matt: Accessories are a nice way to make extra sales. They don't sell themselves, like essential repair parts do. To make money on accessories, you've got to sell them and display them. Don't go overboard on accessories, though. There's more demand for essential repair parts, and it takes less effort to sell them.

—By Steve Louden