accessories. Any optional product provided for comfort or convenience that does not affect the operation of the vehicle.

acquisition costs. Expenses associated with acquiring goods for inventory. Common examples of these costs are order processing, order input, lost discounts, and receiving time.

advertising. The communication of a message via a paid medium (e.g., newspaper, radio) by an advertiser to encourage consumer purchase of a product or service.

after-market parts department. Any parts department that is not franchised by a vehicle manufacturer but that provides parts and accessories to supply customer needs.

availability. See level of service.

back order. An order placed on parts that the supplier is unable to ship due to a shortage but that will be shipped in the future when available.

batch system. See pad system.

best reorder point (BRP). The number of days supply at which the inventory control system triggers a suggested order.

best stocking level (BSL). The level of inventory, in days supply, essential to meet existing demand without causing excess stock.

bin. A storage space for a specific part. A bin can hold different quantities of parts but should not contain items with different part numbers.

bin checks. A method of checking inventory accuracy by verifying that the on-hand quantity of all parts matches the quantity listed in the inventory control system.

bin location. An exact position (as designated by a symbol—usually numbers, letters, or both) in a warehouse, used for identifying and locating the physical storage place of an item.

bin location system. A systematic method of storing and retrieving parts in a warehouse based on the locations of parts in various bins.

blind items. Unusual products that customers buy to meet an immediate need with little regard for price (e.g., interior trim items or other parts and accessories available only from a specific source).

capital expense. An expenditure made to acquire a capital asset (e.g., additional warehouse space, delivery trucks, or inventory purchases).

capital resources. The money, materials, tools, and systems used in business.

captive items. See blind items.

catwalk system. A mezzanine system constructed by stacking additional bins on top of existing bins, with walkways and a stairway for access.

central processing unit (CPU). The part of a computer system that contains all the circuits required for interpreting and executing instructions.

competitive items. Products that comprise the majority of items sold in a retail parts store. Customers are uncertain of what a good retail price should be for these products, but they usually shop for the best possible price. Alternators, starters, tires, water pumps, and fuel pumps are some examples of competitive products.
cooperative (co-op) advertising. Advertising that is shared with and subsidized by another firm.
cost break. An inventory control method for increasing or decreasing inventory levels by adding to or subtracting from days supply using part cost as the basis.
counter person. An employee in a parts department whose primary job it is to identify, sell, order, and suggest the correct parts, accessories, and related products to satisfy or meet customer needs. See also specifier.
critical orders. Orders submitted to suppliers by the parts department for customer parts needed sooner than those placed on a stock order. Critical orders generally have penalties, such as shipping charges and no obsolescence accrual.
CRT (cathode-ray tube) terminal. A computer terminal similar to a TV or with a TV-like screen and an attached typewriter-like keyboard for entering instructions and data.
days supply. The amount of inventory required to support parts sales for a specified number of days.
dealer-franchised parts departments. Parts departments that are part of organizations franchised under a contract between a dealership and a vehicle manufacturer.
demand. A request for a part by a customer.
divider. A device, usually fixed or adjustable, for keeping parts with different part numbers separate on shelves.
DOC (daily operating control) sheet. A report based on the previous day’s transactions indicating the department’s progress toward the month’s objectives.
do-it-yourself products. Products and information specifically targeting customers that prefer to repair and maintain their own vehicles.
double-deck system. A mezzanine system consisting of a floor constructed on top of existing bins to provide space for additional storage.
80/20 rule. A general marketing rule stating that 20 percent of an inventory produces 80 percent of the sales, while the other 80 percent of an inventory produces only 20 percent of the sales. While this rule is not strictly accurate, it does offer insight into the movement of parts in an inventory. A parts manager must be aware that very few parts can account for the majority of sales.
emergency purchase. A part purchased by a parts department from any available source to make an immediate sale or to fill an immediate need. Emergency purchases are the most expensive way of acquiring inventory.
employee turnover. The termination or voluntary departure of existing employees and the hiring of new employees to replace them.
expenditure. Money spent to acquire something for a business.
facing depot. A vehicle-manufacturer-owned warehouse that a dealer-franchised parts department is required to submit its parts orders to.
fast-moving parts. Parts usually in the low to medium price range with high demand and high movement, making up most of the sales action. Spark plugs, air filters, fuel filters, and fan belts are some examples of fast-moving parts. It is not the product type but the frequency of demand that identifies a fast mover. See also the 80/20 rule.
fill rate. The amount of parts initially shipped by the supplier to fill a parts department’s order. For example, if a department orders 100 different parts on the stock order and the supplier back orders 10 and ships only 90, the fill rate would be 90 percent.
goals. The aim or ultimate end of the parts department’s combined efforts and objectives.
gross profit. The selling price minus the cost of the part. Can also be defined as the profits before any operating expenses are subtracted.
gross turns. A measure of inventory performance calculated as a ratio of average inventory to total cost of sales over a given period.
guides. The parameters set up in the inventory control system for calculating order quantities and days supply.
holding costs. Expenses associated with storing inventory, such as real estate and equipment expenses, interest on money invested in inventory, and labor used to maintain inventory.
human resources. All of a department or business’s available employees and their skills.
immediate purchase. See emergency purchase.

income statement. Often referred to as the financial statement, the income statement is a report of income and expenses for a specified period of time.

in-house-computer system. An inventory control system controlled by a computer located on the premises.

inventory. Any supply of goods that a company stores for use or sale. In a parts department, the inventory usually consists of the parts and supplies in stock.

inventory control. The means by which inventory transactions are processed and inventory records are maintained to determine future product needs.

inventory evaluation. The process of assessing the effectiveness of an inventory.

inventory management. Using inventory control information to purchase and stock products in the correct quantities and at the right time to maximize profits and customer satisfaction.

inventory turnover. A means of measuring parts movement through the inventory. See also gross turns and true turns.

invisible holding costs. The costs of holding inventory that reduce profit-earning potential, usually resulting from high obsolescence (e.g., a low inventory turnover resulting in a loss of gross profits, stock order discounts, and earned obsolescence return reserves).

job description. A written, detailed list of duties, responsibilities, accountability, and expected results for a given job.

Job Instruction Training (JIT). A method of training developed during World War II by the War Manpower Commission and consisting of a four-step process, with each step broken down into detailed stages.

lead time. The amount of time between when a parts department receives a part and when the part is added to stock.

level of service (availability). The percentage of parts supplied directly from inventory. It is found by taking total demands filled from stock for a given period less any parts supplied from critical orders or emergency purchases divided by total demands, including lost sales for the same period.

list price. The regular selling price of a part, not discounted; the retail price.

lost sale. A part not in stock which you offered to obtain but the customer decided to purchase elsewhere. Recording lost sales is one of the most important strategies for building a well-stocked inventory.

mainframe. See central processing unit (CPU).

management. The ability to obtain desired results by the effective use of available resources.

management by objectives (MBO). A managerial approach that advocates using the most efficient means for the purpose of achieving or attaining objectives that are clearly stated.

management report. A monthly computer-generated report, usually produced at the end of the month, of financial and inventory activity for the parts department.

manager. One who manages a department or business through planning, organizing, directing, motivating, coordinating, and controlling.

marketing. Performing various business activities to direct the flow of goods and services from producers to consumers to meet customers' needs and achieve the company's goals.

merchandising. The use of in-store, point-of-purchase displays and arrangements to encourage or entice customers to purchase a product or service.

mezzanine system. An added area of storage space above an existing area. See also catwalk system and double-deck system.

net profit. The profit left after all operating expenses are subtracted from the gross profit.

nonstock testing. A method of adding part numbers with no on-hand quantity to the inventory control system to observe their movement and activity by recording requests for these parts to determine if the parts should be stocked. Nonstock testing facilitates lost sale reporting because the part numbers of unstocked items exist in the inventory system. Part numbers for nonstock testing should comprise at least 25 percent of the
Glossary

total part numbers in an inventory control system. Common examples of test parts include new model parts or parts suspected of having stocking potential.

objectives. Lesser or secondary goals that make up the necessary steps to attain a primary goal.

obsolescence. A reduction in the value of inventory due to a decline in demand, a design change, a technology change, or any other circumstance causing the item not to sell.

on-line computer system. An inventory control system that uses computer terminals linked to a distant mainframe computer by communication lines or satellite dish, allowing instantaneous updating of inventory transactions. The computer of an on-line system is usually shared by many users subscribing to the system.

order allowance. Discounts by a supplier as an incentive for using a certain order type for ordering parts. Allowances are usually only given on stock orders.

order cycle. The amount of time between when a demand or sale is recorded and when a replacement is available for the next sale.

order frequency. How often an order is generated (e.g., every seven days or every fourteen days).

order guides. See guides.

order indicators. See guides.

order type. The method of how an order is placed with the supplier. See stock order, critical order and emergency purchase.

original equipment manufacturer (OEM) parts. Genuine parts and accessories supplied exclusively by vehicle manufacturers through authorized dealers and distributors, or any part and accessory recognized and authorized by the manufacturer as a suitable replacement.

overhead expenses. Those expenses not affected by the level or volume of sales (e.g., rent, real estate taxes, insurance, and so forth). Also called fixed expenses.

pad system. An inventory control system in which all part numbers are sorted by computer and printed on a pad in numerical order. All inventory transactions must be recorded manually on the pad each day. The updating of all information is then performed by the system vendor.

parts department. A division of a larger organization or a separate establishment in the business of providing replacement or spare parts and accessories.

parts life cycle. The useful and profitable life of a part; the time from when a part, due to demand, first enters the inventory to when, due to a decline in demand, it should no longer be reordered and stocked.

percentages. Expressions of arithmetical proportions.

per job. A method of setting inventory control guides to reorder parts according to the quantity necessary for completing a repair when more than one of the same part is required.

perpetual card system. A system of inventory control in which each part number is listed on an individual card. All transactions involving that part number are then recorded on the card each day.

perpetual inventory. A method of taking a physical inventory by continuously counting the on-hand quantities of parts in bins and making the appropriate adjustments in the inventory control system and the accounting records. See also bin checks.

personnel expenses. Expenses related to employee compensation and benefits. Considered an operating expense.

phase-in. The point at which a part, due to demand as indicated by established inventory system guides, begins to be physically stocked.

phase-out. The point at which a part, due to a decline in demand as indicated by established inventory system guides, is no longer stocked or reordered.

physical inventory. A physical count of the entire inventory, usually once a year, for the purpose of reconciling the inventory with accounting records and the inventory control system.

planned purchases. Purchases made from principal suppliers on a regular or scheduled basis.

planograph. A diagram used for planning and showing each storage unit with parts in position along with available spaces.
policies. The operating standards, rules, and regulations of the parts department and organization.

price escalation. A method of fine-tuning profit margin by applying higher and/or lower markups to parts based on their costs.

printer. A computer peripheral, similar to a typewriter, that produces a hard-copy printout of computer data. Printers are controlled by the central processor.

procedures. The instructions associated with performing or fulfilling a job or task. Procedures can outline the action, conduct, or behavior necessary to comply with a policy.

procurement stamp. A rubber stamp used on packing slips and payable invoices to provide orderly and systematic recording of receiving and posting information.

profit and (loss) statement. See income statement.

promotion. An event used to increase floor traffic within the store (e.g., a 20 percent discount on all tune-up parts, a free oil filter with the purchase of oil, and so forth).

purchase order. The agreement used between purchaser and vendor to acquire goods and services.

purchase policy. The plan and procedures established for the orderly purchase of inventory.

quantity unit packaging. Parts supplied by the vendor in packages of two or more pieces only (e.g., oil filters packaged ten to a case and available for order from the vendor only by the case).

ratio. A relationship between two similar things; a proportion.

receipts. Any goods purchased and received into the inventory.

reserve stock. See safety stock.

retail price. See list price.

safety stock. A “cushion” of excess stock kept on hand to sustain sales in the event of unexpected occurrences or increases in demand and to allow for the delivery distance from the supplier to the parts department.

sale matrix. A method of assigning specific pricing to specific customers (e.g., invoicing all retail and service department customers at the full retail price, all wholesale customers at a 25 percent discount, all internal sales at cost plus 35 percent, and so on).

selling price. The price a part was actually sold for.

semifixed expenses. Operating expenses affected by and necessary for day-to-day department operation. Most semifixed expenses can be controlled.

shelving unit. Multishelved storage units for part bins and parts.

slow-moving parts. Parts of low to high dollar value with low or no demand or movement, such as interior trim parts; anything that is not a fast-moving part. See also the 80/20 rule.

software. The total of the program instructions and routines usable on a particular computer. Also, one or more programs and procedures involved in the operation and maintenance of the computer system.

special order form. The form used to record all customer, vehicle and special order part information.

special order. A demand for a part not on hand or not yet stocked in the inventory but placed on order for the customer.

specifier. Another term for the parts counter person who, with the use of parts reference information, looks up and identifies the replacement parts requested by customers.

stock order due date. The specified day on which a stock order is due to the supplier. Due dates usually only apply to stock type orders.

stock order. An order submitted to the supplier by the parts department for the regular replenishment of inventory.

superseded part. A part no longer supplied due to replacement by a new or improved version. Superseded parts are either sold until the existing supply is exhausted or, because of their inferior design, are not recommended for use, pulled from the shelves, and immediately replaced with the new version.

total handling costs. The total costs incurred when acquiring inventory.

traffic-builder items. Fast-moving items familiar to customers both in product and price; used as leaders and priced with low profit margins to build floor traffic.
true turns. A measure of inventory performance calculated as the ratio of average inventory to stock order purchases. True turns offer a more accurate measurement of inventory performance than gross turns because critical orders and emergency purchases are omitted from the calculation, leaving purchases for stock replenishment only.

**tub file system.** See perpetual card system.

**unplanned purchases.** One-time purchases from random suppliers or purchases made to fill an immediate need.

**value qualifier.** The attributes and features of a product that help to determine if the product is a good stocking item (e.g., market recognition, quality, fit, finish, and so on).

**visible holding costs.** The costs of holding inventory that directly reduce profits (for example, utility expenses, storage expenses, personnel expenses, and taxes on inventory).

**warehouse distributor.** The intermediary that supplies parts, normally to aftermarket parts department and jobbers.

**working capital.** The money in a business used on a daily basis to produce profits.
Case Study

You have just been hired as parts manager for a moderate-sized parts department at a local multifranchised automobile dealership. As you sit in a meeting with the owner, he tells you that over the past year the parts department has not been very profitable, and he has been receiving a lot of complaints both from customers and from other departments in the organization. He gives you the year-to-date financial statements plus some management reports. He then tells you that he will meet with you again in two weeks to discuss the problems you have found and how you plan to correct them.

When you finally arrive and settle in as parts manager, you make the following observations:

- The staff consists of nine employees: four counter persons, one outside wholesale sales person, two permanent delivery drivers, and two shipping and receiving workers. One of the shipping and receiving employees also doubles as a runner for local pickups. Occasionally, there is arguing among the counter persons, and the permanent shipping and receiving person is frequently late for work. The drivers complain that because their trucks are loaded in the morning, late starts for deliveries are frequent, meaning that they often can’t make deliveries on time or have to work overtime.

- There is no permanent assistant parts manager. Whenever the previous parts manager was away, he would appoint Janet, one of the counter persons, to oversee the department. In fact, she had been basically running things until you arrived. She used to work as a parts manager at a local after-market parts store. Janet seems to be on the ball, but she is also quick to criticize other department employees.

- Although a powerful in-house computer is used for inventory control, you discover that it is underused and abused. You notice staff members not using routine functions to their fullest potential and frequently overriding some programming. You have no doubt that properly used, this system could not only efficiently control the inventory but would provide a wealth of management information. Unfortunately, the previous parts manager had senior management and the owner convinced that most of the information obtained from the system was erroneous. For this reason, most figures were re-entered into a personal computer to produce accurate reports, clearly resulting in a duplication of effort.
The previous parts manager did not receive DOC reports on a regular basis and would see a financial statement only occasionally. No information about department performance was shared with staff members, and they seldom, if ever, took part in developing departmental objectives.

A complete physical inventory had been conducted a month earlier, which was the end of the year. It resulted in a shortage of $22,000 after price adjustments. The inventory was unaudited. Physical on-hand quantities did not agree with system quantities. Spot bin checks revealed an error rate of 40 percent.

The total parts inventory represented three franchises. Although all parts were stored at the same facility, they were stocked separately by vehicle make and in numerical sequence by part number. No detailed bin location system was used; shelving units were only numbered to identify the franchised parts they contained. As a result of this arrangement, two problems were obvious: space use was inefficient, and fast-moving parts were not easily accessible.

No designated area was set aside strictly for shipping. Parts were frequently misplaced or mixed in with incoming freight.

The outside wholesale representative visited accounts at random, with little or no planning. He prepared no daily itinerary, so once he left, his whereabouts were unknown unless he happened to call in.

Parts for deliveries were being picked and loaded by the drivers. Once on the road, drivers seldom called in for additional instructions or stops.

When you review the parts management reports and other financial data, they reveal the following:

**Inventory Profile**

- Total parts inventory: $455,000.00
- Stock order purchases (average per month): $57,000.00
- Emergency purchases (average per month): $40,000.00
- Critical orders: included with emergency purchases
- Level of service: 77 percent
- Gross turnover: 3.7
- True turnover: 1.5

Inventory obsolescence:
- no sales 10 to 12 months: $19,500.00
- no sales 12 months or more: $98,000.00

**Sales Profile**

- Total sales (average per month): $180,000.00
- Total gross profit (average per month): $36,000.00
Lost sale reporting:
- pieces per day average: 2 to 3
- average dollar amount per month: $107.95

Make a list for the owner of all the problems you can identify in this parts department. What changes would you recommend to the owner? Why? What steps would you take to make the changes? Why?
The works listed here have been found useful by the author in developing an overall understanding of the entire parts management process. This bibliography by no means represents all works consulted in the writing of this book.


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