



# **Forecasting Obsolete Inventory**

Inventories age. You've used your return allowance to throw away all your obsolescence but it keeps coming back.

# What do you do now?

Many Dealerships have to accrue funds to offset the new obsolescence created each month by an aging onhand.

If you're going to do this you need to know how much to accrue and where to get it from.

# Technical Obsolescence

## How much:

**#1:** You need to know your technical obsolescence (your parts on-hand that are “7 to 12 months” no sale or the “7 to 12 months” no receipts value; whichever is greater) and then divide that number by 6 to get an idea of how much your obsolescence is growing each month.

**#2:** Find out how much you are earning in Manufacturer return reserve each month.

**#3:** If **#2** is not greater than **#1** you will need to accrue the difference and use that amount to scrap obsolescence each month moving forward (*see chart on the next page*).



This Chart shows how a Dealer with \$44,790 in technical obsolescence will still have \$14,790 more in obsolescence 6 months from now even though they receive \$5,000 a month in Manufacturer Return allowance

Month	Technical Obsolescence	Manufacturer Return Reserve	Difference
<i>Jul</i>	\$7,465	\$5,000	\$2,465
<i>Aug</i>	\$7,465	\$5,000	\$2,465
<i>Sep</i>	\$7,465	\$5,000	\$2,465
<i>Oct</i>	\$7,465	\$5,000	\$2,465
<i>Nov</i>	\$7,465	\$5,000	\$2,465
<i>Dec</i>	\$7,465	\$5,000	\$2,465
<b>Total</b>	<b>\$44,790</b>	<b>\$30,000</b>	<b>\$14,790</b>

# Where to accrue more

## **Increase Retail Matrix Escalators**

Review the current retail matrix escalator strategy for the potential to expand or increase retail sales gross profit.

Warning: Sometimes the matrix escalators are too high and/or only a small percentage of retail sales are actually matrix priced.



## **Tweak Maintenance Items Upward**

Look at all fast moving maintenance sales and what the profit percentages are for these items.

Suggestion: Our experience shows that almost all fast moving maintenance items could be adjusted upward without taking you out of your competitive pricing.

## **Review Wholesale Customer Discounts**

Not all wholesale customers are alike, even between mechanical and collision customers (see *our Wholesale Business Ebook*).

Suggestion: Reduce Discount to mechanical and collision customers that pay slow, return too much, or require a lot of work to maintain.

## **Review Internal Pricing Strategies**

To increase internal mark-up percentages one or two percent can go a long way in increasing gross profit and accrual dollars.

Suggestion: Be fair, be realistic, but don't be afraid to pass on the cost of controlling obsolete inventory aging!

# What we do

**We have the tools and systems to get your DMS to do what you want it to do.**

- Getting your DMS to work efficiently takes more time than any one manager has
- Reporting that takes the guesswork out of managing the DMS
- Saves Parts Managers 4-6 hours a week
- Takes your inventory from reactive to proactive



## How?

With remote access, we implement proven DMS and manufacturer specific setups to give you exceptional control over your parts inventory and pricing.

Our system analyzes every single part daily with any source and pricing changes carried out automatically.

Timely and accurate reports validate results and drive the process.



# The Results

**20% less total inventory**

**50% higher ROI**

**20% increase in parts sales**

**15% less idle inventory**

PartsEdge is the perfect mix of human and robot. They will automatically optimize inventory based on the data AND they also take personal input from the everyday operations to create a hybrid of human and computer.

**Jeff Denis, Parts Manager Marcotte Ford**

In one year we have reduced total inventory by 35% while our productive inventory increased and obsolescence reduced by 58% and our technical obsolescence by 72%.

**Greg Dimond, Parts Manager**

With the tools offered by PartsEdge, I doubled my monthly gross profit dollar total within 16 months.

**Jason Boyd  
Parts Manager at Tate Branch Auto Group**

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