

Are You Making Any Money on Wholesale Parts

Making a profit on wholesale parts is becoming the most challenging task within the Fixed Operations. Many items are affecting dealership abilities to make money on wholesale parts. Aftermarket suppliers are flooding the market with "Taiwan Tin", Wholesale buyers are using computers to source not only parts but parts prices and Insurance Companies are doing everything they can to hold down the body shops mark up on parts. So, the parts managers who used to enjoy a 20% margin on wholesale parts now find themselves trying to hold on to a 12% gross margin. I really do not see this improving either. All the time I hear about a new dealership parts manager who is trying to "BUY" more wholesale business and they are doing this by offering ridiculous discounts to anyone who will buy from them without any regard to how much the account buys or how often they buy.

Many Dealership Parts Managers are pursuing the wholesale parts business only to find that it has a negative impact on departmental profitability plus a major impact on parts inventory investment. Many Dealers think their parts wholesale operations are profitable, when in reality it is only exchanging dollars between the manufacturers and the end users. Successful Dealers need to know how profitable their wholesale parts operations are at all times.

I have developed a spreadsheet that will calculate for you how much profit your wholesale operation is generating and the net return on wholesale sales. If you would like a copy of this spreadsheet e-mail Larry@edwardsconsult.com ask for the Wholesale Parts Profit Spreadsheet (this is free to subscribers). In order to use this spreadsheet, input your financial statement numbers into the input sheet. Then click on the recap sheet and it will show you how much money you are making on wholesale parts sales.

An expense item that is not factored into this spreadsheet is the carrying cost of wholesale parts inventory. You need to take your investment in wholesale parts and figure the interest cost of carrying this much money in inventory and subtract this from your net profit to determine your true net gains on wholesale parts.

Then you need to look at the dollars invested in wholesale inventory and ask yourself, could these dollars work more effectively in some other part of your business.

If you run the numbers and find that you are merely exchanging dollars in your wholesale operation. Please, do not make any snap judgments. Look at your operation and determine, what can be done to improve profits. Do not make a hasty decision to get out of the business until you have exhausted all efforts to improve the return on your investment first.

In my June newsletter I outlined some steps you could take to improve your gross margins. Try these first. Also, look at your expenses and see if you can reduce your operating costs. Can you cut back on the number of delivery trucks? Can you reduce your delivery cost? Can you improve your sales per employee?

If you are not profitable, you will be much better off trying to improve margins and reduce cost than trying to cut your losses and get out of the business.



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