



The Parts & Sublet Sales Division

The Parts & Sublet Sales Division of your shop takes care of itself when you effectively manage the time-selling Labor Sales Division of your shop. Parts and sublet items are your “time-selling tools,” but not what you sell to customers. Time is what you sell to customers. The Parts and Sublet Sales Division essentially “goes along for the ride.” When you manage your shop in this manner, you will no longer allow parts profits to be stolen away to subsidize a poorly managed Labor Sales Division. Instead, you will retain the profits you deserve and be able to allocate profit funds for things such as:

- Entrepreneurial profit allocation (your payoff over and above your salary)
- Owner’s retirement fund.
- Funds to reinvest into the business (reserve fund – 6 months minimum).
- Incentive bonuses and/or profit sharing.
- Technical, non-technical, and management training.
- New equipment planned.

THE CRITICAL SUCCESS FACTORS OF THE PARTS & SUBLET SALES DIVISION

The Critical Success Factors of the Parts & Sublet Sales Division are:

1. Parts & Sublet Gross Profit Percentage
2. Allocation of Parts & Sublet Gross Profit
3. Inventory Turnover Rate

Parts mark-up is typically 100% (\$8.00 charged for \$4.00 cost). While that would look like a 50% gross profit on parts, the actual comes out less (38% nationally) because of such things as:

- Returns on which the shop can’t recover costs.
- Obsolete inventory.
- Breakage and inventory shrinkage.
- Sublets are included with parts (can’t double the cost of a tow truck or machine shop bill).
- Parts purchased from an OE dealership cost more and are hard to mark-up at the normal rate.

PARTS & SUBLET ANALYSIS

GOAL: 60% margin on parts / 35% margin on sublet.

The *Parts & Sublet Analysis* form on the next page enables you to determine the Gross Profit dollar amount and percentage for parts, sublet and parts and sublet combined.

Parts & Sublet Analysis

CALCULATED FOR: <input type="checkbox"/> DAY <input type="checkbox"/> WEEK <input type="checkbox"/> MONTH <input type="checkbox"/> YEAR				DATE: _____	TO _____
\$ _____	Parts Revenue	\$ _____	Sublet Revenue		
- \$ _____	Parts Cost	- \$ _____	Sublet Cost		
= \$ _____	Parts Gross Profit	= \$ _____	Sublet Gross Profit		
+ \$ _____	Parts Revenue	+ \$ _____	Sublet Revenue		
= _____	% Parts Gross Profit % <i>Goal 60% of Parts Revenue</i>	= _____	% Sublet Gross Profit % <i>Goal 35% of Parts Revenue</i>		
\$ _____	Parts Revenue	\$ _____	Parts Gross Profit		
+ \$ _____	Sublet Revenue	+ \$ _____	Sublet Gross Profit		
= \$ _____	Parts & Sublet Revenue	= \$ _____	Parts & Sublet Gross Profit		
		+ \$ _____	Parts & Sublet Revenue		
\$ _____	Parts Cost	= _____	% Parts & Sublet Gross Profit %		
+ \$ _____	Sublet Cost				
= \$ _____	Parts & Sublet Cost				

Parts & Sublet Analysis

CALCULATED FOR: <input type="checkbox"/> DAY <input type="checkbox"/> WEEK <input checked="" type="checkbox"/> MONTH <input type="checkbox"/> YEAR				DATE: <u>10/1</u>	TO <u>11/1</u>
\$ <u>23,150.00</u>	Parts Revenue	\$ <u>2,000.00</u>	Sublet Revenue		
- \$ <u>11,200.00</u>	Parts Cost	- \$ <u>1,500.00</u>	Sublet Cost		
= \$ <u>11,950.00</u>	Parts Gross Profit	= \$ <u>500.00</u>	Sublet Gross Profit		
+ \$ <u>23,150.00</u>	Parts Revenue	+ \$ <u>2,000.00</u>	Sublet Revenue		
= <u>52%</u>	Parts Gross Profit % <i>Goal 60% of Parts Revenue</i>	= <u>25%</u>	Sublet Gross Profit % <i>Goal 35% of Parts Revenue</i>		
\$ <u>23,150.00</u>	Parts Revenue	\$ <u>11,950.00</u>	Parts Gross Profit		
+ \$ <u>2,000.00</u>	Sublet Revenue	+ \$ <u>500.00</u>	Sublet Gross Profit		
= \$ <u>25,150.00</u>	Parts & Sublet Revenue	= \$ <u>12,450.00</u>	Parts & Sublet Gross Profit		
		+ \$ <u>25,150.00</u>	Parts & Sublet Revenue		
\$ <u>11,200.00</u>	Parts Cost	= <u>50%</u>	Parts & Sublet Gross Profit %		
+ \$ <u>1,500.00</u>	Sublet Cost				
= \$ <u>12,700.00</u>	Parts & Sublet Cost				

ALLOCATION OF PARTS & SUBLET GROSS PROFIT

The *Allocation of Parts & Sublet Gross Profit* form enables you to divide the Gross Profit dollars among various business and personal growth areas.

GOAL: Percentage breakdown represented in example below.

Allocation of Parts & Sublet Gross Profit

CALCULATED FOR: DAY WEEK MONTH YEAR DATE: _____ TO _____

\$ _____ Parts & Sublet Gross Profit

ALLOCATIONS OF PARTS GROSS PROFIT FUNDS

\$ _____ % of Parts GP: Entrepreneurial Profit Allocation (over and above salary)

\$ _____ % of Parts GP: Funds to Reinvest in the Business (Reserve Account)

\$ _____ % of Parts GP: Owner's Retirement Fund

\$ _____ % of Parts GP: New Equipment Planned

\$ _____ % of Parts GP: Training Classes (Technical, Non-Technical, and Mgmt)

\$ _____ % of Parts GP: Incentive Bonuses and/or Profit Sharing

\$ _____ % of Parts GP: _____

\$ _____ % of Parts GP: _____

\$ _____ % of Parts GP: _____

\$ _____ % of Parts GP: _____

\$ _____ % of Parts GP: Miscellaneous

Allocation of Parts & Sublet Gross Profit

CALCULATED FOR: DAY WEEK MONTH YEAR DATE: 10/1 TO 11/1

\$ 12,450.00 Parts & Sublet Gross Profit

ALLOCATIONS OF PARTS GROSS PROFIT FUNDS

\$ 3,735.00 30% of Parts GP: Entrepreneurial Profit Allocation (over and above salary)

\$ 3,112.50 25% of Parts GP: Funds to Reinvest in the Business (Reserve Account)

\$ 2,490.00 20% of Parts GP: Owner's Retirement Fund

\$ 1,245.00 10% of Parts GP: New Equipment Planned

\$ 622.50 5% of Parts GP: Training Classes (Technical, Non-Technical, and Mgmt)

\$ 622.50 5% of Parts GP: Incentive Bonuses and/or Profit Sharing

\$ 622.50 5% of Parts GP: Miscellaneous

INVENTORY TURN RATE

GOAL: 6 Times.

you to determine how well you doing at purchasing the right parts, not overstocking, and obtaining the proper assistance from your parts representative.

The *Inventory Turnover Rate* form enables

Inventory Turnover Rate

CALCULATED FOR: <input type="checkbox"/> DAY <input type="checkbox"/> WEEK <input type="checkbox"/> MONTH <input type="checkbox"/> YEAR		DATE: _____ TO _____	
\$ _____	Beginning Inventory	\$ _____	Parts Cost for Period
+ \$ _____	Total New Purchases	÷ \$ _____	Ending Inventory
= \$ _____	Total Inventory Available	= _____	Inventory Turns
- \$ _____	Parts Cost for Period		Goal is 6 times
= \$ _____	Ending Inventory		

Inventory Turnover Rate

CALCULATED FOR: <input type="checkbox"/> DAY <input type="checkbox"/> WEEK <input checked="" type="checkbox"/> MONTH <input type="checkbox"/> YEAR		DATE: <u>10/1</u> TO <u>11/1</u>	
\$ <u>6,240.00</u>	Beginning Inventory	\$ <u>11,200.00</u>	Parts Cost for Period
+ \$ <u>7,650.00</u>	Total New Purchases	÷ \$ <u>2,690.00</u>	Ending Inventory
= \$ <u>13,890.00</u>	Total Inventory Available	= <u>4.16</u>	Inventory Turns
- \$ <u>11,200.00</u>	Parts Cost for Period		Goal is 6 times
= \$ <u>2,690.00</u>	Ending Inventory		

How to Improve Gross Profit on Parts/Sublet Sales

While your primary responsibility is to strengthen and build the Labor Sales Division of your shop, there are some basic steps you can take to improve your gross profit on parts and sublet sales.

PARTS PRICING

All parts pricing should be “acquisition cost plus” in order to achieve a 60% average margin (150% average mark-up) on parts (and 35% margin on sublet).

The key word here is “average.” Part of the strategy to average a 60% gross profit on parts is to mark-up parts over 150% to compensate for losses and lower margin conditions. Throw away the manufacturers’ price sheets. Work off of cost plus.

On branded parts, the mark-up may need to be 150%, but on some products, the mark-up can be 200% because you are buying at a competitive enough price. Only highly-shopped parts should be priced to compete head-to-head in the marketplace. This will apply to only a few products.

When you are satisfying customers, they will not be price-shopping parts on you. On non-publicized parts, the *Law of 15% Perceptible Change* enables you to be 10% - 14% higher than your competition and customers either won't notice or won't care.

TURN INVENTORY 6 TIMES

Stock only what you use and use what you stock within 60 days of purchase.

BUILD A STRONG PARTNERSHIP WITH YOUR PARTS REPRESENTATIVE

This is a partnership of joint responsibility. Your focus needs to be on the labor sales and your parts vendors need to focus on taking care of your parts inventory to help you make those labor sales. Your parts partners can help you with:

- Maintaining proper inventory levels — turn rate.
- Purchasing and restocking the right amount of the right products.
- Availability and timely delivery of non-stocked parts to lower your overall inventory investment.

Parts & Sublet Sales Division Summary

As covered earlier in *Learn To Earn*, your Parts & Sublet Sales Division will essentially take care of itself when your primary focus is on the Labor Sales Division of your shop.

Parts and sublet are tools of the Labor Sales Division; not ends in themselves.

Your Parts & Sublet Sales Division will perform profitably when you achieve a 6 times inventory turn, average 60% margin on parts and 35% margin on sublet, build a strong partnership with your parts representatives, and achieve an 80% Bay Efficiency Rate by selling more billable hours.

Total Shop Profitability Summary

GOAL: Gross profit 55% of total revenue / Income 20% of total revenue.

In a consistently profitable business each division of the business fulfills its production requirements. The *Total Shop Profitability Analysis* form on the next page enables you to track both individual division performance and combined performance.

If you aren't investing some of the profits from your parts sales into a reserve fund to cover the future needs of the business, your business may not have a future.

Total Shop Profitability Analysis

FOR ANALYSIS PURPOSES ONLY: Under "Labor Cost," include flat rate, commission, hourly wage and salaried technician wages. Under "Total Personnel Costs," exclude only technician wages.

CALCULATED FOR: <input type="checkbox"/> DAY <input type="checkbox"/> WEEK <input type="checkbox"/> MONTH <input type="checkbox"/> YEAR		DATE: _____ TO _____
<p>\$ _____ Labor Revenue</p> <p>– \$ _____ Labor Cost (Flat Rate or Hourly)</p> <p>= \$ _____ Labor Gross Profit</p> <p>÷ \$ _____ Labor Revenue</p> <p>= _____% Labor Gross Profit % <i>Goal is 60% of Labor Revenue</i></p>	<p>\$ _____ Labor Revenue</p> <p>+ \$ _____ Parts Revenue</p> <p>+ \$ _____ Sublet Revenue</p> <p>= \$ _____ Total Revenue</p>	
<p>\$ _____ Parts Revenue</p> <p>– \$ _____ Parts Cost</p> <p>= \$ _____ Parts Gross Profit</p> <p>÷ \$ _____ Parts Revenue</p> <p>= _____% Parts Gross Profit % <i>Goal is 60% of Parts Revenue</i></p>	<p>\$ _____ Labor Cost</p> <p>+ \$ _____ Parts Cost</p> <p>+ \$ _____ Sublet Cost</p> <p>= \$ _____ Total Cost</p>	
<p>\$ _____ Sublet Revenue</p> <p>– \$ _____ Sublet Cost</p> <p>= \$ _____ Sublet Gross Profit</p> <p>÷ \$ _____ Sublet Revenue</p> <p>= _____% Sublet Gross Profit % <i>Goal is 35% of Sublet Revenue</i></p>	<p>\$ _____ Labor Gross Profit</p> <p>+ \$ _____ Parts Gross Profit</p> <p>+ \$ _____ Sublet Gross Profit</p> <p>= \$ _____ Total Gross Profit</p>	
SHOP PROFITABILITY SUMMARY		
<p>\$ _____ Total Revenue</p> <p>– \$ _____ Total Cost</p> <p>= \$ _____ Total Gross Profit</p> <p>÷ \$ _____ Total Revenue</p> <p>= _____% Total Gross Profit % <i>Goal is 55% of Total Revenue</i></p>	<p>\$ _____ Total Gross Profit</p> <p>– \$ _____ Total Personnel Costs ***</p> <p>– \$ _____ Total Operating Expenses ***</p> <p>= \$ _____ Total Income (Net Profit)</p> <p>÷ \$ _____ Total Revenue</p> <p>= _____% Total Income (Net Profit)% <i>Goal is 20% of Total Revenue</i></p>	

Total Shop Profitability Analysis

FOR ANALYSIS PURPOSES ONLY: Under "Labor Cost," include flat rate, commission, hourly wage and salaried technician wages. Under "Total Personnel Costs," exclude only technician wages.

CALCULATED FOR: <input type="checkbox"/> DAY <input type="checkbox"/> WEEK <input checked="" type="checkbox"/> MONTH <input type="checkbox"/> YEAR		DATE: <u>10/1</u> TO <u>11/1</u>	
<p><u>\$ 29,100.00</u> Labor Revenue</p> <p>- <u>\$ 13,025.00</u> Labor Cost</p> <p>= <u>\$ 16,075.00</u> Labor Gross Profit</p> <p>+ <u>\$ 29,100.00</u> Labor Revenue</p> <p>= <u>55%</u> Labor Gross Profit % <i>Goal is 60% of Labor Revenue</i></p> <hr/> <p><u>\$ 23,150.00</u> Parts Revenue</p> <p>- <u>\$ 11,200.00</u> Parts Cost</p> <p>= <u>\$ 11,950.00</u> Parts Gross Profit</p> <p>+ <u>\$ 23,150.00</u> Parts Revenue</p> <p>= <u>52%</u> Parts Gross Profit % <i>Goal is 60% of Parts Revenue</i></p> <hr/> <p><u>\$ 2,000.00</u> Sublet Revenue</p> <p>- <u>\$ 1,500.00</u> Sublet Cost</p> <p>= <u>\$ 500.00</u> Sublet Gross Profit</p> <p>+ <u>\$ 2,000.00</u> Sublet Revenue</p> <p>= <u>25%</u> Sublet Gross Profit % <i>Goal is 35% of Sublet Revenue</i></p>	<p><u>\$ 29,100.00</u> Labor Revenue</p> <p>+ <u>\$ 23,150.00</u> Parts Revenue</p> <p>+ <u>\$ 2,000.00</u> Sublet Revenue</p> <p>= <u>\$ 54,250.00</u> Total Revenue</p> <hr/> <p><u>\$ 13,025.00</u> Labor Cost</p> <p>+ <u>\$ 11,200.00</u> Parts Cost</p> <p>+ <u>\$ 1,500.00</u> Sublet Cost</p> <p>= <u>\$ 25,725.00</u> Total Cost</p> <hr/> <p><u>\$ 16,075.00</u> Labor Gross Profit</p> <p>+ <u>\$ 11,950.00</u> Parts Gross Profit</p> <p>+ <u>\$ 500.00</u> Sublet Gross Profit</p> <p>= <u>\$ 28,525.00</u> Total Gross profit</p>		
SHOP PROFITABILITY SUMMARY			
<p><u>\$ 54,250.00</u> Total Revenue</p> <p>- <u>\$ 25,725.00</u> Total Cost</p> <p>= <u>\$ 28,525.00</u> Total Gross Profit</p> <p>+ <u>\$ 54,250.00</u> Total Revenue</p> <p>= <u>53%</u> Total Gross Profit % <i>Goal is 55% of Total Revenue</i></p>	<p><u>\$ 28,525.00</u> Total Gross Profit</p> <p>- <u>\$ 11,715.00</u> Total Personnel Costs ***</p> <p>- <u>\$ 10,500.00</u> Total Operating Expenses ***</p> <p>= <u>\$ 6,310.00</u> Total Income (Pre-tax Profit)</p> <p>+ <u>\$ 54,250.00</u> Total Revenue</p> <p>= <u>11.6%</u> Total Income (Net Profit)% <i>Goal is 20% of Total Revenue</i></p>		

To give you an idea of the importance of the Gross Profit 55% of Revenue goal, if the shop's gross profit of 53% of total revenue is increased to 55%, the shop will generate \$7,622.50 in income (an increase of \$1,312.50 in profit for the month – 21% more than the current Income dollars).

Business Improvement Assignment

Calculate the *Critical Success Factors* for the Parts & Sublet Sales Division of your business (either manually or using the spreadsheet program on CD). Track these productions numbers monthly – along with your Labor Sales Division *Critical Success Factors*.

Complete a Total Shop Profitability Analysis using the form on page 6.

In a weekly shop meeting:

- Check on the progress you and your staff are making at reducing *Profit Eating Time Losses*. Discuss additional ways to reduce time losses.
- Keep discussing ways to improve other areas of shop performance. If assignments have been made to staff members, get reports on results and next steps to take (and by whom).

Review Quiz

Answers to quiz at the bottom of this page.

Volume 3, Segment 2

Circle Your Answers

1. The Parts and Sublet Sales Division essentially “goes along for the ride” when you focus on selling time.
A) True
B) False
2. Parts and Sublet gross profit is used for:
A) Funds to reinvest into the business (reserve fund).
B) Owner’s retirement fund.
C) Technical, non-technical, and management training.
D) All of the above
E) None of the above
3. While parts mark-up is typically 100%, inventory shrinkage is one of the reasons the actual gross profit comes out less than 50%.
A) True
B) False
4. The goal is to turn inventory 3 times.
A) True
B) False
5. Your parts partners can help you with:
A) Billing labor hours.
B) Purchasing and restocking the right amount of the right products.
C) Maintaining high parts inventory levels.

Don’t miss out on 25 TSP bonus points! Here is how to add 25 TSP bonus points to your account!

- Complete the above quiz by circling your answers.
- Completely fill out the information below:(Please print. Information must be legible to receive credit)

Account Name: _____ Date: _____

TSP Account #: _____ Phone Number: _____

- Fax this page to the following number 1-800-550-2654.
- Keep for your records.

Review Quiz Answers: 1:A / 2:D / 3:A / 4:B / 5:B