



Is it profitable to be in Wholesale?

Collision Industry Trends

- a) Consolidation is happening as large Multi-Shop operators (MSOs) are expanding their footprints through acquisitions.
- b) Rising repair costs and inflation have impacted consumer behavior. Customers are opting for repairs rather than purchasing new vehicles.
- c) The industry has faced a drop in claim counts. This is attributed to various factors including fewer repairable vehicles and increased competition.
- d) The integration of new technologies in vehicle manufacturing has made repairs more complex!

You are a Fuel Station Owner

Your tanks are empty, and the truck comes in and the wholesale price of gas has gone up by .10 cents a gallon!

What would you do?



- a) Worry customers won't pay the extra amount and absorb the increase?
- b) Split the cost with the customer raising the retail price by only a nickel?
- c) Raise the price a dime to maintain their profit margin?
- d) Mimic what other Competitors are doing?

Sustainable pricing for profitability

To maintain a healthy business, the station owner must raise prices to hold their profit margin.

Now, thinking as the Dealership Owner, if your supplier cut your discounts and incentives, would you absorb the cost and continue to offer the same discounts and pricing? **Probably not.**

Why then do wholesale operations often struggle to hold margins on wholesale pricing?

The Wholesale Syndrome

While we swiftly adjust retail pricing to reflect cost increases, most Parts Managers still find themselves haggling over wholesale prices.

Wholesale facts:

1. It takes *FOUR TIMES* as much energy, effort, and resources to generate profit in wholesale as it does retail.
2. The wholesale sale operation should always be a compliment to the retail sales operation.
3. All wholesale customers do not benefit your operation equally!

Exercise

Two collision repair facilities are given a 25% discount from retail

Customer	12 MO Sales	12 MO Gross	Gross PCT%	12 MO Returns	Return PCT%
1 - Accurate Collision (Charge Account)	\$95,000	\$23,750	25%	\$11,400	12%
2 - Cascade Auto Body (Pays cash on delivery)	\$60,000	\$15,000	25%	\$2,400	4%

Ask yourself: Which Customer above would you rather have?

Do both deserve the same discount? Does how they pay impact their value?

Note: Customer 1 has \$2,850 in Gross Profit Returns while 2 has only \$600.

The 25/10 and 30/5 rule

Considering operating expenses and holding costs in the parts department:

If you give a **25%** discount to a wholesale customer and their return rate is higher than **10%**

If you give a **30%** discount to a Wholesale Customer and their return rate is more than **5%**

THIS CUSTOMER IS COSTING YOU MONEY!

Reviewing Wholesale Profitability

Category	Sales	Cost	Gross	GP%
Counter Wholesale Sales	\$1,792,914	\$1,634,713	\$158,201	8.80
Category	Sales	Cost	Gross	GP%
Counter Retail Sales	\$86,830	\$57,749	\$29,080	33.50
Counter Internal Sales	\$28,033	\$23,249	\$4,784	17.10
RO Customer Pay Sales	\$409,180	\$242,096	\$167,084	40.80
RO Internal Pay Sales	\$242,779	\$154,786	\$87,993	36.20
RO Warranty Sales	\$251,263	\$152,395	\$98,868	39.30
RO Service Contract Sales	\$75,920	\$56,995	\$18,925	24.90
Total Non Wholesale Sales	\$1,094,005	\$687,271	\$406,734	37.18
Category	Sales	Cost	Gross	GP%
Total Sales	\$2,886,919	\$2,321,984	\$564,935	19.57
Total Returns	-\$379,414	-\$356,467	-\$22,947	6.05
Total Net Sales	\$2,507,505	\$1,965,517	\$541,988	21.61
Wholesale Pct of Business	62.10	70.40	28.00	

Taking your wholesale sales and reviewing it against your other profit centers can begin to shed light on whether it is profitable.

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In the Case Study, a 8.80% Gross Profit Percentage is way too low!

Wholesale is 62.10% of this Dealership's Parts Sales, yet it is only responsible for 28% of the gross profit!

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Now look at your expenses.

- Parts Advisor Salaries
- Benefits
- Delivery Vehicle Expenses
- Depreciation
- Maintenance
- Fuel Costs
- Holding Costs on Receivables
- **Incentives not realized**

Reviewing Wholesale Profitability

Category	Sales	Cost	Gross	GP%
Counter Wholesale Sales	\$649,215.40	\$551,396.56	\$97,818.84	15.10
Category	Sales	Cost	Gross	GP%
Counter Retail Sales	\$31,404.53	\$17,912.34	\$13,492.19	43.00
Counter Internal Sales	\$18,623.99	\$13,815.06	\$4,808.93	25.80
RO Customer Pay Sales	\$497,702.83	\$295,323.35	\$202,379.48	40.70
RO Internal Pay Sales	\$119,528.11	\$80,982.98	\$38,545.13	32.20
RO Warranty Sales	\$138,050.13	\$79,377.04	\$58,673.09	42.50
RO Service Contract Sales	\$31,884.19	\$23,189.93	\$8,694.26	27.30
Total Non Wholesale Sales	\$837,193.78	\$510,600.70	\$326,593.08	39.01
Category	Sales	Cost	Gross	GP%
Total Sales	\$1,486,409.18	\$1,061,997.26	\$424,411.92	28.55
Total Returns	-\$77,583.76	-\$68,105.69	-\$9,478.07	-12.20
Total Net Sales	\$1,408,825.42	\$993,891.57	\$414,933.85	29.45
Wholesale Pct of Business	43.68	51.92	23.05	

Another Store Analysis

- Wholesale is only 43.68% of overall business.
- Gross Profit on Wholesale is 15.10%.
- Overall Gross Profit is 29.45%.

Side by Side Comparison

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Wholesale Hidden Liabilities

Other things to factor in:

1. Accounts Receivable.
2. Idle or Obsolete Inventory values.
3. Low Turns on Inventory and a lot of idle inventory with low sales.

Wholesale Hidden Assets

Other things to factor in:

1. Incentive Discounts and/or Compensation from the Manufacturer.
2. Helps build inventory width for overall dealership fill rates.

The domino effect

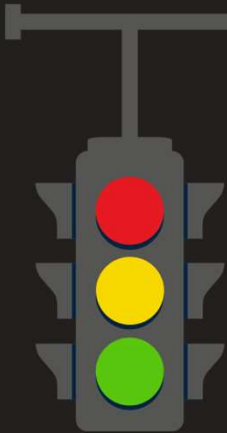


Wholesale returns, **primarily from body shops**, almost always compound to forced stock (unfulfilled demand parts) that age to become obsolete inventory in 12+ months.



Not all wholesale customers should be given equal discounts

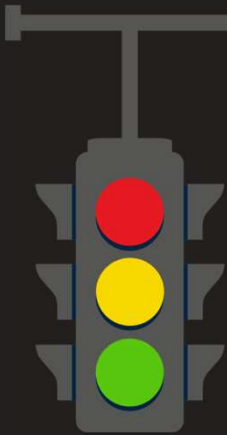
Think of your customers in 3 categories, like traffic lights.



Green light customers

1. Pay their bills on time or pay cash upfront on all transactions
2. Buy consistently from you- daily or weekly with decent volume purchasing
3. Send very little back for credit

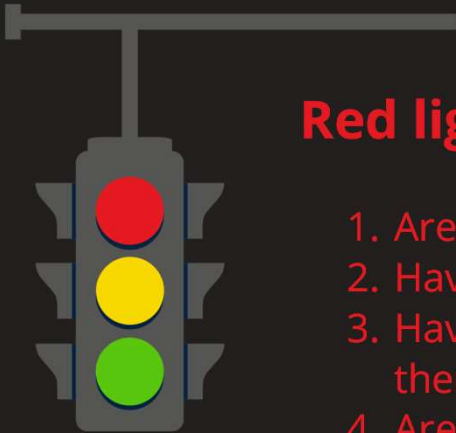
GIVE THESE CUSTOMERS THE **BEST** DISCOUNT YOU CAN WHILE MAINTAINING PROFITABLY!



Yellow light customers

1. Are inconsistent in purchases
2. Use you as a secondary source
3. Buy erratically
4. Have a high return rate
5. Don't buy in a large volume and buy often
6. Are slow to pay their bills

GIVE **FEWER, SMALLER DISCOUNTS** AND MONITOR CLOSELY FOR RED-LIGHT BEHAVIOR.



Red light customers

1. Are *very* inconsistent and erratic with purchases
2. Have a very high return rate
3. Have many complaints while describing themselves as a great customer
4. Are **very** slow to pay their bills

GIVE NO DISCOUNTS.

To sum it up



- You should never have to make an excuse for making a fair profit! Great customers understand and respect this.
- Focus on your profit centers and customer loyalty.

The result will always be happier customers and employees!

NEXT MONTH



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