

Feature

Outsourcing Parts Delivery

What Makes Sense For Your Dealership?

By Fred Frankel

In today's unstable business environment, we are all faced with many business challenges. The auto industry, of course, has seen its share of turmoil.

On the plus side for the auto parts segment, consumers are retaining their vehicles longer. The average duration that consumers are keeping and maintaining their vehicles has gone from 8 years in the late 1990's to 10.2 years today. As a result, the demand for auto repairs and replacement parts has increased.

There are three core components to a successful car dealership: 1) new and used car sales; 2) Service; and 3) wholesale and retail parts sales. With the decrease in new auto sales, dealerships have been looking for ways to improve the other two areas of their business by cutting costs to improve their margins. In Service that's very difficult

to do. However, with a wholesale auto parts business there is one very successful way of reducing costs. That's by outsourcing the delivery process. Traditionally, auto dealerships utilized their own company vehicles to deliver for their wholesale parts business. However, this approach has become very expensive given the competitive nature of the parts business.

Which brings us to the title of this article: does it make sense for your dealership to outsource your wholesale parts delivery service? I was once told by an automobile dealer that his organization does not want to be in the delivery business. He wanted to focus on his area of expertise – Sales and Service – and that auto parts delivery is just one big headache with small profits and margins. I personally think that this statement speaks volumes to anyone concerned with growing their dealer-

ship, in that auto parts sales and delivery can be profitable and successful, if done properly and efficiently.

The obvious starting point here is the cost of maintaining your auto parts delivery driver(s) and vehicle(s). Costs associated with the driver include salary, benefits, worker's comp, payroll taxes, hiring costs such as running ads, and so on. Costs associated with the vehicle include wear and tear, maintenance of the vehicle, vehicle cost, fuel, state fees and insurance. These are costs that can easily be identified. The costs not so easily identified for the driver range from absenteeism to liability claims as pertain to accidents, attorney's fees, insurance increases, worker's comp claims, etc. Also, let's not forget car accidents and the associated liability issues.

By outsourcing, the dealership can alleviate the aforementioned “headaches” and actually wrap their arms around the hard costs associated in getting parts to their wholesale customers. It’s also much easier to build in a projected profit margin when outsourcing because you know exactly what your costs will be – everyday. There are no extraordinary costs because you typically pay a flat fee for deliveries. Budget forecasting is no longer an issue. The variable unknowns such as breakdowns, accidents or loss of labor are no longer a factor.

“Traditionally, auto dealerships utilized their own company vehicles to deliver for their wholesale parts business”

There are definitely pro’s and con’s of outsourcing. Business law firm Morrison & Foerster says in its latest annual report, “Outsourcing is one way for an organization to position oneself to capitalize on recovery and show their overall strategy is about value creation, not merely cost containment.” In almost every case, it will cost more to do Parts delivery in-house because carrying the total overhead cost outweighs sharing overhead if you outsource. And the variable nature of Parts sales means that delivery personnel are often underutilized.

People who have switched to outsourcing report savings over the years of about 20 percent through outsourcing, but some have had savings upwards of 50 percent. Having your own personnel and fleet for Parts delivery is a fixed cost which shows up at the same level on your balance sheet every month.

Outsourcing delivery is a variable cost that will adjust according to the amount of business you are generating.

There are a lot of “hidden costs” that you eliminate when you outsource. These include benefit packages, a significant portion of your human resource costs, insurance premiums, and liability charges. In addition, with outsourcing you never have the time-consuming problems of hiring, firing, discipline and other HR-related issues.

Outsourcing also frees up a significant portion of your cash flow so that you can invest it in building your business, upgrading operations or reducing debt. It will make your balance sheet stronger. You also need to keep the essence of your company’s “brand”. With late and non-deliveries, it can hurt your reputation and lower your future sales. The downside of outsourcing? To be quite honest, there are very few. The primary problems are if you choose an inexperienced or incompatible outsourcing partner or if you’ve done an unrealistic analysis of your needs and are overloading your contract. Luckily, both of those pitfalls can easily be avoided and eliminated.

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In evaluating your situation, you need to think of your direct costs such as fleet maintenance, mileage and fuel, dedicated personnel and benefits. Add in your administrative costs like total business liability and insurance coverage. Be certain to thoroughly evaluate a checklist of your current costs and then look at store’s needs. After doing

so, talk with companies you might consider for delivery outsourcing. They may be able to identify further savings or recognize previously unidentified costs. After you and your potential partner build a relationship and agree on present costs and what outsourcing will cost, you can ultimately make your final decision if a shift from in-house to outsourcing is worth it for you.

In choosing your outsourcing partner, you need to ask yourself three questions: Who can save me money and how much? Who can get the job done by enhancing my reputation? Who has the experience? The first question is easy to answer. Employ the old rule of thumb: “if it looks too good to be true, it probably is.” Just as you show a partner your costs, your partner should be able to explain to you why their costs are reasonable. Ask around about your potential outsourcer’s reputation. Examine their history.

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How long have they been in business? Are they big enough without being bloated? Who are their clients? A reputable company will have all of the answers. Finally ask for proof of full insurance and check what your exposure is.

VEHICLE COSTS	
Vehicle Variables	Medium Size Truck
Number of Vehicles	1
Average Cost of Vehicle	\$34,000.00
Miles per Day	300
Number of Days Operational	20
Miles per Gallon	10
Price of Gas per Gallon	\$2.74

MONTHLY VEHICLE EXPENSES	
Cost per Month – 2.50% of Cost	\$850.00
Fees & Permits – State/Federal – 0.15%	\$51.00
Taxes (State, County, School, etc.) – 1.5%	\$510.00
Gas, Oil, Grease	\$1,689.00
Insurance Fees (Liability, Collision, Cargo, Fire, Theft, Legal, etc.) – 1.85%	\$629.00
Unindemnified Actions – 0.15%	\$51.00
Routine Maintenance – 1.15%	\$384.20
Total Monthly Vehicle Expense	\$4,164.20

EMPLOYEE VARIABLES	
Number of Drivers	1
Hourly Rate	\$7.25
Overtime Rate	\$10.88
Regular Hours	40
Overtime Hours	5
Vacation/Sick Days	5

EMPLOYMENT COSTS	
Wages – Including Overtime	\$1,492.40
Social Security – 7.65%	\$114.17
Unemployment Compensation – 0.80%	\$11.94
Workman’s Compensation – 8%	\$119.39
Misc./Admin, Hiring, Drug Screen Training – 0.40%	\$5.97
Vacation/Sick Leave (5 Days per Year)	\$24.17
Medical, Dental, Life Insurance – 6.50%	\$97.01
Total Monthly Employee Expense	\$1,865.04
Total Monthly Expense (Vehicle + Employee)	\$6,029.24
Total Daily Expense (Vehicle + Employee)	\$289.40

Estimated cost of Company Employee and Company Vehicle

In transitioning to outsourcing, you can slowly move drivers into the process or you can just jump right in. It truly depends on your immediacy. Many people decide to do things gradually. Even if you're convinced that outsourcing makes sense for you, you may still want to phase things in slowly. A slow transition will give you a comfort level with the outsourcer you have chosen. Whichever way you choose, the

transition is the simplest part of the process. The outsourcer gets to know your operations during evaluations, and when it comes time for the new arrangement to kick in, they are ready for you. If you've done your homework, outsourcing can be a great way to improve your bottom line, keep your customers happy and get rid of a "headache" that you don't need.



Fred Frankel is President and CEO of the PDX Family of Companies based in Essington, PA. The company offers outsourcing solutions to auto dealerships and aftermarket auto supply stores from Maine to Florida.

Delivering growth

Q: What was the big idea that caused you to launch your company?

I was brought up in the logistics industry, and when I saw an area where services needed to be fulfilled, I grasped it and ran with it.

Q: When you started your company, what was your biggest challenge and how did you overcome it?

The biggest challenge I encountered was keeping up with the financial end of the company's rapid growth. I overcame it by my founding customer base working to help alleviate any cash flow issues.

Q: Describe a major turning point for your company in terms of growth or the evolution of its mission.

A major turning point for my business was when I obtained my first major account outside the Philadelphia marketplace. This opened the door to expansion of PDX.

Q: What is your secret to attracting new customers and keeping your best clients satisfied?

The most important thing to a company is its customer base. By making sure we provide excellent customer service to our clients, we are assuring we have a satisfied customer that will continue to use our services, as well as allow us to obtain new customers. Therefore, I always keep my focus on the customer service end of the business to make sure that my customers are happy with the services that we provide for them.

Q: How do you keep abreast of the latest developments in your industry, the business world, and personal leadership development?

I am involved with many different organizations and associations related to the logistics industry, in addition to staying up to date on the current events in the industry via various publications.

Q: Describe your company culture. What role do you, as the leader, play in creating and maintaining that culture?

We provide a positive, open, family atmosphere in the workplace, where new ideas are welcomed and encouraged. I am always encouraging my people to execute the fundamental ideas that have catapulted PDX to what it is today.

Q: When you are not at the office, what other pursuits are you passionate about?

Although I am involved in several different charities, my family is my passion, and I spend every free moment I have with my beautiful wife and two wonderful children. They are what make the time and energy spent running the business worth it all.

Q: What has been the most surprising or rewarding aspect of leadership for you?

I would say the most rewarding aspect for me as a leader is the ability to share my experiences and knowledge with others to help support them in their endeavors.

Q: What was your biggest "failure" and what did you learn from it?

I don't feel that any part of my life has been a failure. Be it a good experience or a bad one, I am one who thrives on and learns from every experience that I encounter, for personal growth as well as the growth of my company.

Q: Where do you see your company in five years? In 10 years?

In five years, I see PDX expanding westward as well as offering other logistical services. My vision for PDX in 10 years is to achieve full nationwide service.

PDX

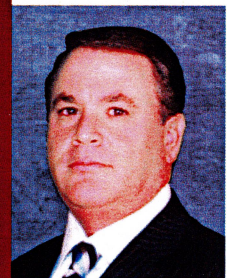
Industry: Logistics

In a Nutshell: A full-service logistics company with a heavy emphasis in the auto products industry

Founded: 1994

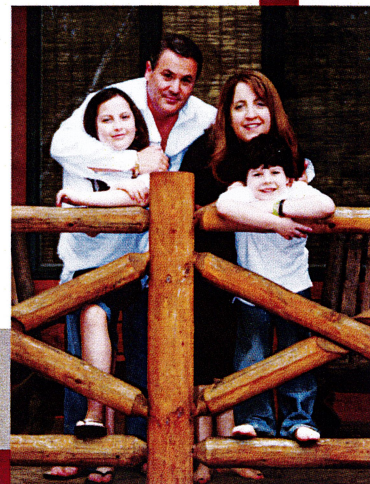
Size: 41 employees, over 520 independent contractors

Website: www.pdxdelivers.com



Frederick S. Frankel

President and CEO



Frankel tries to spend every free moment with his family.

"IT IS WHAT IT IS."