



Reducing Parts Cost of Goods

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Controlling our Parts Expense



- ❖ I would begin by saying that there are two ways to measure parts cost
 - Monthly parts expense by department, branch & tech
 - Also measured as a percentage of revenue with the industry benchmark of 17.5%
 - Marketplace pressure can drive revenues low due to competition etc. which may result in anything that is measured as a percentage of revenue will automatically be considered high
 - Parts cost per Copy/Print
 - In my opinion, the most accurate way to insure parts are being used as efficiently as possible
 - Just behind our labor cost, parts cost of goods sold is one of our largest expenses!



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Contributing Factors



- ❖ Several things should be considered if we are to control or reduce our parts expense
 - Technical expertise and training of our technicians
 - Lack of proper training and experience will cause techs to troubleshoot with parts – often times circuit boards and other big ticket items
- ❖ Environment
 - Is the machine placed in an environment which has:
 - Poor power (surges or drops, lack of proper ground etc.)
 - Excessive dirt and dust
 - Humidity issues
 - Excessive heat or cold
 - Proper throughput material (paper stock in spec)



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Where do we start?



- ❖ Many dealerships today are moving to Installation Teams to insure the best experience possible for the end users, so let's start at the installation!
 - A critical part of this process should be a site survey completed by this team covering several critical areas:
 - Proper space for the equipment to allow the machine to be serviced properly
 - Adequate power along with the proper outlet configuration
 - Adequate network connectivity (Cat 5, wireless)
 - Proper ventilation & air circulation
 - As well as:
 - Stairs, elevators, loading dock information etc.



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Training!!!



- ❖ Proper training of our technicians are obviously a significant factor in controlling our parts cost to avoid troubleshooting with parts
 - Dealers who have the ability to establish parts CPC by model should be able to also determine technicians having a high parts CPC compared to averages for models they service
 - Using parts usage reports, individual items which stand out can be addressed with additional training etc.
- ❖ Operator training is just as important as technician training
 - Key operators must be properly trained to perform simple functions such as loading toner, pulling jams without damaging drums etc.
 - Don't forget about cheap guillotine cut paper causing serious jam issues



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So where do we start saving?



- ❖ We need to develop an "Early Warning System" which alerts the parts department and the tech's manager of parts being ordered having a cost above \$XXX
 - The manager or supervisor should then evaluate whether or not the part is necessary or provide a "Second Opinion"
 - It has been found that the second opinion often eliminates the need for that expensive part
 - In some cases, the client should be billed for things that damage items such as drums – you can always bill a client to get their attention and then credit it off for good will if you have to
 - Make sure it does not happen again!



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Surge Suppressors



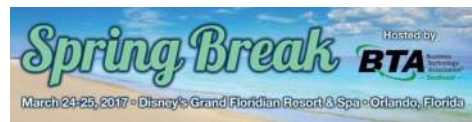
❖ Now called Line Conditioners

- Machines these days require computer grade power and adequate amperage to perform properly
 - It has been proven that these devices can save service calls, so no discussion is necessary about that BUT....
- What can they do for our parts cost?
 - While these devices can prevent spikes and surges from damaging boards etc., most vendors will also cover any necessary repairs resulting from excess voltage being passed to our machines
 - It is also a cheap insurance policy against expensive circuit boards



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Hard Drives



❖ Currently, many if not most of our equipment comes equipped with one or more hard drives

- A hard drive typically will have a cost in the area of \$100
- Most hard drive failures are really not a total failure, but instead a failure of a small area on a platter called a sector
 - Machines see these sector failures and then throw a code indicating the need for a new hard drive as most hard drive formats inside the machines do not resolve the issue

❖ An alternative!

- Return those so called bad hard drives to the shop, purchase a low level formatter tool for under \$200 and start reusing those hard drives



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Purchase wisely....



- ❖ Many times significant savings can be had by exploring alternatives even within the manufacturers own line of parts
 - Dealers recently discovered that the same fuser was offered for a copier and a printer version of the same machine with the printer version being significantly less expensive
 - Another discovery was developer units failing prematurely at a cost of \$200 plus labor and developer at \$20
 - The failure was actually a bearing which could be sourced locally at a cost of \$5 each
- ❖ Look for high mortality parts and see if you can find better alternatives



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Parts Harvesting



- ❖ Just a fancy new name for stripping machines of parts which can be reused
 - Many machines these days have a wholesale value of \$50 - \$100, however they may contain boards which, if purchased could cost thousands of dollars
- ❖ Harvesting is really just a name for a dedicated process of recycling parts from used machines
 - This process should be:
 - Function check the machine prior to any parts being removed to avoid sending bad parts into the field
 - Have a list of which parts should be pulled – things such as gears, rollers etc. should not be pulled – don't take junk from junk and install it in junk
 - Remove and tag items with correct part numbers



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Inventory



- ❖ After parts have been removed and tagged with part numbers, a purchase order should be made to bring these items into inventory at a cost of zero
- ❖ This step will make the parts show as availability in your ERP system as well as cost averaging reducing the overall cost of the items on hand
- ❖ Bottom Line...
 - **Harvesting parts from used machines can significantly lower your parts COGS!!**



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Conclusion



❖ Our

- Must be:
 - Proper installations and “Right Sizing” machines in the correct location means that we have not been setup to fail
 - Troubleshooting and training for both techs and operators is a must
 - We must be “Smart Shoppers” that spend our parts monies as if it were our own
 - Low level format those “Bad” hard drives
 - Recycle, Recycle, Recycle



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Discussion / Questions?



Thanks for your time
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