



## PARTS CORE MANAGEMENT FOR SERVICE PROVIDERS

### PREFACE

The following Recommended Practice is subject to the Disclaimer at the front of TMC's *Recommended Maintenance Practices Manual*. Users are urged to read the Disclaimer before considering adoption of any portion of this Recommended Practice.

### PURPOSE AND SCOPE

This Recommended Practice (RP) offers general guidelines for the proper and effective handling of core claims. This includes both clean and dirty cores, warranty cores, return eligibility, acceptance criteria and core holding area management.

### INTRODUCTION

There are numerous ways to account for and handle cores as a service provider and/or fleet. Understanding the situation and complexities involved are essential to developing a program that handles cores effectively throughout their life cycle.

While these numerous components and processes are too extensive to define herein, this document can serve as a reference for service providers and fleets looking to improve on their core management operations. There are many steps involved in core management, and if procedures are not followed and requirements are not met, significant money (or credit) is at risk for both service providers and fleets.

This RP is divided into the following sections:

- Core handling process maps (examples)
- Recommended core handling procedures
- Processing a sale/purchase of a part with a core value
- Handling return of core parts
- Separating cores
- Determining core value for inventory purposes
- Periodic inventory and revaluation
- Controlling cores
- Management of core charges and business systems
- Glossary

### RECOMMENDED CORE HANDLING MANAGEMENT

TMC recommends that each service provider and fleet appoint one individual as the manager of core processing for each facility/shop. This person is to be responsible for all core returns to manufacturer/distributor and is to be familiar with the qualifications for each core return.

TMC recommends that one person on each shift be fully trained on core handling procedures in order to assist the manager and provide coverage when the manager is absent.

The following is a list of job duties for personnel assigned to pure core or dead stock management:

- Understand the process for receiving parts.
- Understand space requirements and cleanliness of the core processing/handling area.
- Have access to inventory management software or spread sheets for tracking.
- Record parts received one line at a time from single invoice.
- Record multiple lines for a single invoice.
- Process core charges.
- Split invoices.
- Apply damaged parts.
- Clean-up credit.
- Identify missing assembly parts before return.
- Return unordered parts including cores and or mis-shipped parts.
- Record freight/restocking fees/fuel charges.

The following is a list of critical steps in part core handing at a service provider or fleet location:

- Each core should be marked with the part number and invoice number of the distributor/supplier from which it was purchased. This method provides tracking of remaining eligibility, and brings organization & accountability to the process.
- All cores to be returned should be fully tagged before being placed in the core processing/handling area.

- TMC recommends taking pictures of cores before return, as a reference in the event a core is rejected or docked a percentage of value because of missing components, damage, etc.
- Eligibility statements should regularly be reviewed by the core process manager, paying particular attention to the eligibility that is nearing expiration. These statements are available through original equipment manufacturers (OEMs), distributors, and suppliers.

- The provider should immediately tag the core with the part number and customer source information.
- Credit is issued to the customer for cores returned in acceptable condition, and within the eligibility/sundown period.
- Return parts are immediately placed in the provider's core management center/department.
- The service provider's core manager is responsible for regularly processing core returns with suppliers and OEMs to reduce the risk of losing eligibility on any parts/cores.

## PROCESSING A SALE/PURCHASE OF A PART WITH A CORE VALUE

"Part and Core" should be billed by the parts supplier on the invoice to a customer for a purchase or repair order at the time of sale. Whether or not a core charge is applicable on an item should be represented in part supplier's business system. TMC recommends that parts suppliers denote core eligibility expiration or "sundown period" on the invoice for the customer's reference.

## HANDLING RETURN OF CORE PARTS

See **Figure 1**. When a customer returns cores to the service (part) provider:

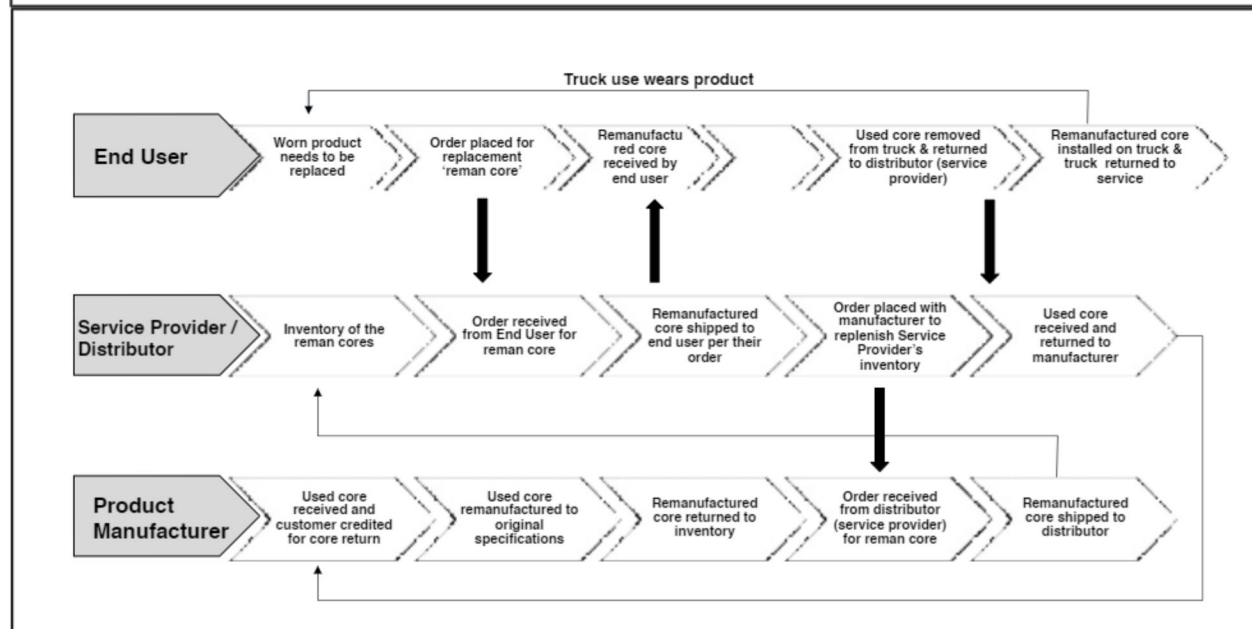
## SEPARATING CORES

TMC recommends that service providers and fleets store cores within their inventory by class or some other method that will enable personnel to search and access all cores in the inventory. This facilitates organizing data and generating of reports regarding all cores as a specific class within inventory, rather than as subcategories within various other inventory classifications. This provides a focal point for better management of the core inventory. This methodology is particularly useful when the core process manager is responsible for more than one location.

**FIGURE 1: CORE HANDLING PROCESS MAPS (EXAMPLES)**

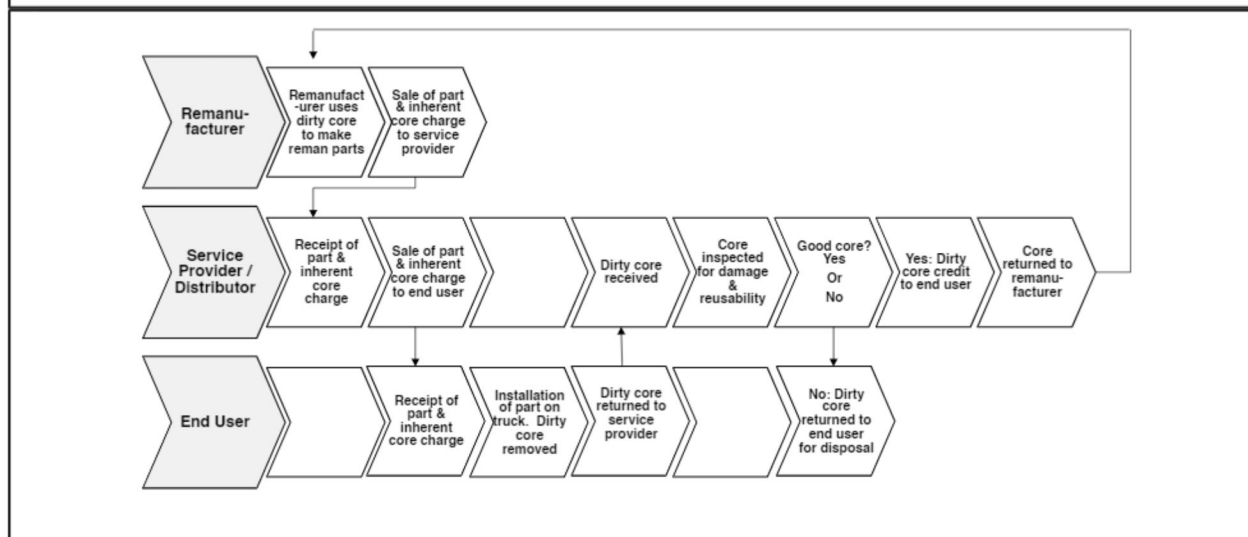
The following flow charts illustrate two examples of core handling processes.

### CORE HANDLING PROCESS — EXAMPLE 1





**FIGURE 1: CORE HANDLING PROCESS — EXAMPLE 2**



## DETERMINING CORE VALUES FOR INVENTORY PURPOSES

### Determining “Real Value”

Once the cores are separated in inventory they should be assessed to determine their “real value.” The “real value” is not necessarily the value that was charged to the customer as the “core deposit” value.

Some manufacturers carry core charges in line with the market price of the core. Other manufacturers set core deposits at values higher than their market value. Overvaluing of cores by either the manufacturer or parts provider carries the following drawbacks:

- Misrepresentation of inventory turns.
- Exaggeration of profits: therefore overpayment of taxes.
- Higher ad valorem taxes measured against inflated inventory values.
- Higher than needed insurance costs resulting from overstated values.

### INFLATION ELEMENTS

Service providers and fleets who have separated the value of their core inventory may find to their surprise that the collective value of cores in a certain line might surpass the value of new product stocked for that same line. In these instances, core charges have become out of sync with its actual value, because manufacturers are trying to keep cores in their network, so to be returned to the manufacturer rather than an unauthorized rebuilder. Charging inflated core deposits/charges makes it costly to a service provider or fleet not to return the core to the manufacturer.

Another element that causes inflation of the core inventory value in comparison to that of new products, is core inventory not being reviewed and revalued at current market cost whenever new inventory is purchased. After the sundown period or eligibility expiration on a core, the initial core charge will not be credited back. Service providers often hold onto cores for months, even years outside of their eligibility period, resulting in loss in actual value, despite what is recorded as inventory value.

Retaining cores as “old” cores or as a portion of a restored unit ready for sale represents a significant investment, which is essential to produce gross revenue from the difference between the actual cost of remanufacturing and the exchange price of the completed remanufactured unit. Accurate accounting of the cost of sustaining this core inventory will give the service provider insight as to the degree of profitability in handling remanufactured units in comparison to the stocking of inventory for other classes of business.

### ZERO VALUE

Some service providers and fleets have begun to inventory cores at zero value. TMC does not recommend this method, but rather accounting at true market value. This might seem to be a benefit when it comes to paying lower taxes, but is a form of inventory value distortion, and may create an alert for auditors. Another reason is that parts department employees tend not pay close attention to anything with a zero value, as it will not impact their inventory values, etc.

## OTHER METHODS OF VALUATION

In the case of a supplier or manufacturer charging higher than necessary core charges, fleets and service providers many use a value of 40 percent of the dealer net of a new part for their inventory value on the core. While a starting point, it is important to review the core product regularly and assess current market and revalue accordingly. This should be quarterly, but at a minimum of once per year. Reassessment is particularly important when age drives down the value of cores.

Excess inventory on cores can be reduced through:

- Selling off the excess cores,
- Disposing of them through promotional offers,
- Selling remanufactured units without exchanging a core, or
- Exchanging the cores to another vendor for a product of use.

If a core has achieved zero market value due to age, quality, etc., it should be disposed of as with any other part with zero value.

Some providers move old core values into their remanufactured unit inventory as they are rebuilt. However, this technique requires many supplementary accounting entries, increasing the chance of error.

## PERIODIC INVENTORY AND REVALUATION

TMC recommends conducting core inventory quarterly, and to carry the value all cores in one core account. This requires a combined core count when taking inventory, but is a simple task. The quarterly inventory is an opportune time to revalue cores to market value. At a minimum, inventory and revaluation should occur annually.

**NOTE:** If a core is reduced in value from a current book value there will be a financial impact in the form of an negative inventory adjustment. Be aware that revaluation affects every core in the process and all cores due back from customers where a higher core deposit was charged to the customer.

When revaluing cores, it is important to check and follow federal and state laws.

## CONTROLLING CORES

This RP does not specifically address the need to account for and protect/manage the quality of cores as they are handled by service providers while in their possession. However, it is vital for service providers to develop and maintain proper controls for core quality and handling while in their facility.

The most effective control in practice appears to be treating the core as if it is actually in “inventory,” whether it is at the service provider’s location or the rebuilder’s facility. The core should only be relieved from “inventory” when a deposit is charged to a customer, pending return of that core at a later date.

## MANAGEMENT OF CORE CHARGES AND BUSINESS SYSTEMS

Every service provider/fleet develops its own, unique business system and organization, and this RP does not attempt to address every variation. TMC recommends parts that have core charges be able to be accounted for and tracked in any business system.

Most service providers have individual customer accounts set up in their system which track each customer’s payments. TMC recommends that these accounts be used to track the customer’s core eligibility.

Core credits should be issued to the fleet and relieved from the eligibility list once a dirty core is credited by the OEM or core handler. Core charges and credits should always be reflected in invoicing of customer orders.

Core credits should be issued to the fleet and relieved from the eligibility list once the OEM Core is credited by the distributor/supplier. Core charges and credits should always be should always be reflected in invoicing of customer orders.

Once the credit is received by the fleet customer, it is imperative to enter the credit received into the business system, including if the core was rejected. It is imperative that the business system is routinely updated and as accurate as possible.

## REFERENCES

This document was developed using the following references, which is not an all-inclusive list of potential resources:

- Meritor TP09120 Steering Gear Return
- Euclid TP0700 Hydraulic Core Return
- Weller Owner’s Manual January 2014
- Meritor Aftermarket Parts Manuals — Rev. April 2016
- PACCAR Parts Counter Online — January 1, 2017
- Haldex L00036W Core Handling Procedures January 2011
- TRW Core Acceptance January 30, 2015
- Navistar Parts Core Center leadership interviews



## GLOSSARY OF TERMS

**Clean Core or (Inherent Core)**—The value that has been assigned to the core to entice the buyer of the part to return the core.

**Core**—A rebuildable (required) used auto or truck part which is used as a partial trade in for a new or rebuilt part. Common parts that typically require a core return include: air compressors, batteries, brake shoes, starters, alternators, engines, power steering pumps, air conditioning compressors, transmissions, rear ends, etc.

**Core Bank**—Cores returned more than what is eligible to be returned (within a core group), resulting in a “banked” condition.

**Core Charge**—A deposit placed upon the purchase of a part with a core (also known as a rebuildable part) to encourage its return to be rebuilt.

**Core Deposit**—See **Core Charge**.

**Core Eligibility**—Cores that are eligible for credit resulting from purchases of the remanufactured product. Core eligibilities are often referred to as “cores owed.”

**Core Markup**—Core markup is the suggested retail price of a product, determined in such a way as to compete with prices of other products. A product may be introduced with a specific price point, but that price may be altered depending on current demand and competition.

**Core Refund**—The crediting of the deposit (credit) back to the core purchaser.

**Core Return**—The act of returning the core to the point of purchase (source) for a refund of the core charge.

**Core Return Authorization Tag**—Label required for obtaining core credit. Found in the box or shipping tag (as supplied by the part manufacturer), this label must be filled in completely and attached to the core with the enclosed wire tie wrap to ensure proper credit for the return. Failure to follow these instructions may result in loss of core credit.

**Core Value**—A core product to which additional products and services may be added to generate a return revenue stream.

**Dirty Core**—A used component/part with validated refundable components that are verified and inspected for critical dimensional and wear criteria.

**Dead Cores**—A product that has had zero sales in the last 12 months. A dead core affects cash flow, takes up valuable warehouse space and freezes the earning that otherwise should be dedicated to the purchase of revenue generating products.

- **Dead Core Disposal:** The disposal of dead cores requires a reliable and sustainable waste recovery/recycling process which fulfill the requirements of the local and state environmental regulations.
- **Dead Core Stock Management:** A stock management program in a fleet or service provider company work with suppliers to return obsolete stock and replace with an inventory of current parts. When a stock of dead cores is discovered, most companies make a concentrated effort to move it out of their inventory as quickly as possible.

**NOTE:** The longer dead cores sit in inventory on warehouse racks, the more money is being lost. Dead stock represents captive dollars that can be converted into spendable cash. When a stock of dead cores is discovered, most companies make a concentrated effort to move it out of their inventory as quickly as possible. Find a way to recoup some of the money lost on these items.

**No Core Value**—A situation where a vendor has more cores than demand requires due to the popularity of the part declining.

**Sundown**—Core bank balances, not used within (manufacturer’s time limit) or 12 months, will be eliminated from the core bank. Core banks cannot be converted to dollar credits, returned or transferred to other core groups.

**Statutory Provision**—A statutory provision is a stipulation that a particular agency, benefit, or law will expire on a particular date unless it is reauthorized by the manufacturer.