

SMALL BUSINESS MANAGEMENT TEAM (510)

REGIONAL – 2017

TOTAL POINTS _____ ***(170 points)***

Failure to adhere to any of the following rules will result in disqualification:

1. Contestant must hand in this test booklet and all printouts. Failure to do so will result in disqualification.
2. No equipment, supplies, or materials other than those specified for this event are allowed in the testing area. No previous BPA tests and/or sample tests or facsimile (handwritten, photocopied, or keyed) are allowed in the testing area.
3. Electronic devices will be monitored according to ACT standards.

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Description

The team will use strategic planning and problem-solving skills to provide solutions to the business case study provided. At State and National level, teams will be presented with an additional element to the scenario that requires revision of their final presentation.

Initial Case Study

Your team has been hired by Scott Jensen, owner of Downtown Auto, to provide strategies that help the company with its overall strength and profitability. Downtown Auto is a one-location used car lot located in a town of about 70,000 people. Their lot is an 80-vehicle lot and employs four full-time sales people and an administrative assistant/title clerk. About a year ago, the company identified that the profit margin of each sale was a little low, so Mr. Jensen determined that they needed to pay the sales people on a flat commission; each salesman now makes \$300 a sale instead of a percentage commission which was 25% of each sale. This was *not* received well by the sales staff. While profit margin did increase eight months after the decision was made, overall sales and revenues decreased dramatically. Each vehicle sold has three expenses: the purchase price, the administrative fees, and the commission. All operation costs are figured into the purchase price of the car (reconditioning costs) and the administrative fees (wages for the title clerk and business expenses). The following information shows the average dollar amounts for each vehicle. These numbers reflect what is known in the car sales industry as Front End Gross (F.E.G.), or the gross profit from the sale of the vehicle.

<u>Sell Price</u>	<u>Purchase Price</u>	<u>Administrative Fees</u>	<u>Commission</u>	<u>Gross Profit</u>
\$12,000	\$9,400	\$1,000	\$300	\$1,300

While the above numbers are average, they can fluctuate to both extremes. For example, it is important in the car sales industry to *not* keep a car on the lot for too long, so sometimes it is beneficial for the company to take a loss on one car so they can get different cars on the lot that might be more profitable. The industry standard is to buy and sell a car in 90 days. Lately, Downtown Auto has been averaging 120 days and only selling 20-30 cars in a month.

Another important aspect of the car industry is how a customer finances their vehicle. Many dealerships become direct lenders of financial institutions. This means the dealership can approve the customer for financing through programs that those financial institutions offer. This can also benefit a dealership because they can sell add-ons like GAP Insurance and Warranties. They can also earn points off the interest in the financing (5% rate could mean that the institution earns 3% while the dealership earns the other 2%). The profits of these revenue streams are referred to as Back End Gross (B.E.G.). Downtown Auto is *not* a direct lender because the upfront costs are around \$85,000; this means that customers must find their own financing by contacting their financial institution.

Internal Challenges:

- Slow Return on Investment (cars *not* being sold fast enough)
- Motivation of sales staff
- Lower revenue

External Challenges:

- More foot traffic at other dealerships due to heavy advertising
- Low rate of customer financing approval

As per Mr. Jensen's request, develop a plan with different strategies he might employ to help his company be more profitable. While developing your plan, consider the following questions:

1. How does a flat commission work versus percentage commission including the effect of each on the morale of staff?
2. How can you increase profit margin (increase revenue/decrease expense)?
3. How can you increase the ROI (return on investment)?
4. How can you increase the inventory turnover ratio?
5. Would the benefits of being a direct lender outweigh the high starting costs?

Teams who do *not* submit an entry that follows this topic will be *disqualified*.