

Prep: bring in a picture, or the actual item, of good or service that you cannot live without.

20 mins

Intro - Needs and wants - what business is based on

Discussion: Show everyone's good/service that they cannot live without, but don't mention which good or service came from which person.

Key terms: needs/wants/substitutes/customer loyalty/branding/tangible goods/intangible goods

- Where do the goods/services come from? How do they come about?
- What is the purpose of a business? generally defined by the person who sets up the business, but usually is to meet customers' needs, do good for society and to maximise profit for owners and stakeholders (e.g. employees)

Definitions:

- **Business activity:** producing goods and services to satisfy demand in return for other goods and services or financial gain.
- A **business** is any organisation that makes **goods** or provides **services**, generally with the aim of making a **profit**. Also includes Not-for-profit organisations/NGOs/government owned organisations. Charities are a grey area.
- An **organisation** is an organised group of people with a particular purpose, such as a business or government department, but also includes charities, networks, a club, a society etc.
- A **profit** is the difference between revenue and total cost - calculated by total money in minus total money out.

Examples of products that are in continuous production even though no profit is made:

- Penetrating a market/beginnings of a business/new product - the *I* newspaper came in at 10p, now up to 40p
- Loss leaders - to bring customers into a shop, where they then spend a lot more on something else
 - Supermarket: go in for a tin of 8p beans, come out with a £32 bottle of gin.
 - Cheap printers but expensive ink cartridges.
 - Chevrolet's Corvette was originally intended in the 1950s to be an "image builder" and loss leader for General Motors, the idea being that men would go to showrooms to look at this "automotive Playboy Bunny"—which they knew they could not afford—and end up purchasing a lower-cost model. However, it enjoyed significant sales successes in the 1960s and produced a substantial annual profit.
- Predatory Pricing (undercutting) - reduce prices so low it pushes the competition out of the market. This is illegal in the UK, but there is a fine line between loss leading and predatory pricing...
 - Sun reduced price of paper two days a week down from 35p to 20p. <http://news.bbc.co.uk/1/hi/uk/politics/55124.stm>
- Brand loyalty - if the product is key to the brand, you keep it because it is iconic and it keeps your older customers on side, e.g. Heinz Salad Cream
- Products that the state produce and want people to consume, so cost to the customer is less than the cost of production (merit goods) e.g. NHS medication
- Products that are heavily subsidised by the government to keep production in this country e.g. farmed products, steel, car industry (foreign equivalents are cheaper).

Don't forget to mention why business isn't boring.... ever changing.

Game of pairs - match the products/services to the people in the group.

Main - The beginnings of business

20 mins

Division of labour/specialisation

Activity: a housing production line

Items needed: stencils (e.g. https://www.fashion-era.com/images/xmas/xmas_food_recipes/gingerhousegrid.jpg), sticky tape, scissors, colouring pens

Team one: Each person draws template for 3D house, decorates it, cuts and sticks.

Team two: Divide labour - stencil already drawn. One person cuts house, one cuts doors, windows and chimneys, one colours chimney and walls, one colours roof and doors, one sticks etc.

Discussion: What can we conclude from this activity? Which team made the most houses? You have to be quite skilled to produce one good house from top to bottom, but don't need to be to do each individual part.

20 mins

Watch: henry ford. https://www.youtube.com/watch?v=t0J_naOcxDs (5mins?)

Case studies: Henry Ford called it 'the universal car'. 1908-1927. Model T ford. more than 15m model Ts were built. Practical, affordable transportation for the common man. low cost, durability, versatility, and ease of maintenance. The model T took 40% of the new car sales market at the time.

Started off at \$850, went down to lowest price of around \$260 by 1920s.

Each car was made of exactly the same parts - **first car to have Standard interchangeable parts.**

Offered in several styles - two door, four door, convertible, 2-seat, 5-seat, 7-seat, etc. - but with the same basic chassis underneath. Originally choice of colours (green, bright red, dark blue, brown, maroon, and grey), but from 1913 to 1925 the car was mass-produced in only one colour — "you can have any colour you like, as long as it is black." That was because black was the quickest to dry, which mattered when you are trying to make the quickest and smoothest production line, due to having more orders than it could fill. As competition mounted in the late 1920s, Ford had to rethink the black-only philosophy.

Could go up to about 45 miles per hour.

Henry Ford was always about passing the savings on to the customer.

Definitions:

- **Specialisation:** When we concentrate on a task or product. E.g. Barrett housing - estate houses for the middle class.
- **Division of labour:** Occurs where production is broken down into many separate parts, so that each worker can become specialist in doing one thing, especially on an assembly line. Also called specialisation of labour.

Individuals, organisations, and nations have or acquire specialised capabilities and either form collaborations or trade to take advantage of the capabilities of others in addition to their own.

Think about early bartering systems.

20 mins

Examples of specialisation at...

Family level - The Mays' 'boy jobs' and 'girl jobs' (<https://www.independent.co.uk/news/uk/politics/theresa-may-philip-may-husband-boy-jobs-girls-one-show-take-bins-out-bbc-prime-minister-marriage-a7727481.html>)

Business level - Separate departments, within that people specialise further down depending on the size of the company. The bigger the company the more specialisation it employs.

Self-employed painter decorator does admin, advertising, accounts, all aspects of the actual job, product sourcing etc.

NHS specialises down to

(Within a nation) Regional level - wine growing regions, oil producing regions, coal producing regions, financial sector regions.

National/country level - Bangladesh - producer/exporter of textiles, Australia - natural minerals, Argentina - Beef, UK - financial and business services, Poland - farming, Hong Kong - finance, Maldives - tourism

(International) regional level - South East Asia - cheap manufacturing, Western countries - service industry. Caribbean - bananas, coffee, chocolate..... The division of labour is the motive for trade and the source of economic interdependence.

What determines what we specialise in:

equipment/natural resources/knowledge/skills and training or complex combinations of such assets.

Benefits of specialisation

By concentrating on what people and businesses do best rather than relying on self sufficiency:

- **Higher output:** Total production of goods and services is raised and quality can be improved
- **Variety;** Consumers have access to a greater variety of higher quality products
- **A bigger market:** Specialisation and global trade increase the size of the market offering opportunities for economies of scale
- **Competition and lower prices:** Increased competition acts as an incentive to minimise costs, keep prices down and therefore maintains low inflation
- **Reduces costs of production:** examples of factories only producing part of a product, not the whole thing.

So, what happens when you specialise within a system? division of labour

Adam Smith (died 1790): *The Wealth of Nations*, “**division of labour is limited by the extent of the market**”. The bigger the market, the more you will see a division of labour - compare framed prints of a picasso vs an actual picasso - if inclined, draw a supply and demand curve of these two things. (x-axis=quantity, y-axis=price, / =supply, \ =demand. Equilibrium is where supply meets demand.) Many prints = lower price per print, one picasso painting = very high price

Discuss:

Benefits of division of labour:

Raises output per person, as they 'learn by doing'.

Potential problems:

Boring - can lower motivation and by extension, productivity

other man-management issues, but can lead to standardised goods. - a McDonalds tastes the same anywhere vs people do not want standardised artisan products

20 mins

Business sectors

This specialisation of businesses we breakdown into sectors:

primary sector - Raw materials industries. extracting and harvesting natural resources from the land

secondary sector - Manufacturing. turns raw materials into finished goods

tertiary sector - Service industries. providing services to the final consumers.

Definitions:

- **Chain of production:** series of stages that add value to the end product. From raw materials to final product, it will move through the industry sectors. E.g. luxury chocolates.
- **Adding Value:** The process of making the product more valuable to the purchaser.

Every stage of production, **value must be added**. Otherwise no money will be made.

- exceptions, supermarket loss leaders, new entrants to a market, tax scams etc...

Value can be added through:

changing state of material to a final product - wood not as useful to me as a bench

branding. (<https://www.forbes.com/powerful-brands/list/2/#tab:rank>)

excellent service quality - Given the fact that you rate your driver on Uber, taxi drivers are now considerably more customer service focused.

The same can be said for other industries where online ratings are tracked, including retail or auction companies like eBay, hotel services like Airbnb, teaching services like Udemy, and of course, the restaurant industry through sites like Yelp. A few negative reviews can destroy a brand.

In conclusion, a superb customer experience begets more loyal customers who will no doubt spend more money on a company's products or services in the long run. A superb customer experience also leads to higher stock prices over time. In this digital, social media age, if a customer has a poor experience, all of his or her online contacts might find out about it very quickly.

It can take 30-plus years to build a brand and just a handful of poor customer experiences to destroy it; a company is only as good as its customer service, and the customer is always right.

product features - iPhone upgrades

convenience - McDonald's, amazon prime,
(word of mouth is the No. 1 driver of sales and competitive advantage—and because there's a strong correlation between a company's reputation and consumers' willingness to recommend it, businesses need to focus on building those strong bonds with stakeholders)

Discussion:

Which sector does your can't-live-without good/service belong to?

What processes did it get through to being in that state?

How could value be further added to the product?

20 mins

Activity: Comparing bottled water

Items needed: As many different types of bottled water you can get. Small taster cups.

- Look at e.g. One water, Evian, Vital, etc.
- Compare with other brands.
- How have they added value to tap water?
- Taste them. How do they compare now? Do they live up to their labels?

<https://www.10bestwater.com/brands/>

Watch: Peckham spring (37mins - 40.33mins, or 42.24 - 5mins)

Case studies: Coke water

<http://news.bbc.co.uk/1/hi/business/3809539.stm>

<http://www.britishbottledwater.org/vital-statistics.asp>

<http://www.trump.com/merchandise/trump-natural-spring-water/>

<https://www.talkingretail.com/products-news/soft-drinks/bottled-water-sales-soar-uk-retail-market-15-03-2017/>

Podcast: <https://www.theguardian.com/news/audio/2016/oct/24/liquid-assets-how-the-business-of-bottled-water-went-mad-podcast>

4 min, why drink bottled water program: <http://www.bbc.co.uk/programmes/p05fr6mr>

Case study: Orson wells 1977 Perrier ad - <https://www.youtube.com/watch?v=2qHv4yh4R9c>

\$5mn ad campaign across US. Largest ever for a bottled water. Created a huge surge in sales:

1975 = 2.5m bottles sold, 1978 = 75m bottles sold.

innovations - plastic bottles for drinks 1977, for water 1990 - convenient and portable as fizzy drinks.

Jane Fonda 1982 perrier ad - https://www.youtube.com/watch?v=hNVcs4jKP_A



£1 of bottled water could pay for 1000L of tap water.

Sugar tax helps water industry. Continued growth expected about 5/6%