

LESSON 3

THE ENTREPRENEUR AND THE SUPPLY CHAIN

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LESSON DESCRIPTION

This lesson will introduce students to the concept of the **supply chain** by tracing the journey of an “everyday product” from nature to the classroom. By analyzing this “everyday product” and reading a case study about a growing business, students will identify the four main types of businesses that compose the supply chain (manufacturers, wholesalers, retailers, and service providers) and explore the role local **resources** and **assets** play in business development. Finally, students will explore resources and assets in their local community and identify opportunities for entrepreneurs to build businesses using the local supply chain.

INTRODUCTION

For any single product or service, there are many different companies, people, technologies, processes, and resources that move the product or service from supplier to customer. A supply chain is the total system of organizations involved in this move from raw materials to finished product. Effective entrepreneurs understand where their business idea for a new product or service fits into the supply chain. They are able to identify their role as a supplier, manufacturer, wholesaler, retailer, or service provider, and they can develop an efficient, cost-effective system for creating and delivering their product or service. Entrepreneurs must also be able to recognize opportunities to optimize their business’s supply chain operations to increase efficiency and reduce costs.

CONCEPTS

- Supply chain
- Assets
- Resources
- Vertical integration

OBJECTIVES

Students will:

1. Understand how and why businesses are created.
2. Define and describe the supply chain.
3. Identify the four types of businesses that compose the supply chain (manufacturers, wholesalers, retailers, and service providers).
4. Explain how different assets impact business development.
5. Examine how regional assets affect the local supply chain and their own business ideas.

TIME REQUIRED

One class period

MATERIALS

- Activity 1: Supply Chain Matching
- Activity 2: Uncle Bill, Inc.
- Activity 3: Building a Business from Assets/Resources
- Visual 1: The Supply Chain
- Visual 2: Asset Analysis

PROCEDURE

1. Hold up an “everyday product,” and encourage students to think about the product’s origins by asking the following questions. (While you may choose any product that students will be familiar with, the answers below have been modeled on the use of a soda can.)
 - a. How did this product get here?

Possible answers include: purchased from a store or from the school’s

vending machine; product delivered from a manufacturing plant to the store or vending machine by a truck

- b. What goes into making this product?

Possible answers include: water, flavorings, and other chemicals that make up the beverage itself; aluminum and other materials that make up the can; design work that makes up the can's logo and presentation as a product; machine or human labor that gets the beverage into the can

- c. What materials make up this product and where do they come from?

- *Water—municipal source*
- *Carbon dioxide to add carbonation—gas plant*
- *Corn for the high fructose corn syrup—farmers*
- *Phosphoric acid—chemical supplier*
- *Kola nuts for caffeine and flavoring—farmers*

- d. What are some of the steps that go into making the product?

Answers will vary, but make sure to cover the following steps when discussing students' answers:

- *Formulating the syrup*
- *Manufacturing the syrup*
- *Distributing the syrup to bottlers*
- *Mixing the syrup and carbonated water*
- *Bottling/canning the product*

- e. How many companies do you think were involved in getting this product to the classroom?

Answers will vary, but students should understand that many different companies were involved in getting the can of soda to the classroom.

2. Explain to students that the class's discussion of the many different materials and steps that go into making a simple can of soda demonstrates the concept of supply chain. Hand out Visual 1: The

Supply Chain. Read aloud and review the definitions provided on the visual with students. Emphasize to students that some businesses focus solely on raw materials while others take already developed products and serve as assemblers of even more complex products. (As you walk students through the visual, you may choose to discuss how the "everyday product" you've chosen for the lesson makes its way through each step of the supply chain.)

3. Hand out Activity 1: Supply Chain Matching. Instruct students to match the appropriate step in the supply chain to the company profiled.

Answers: 1. A; 2. D; 3. B; 4. C; 5. E

4. Explain to students that, as the soda can example shows, the supply chain can involve many different steps and many different companies, each of which contribute to the product based on their area of expertise. In some cases, there are businesses which capture multiple steps of the supply chain. Explain to students that **vertical integration** is a term that describes the degree to which one person or company owns portions of the supply chain. However, remind students that such vertically integrated businesses are not built in a day and are developed over time. Entrepreneurs often start out by analyzing how to use local assets and resources—and by identifying opportunities in the supply chain that they can use to their advantage. Divide students into pairs and hand out Activity 2: Uncle Bill, Inc. Instruct students to read Uncle Bill's story and answer the questions at the end of the activity. Once students are finished, discuss their answers to the questions as a class.

- a. What were the businesses that Uncle Bill started?

Fruit and vegetable supply business; nursery; lumber yard; outdoor furniture manufacturer and retailer

- b. How did Uncle Bill engage with the supply chain as an entrepreneur?

Uncle Bill recognized opportunities in the assets and resources around him and built businesses throughout the supply chain. Uncle Bill became a manufacturer, wholesaler, and retailer of produce, plants, and furniture.

- c. How does Uncle Bill's story demonstrate the concept of vertical integration?

Uncle Bill vertically integrated his businesses by purchasing more of the businesses that supported his other businesses. Over the course of his life, Uncle Bill acquired numerous businesses and captured larger and larger segments of the supply chain.

- d. What were the benefits of vertical integration to Uncle Bill's business?

The direct benefits of his investments were many; he didn't have to rely on outside companies to supply products or services to his businesses; he didn't have to pay other companies for raw materials, manufacturing, wholesaling, or retailing, and so he made more profit from his businesses.

- e. Although the story focuses on Uncle Bill's success, what might be some of the risks of vertical integration? How might these risks have affected Uncle Bill negatively?

Not every business makes money; some do better than others; by capturing more of the supply chain, Uncle Bill opened himself up to a greater likelihood of failure.

5. Explain to students that Uncle Bill knew that he could grow his businesses in several ways. When he first started out, he used his family's land and the skills that his family taught him to grow his produce. He also used his family's network to sell his produce. He saved his money and acquired more land and thereby developed opportunities to build his

business. The resources that he developed are also known as assets. As he built his businesses, Uncle Bill built up his assets. Over time, he used those assets to acquire more assets. Explain to the students that, like Uncle Bill, effective entrepreneurs know how to recognize and see opportunity in local assets and resources.

6. Distribute one copy of Visual 2: Asset Analysis to students. Discuss with students each of the types of assets. Ask the students the following questions, and discuss their answers as a class:

- a. What are some examples of financial assets in our area?

Answers may include banks, credit unions, other lending agencies, existing businesses, economic development agencies, government offices, and civic organizations. Encourage students to get as specific as possible.

- b. What are some examples of human assets in our area?

Answers may include schools, colleges, universities, job training programs, existing labor pool such as unemployed workers, existing workers, and students, churches or other faith-based training programs, the military, and other non-traditional programs such as department of corrections programs, and community-based educational and training programs.

- c. What are some examples of social assets in our area?

Answers may include social groups, professional organizations, fraternal groups, religious organizations or groups, educational groups, recreational groups, and boards of directors of organizations.

- d. What are some examples of cultural assets in our area?

Answers may include local orchestra, historical site or battleground, or sports team.

- e. What are some examples of environmental assets in our area?

Answers may include beaches, rivers, lakes, and oceans, parks, national parks, forests, and historic sites, roadways, wildlife, and railways.

- f. What are some examples of entrepreneurial assets in our area?

Answers may include chambers of commerce, financial institutions, government-supported services, and business incubators.

7. Divide students into groups of four, and distribute one copy of Activity 3: Building a Business from Assets/Resources to each student. Explain to students that they will work in their groups to identify local assets and develop business ideas based on regional resources. At the conclusion of the activity, call on a representative from each group to describe the group's business idea and explain the business idea's use of local assets. Discuss each group's business idea as a class, identifying the idea's strengths and weaknesses.

CLOSURE

Summarize the lesson by discussing the following questions with students:

1. What is the supply chain?

The supply chain is the total system of organizations and processes that moves a product or service from supplier to consumer. Suppliers, manufacturers, wholesalers, retailers, and service-providers are the main business types that compose the supply chain.

2. Why is the supply chain important to the entrepreneur?

Effective entrepreneurs must understand where their business idea for a new product or service fits into the supply chain. Entrepreneurs must also be able to recognize opportunities to optimize their

business's supply chain operations to increase efficiency and reduce costs.

3. Why is it important for an entrepreneur to investigate the local resources and assets available to him or her?

By exploring the community's resources, the entrepreneur can identify opportunities for new businesses and continued business development.

ASSESSMENT

Multiple-choice questions

- These assets may be used to train individuals such as schools or job training programs or be the existing labor pool such as unemployed workers, existing workers, and students:
 - Financial assets
 - Social assets
 - Cultural assets
 - Human assets**
- These types of firms take raw materials and develop a product:
 - Service providers
 - Retailers
 - Manufacturers**
 - Wholesalers
- Music, sports, and historical attractions are examples of which type of assets?
 - Cultural assets**
 - Entrepreneurial assets
 - Social assets
 - Human assets

Constructed-response questions

1. What are the different business types that make up the supply chain?

Manufacturers: Manufacturing firms take raw materials and develop a product. Some firms focus solely on raw materials while other manufacturers take already developed products and serve as assemblers of even more complex products.

Wholesalers: Wholesalers purchase goods from manufacturers in large quantities and then sell them to retailers or directly to consumers in smaller quantities.

Retailers: Retailers purchase goods from wholesalers and then sell direct to consumers.

Service providers: Service providers sell services to consumers. Service providers often facilitate the sale, exchange, and distribution of products between different steps of the supply chain.

2. What is vertical integration?

Vertical integration is when different companies across different segments of the supply chain are united through a common owner.

ACTIVITY 1

SUPPLY CHAIN MATCHING

Directions: Match the step on the supply chain with the appropriate company profile.

A. Raw Materials

B. Manufacturer

C. Wholesaler

D. Retailer

E. Service Provider

1. CopperCore is a mining company and one of the world's largest suppliers of copper. CopperCore sells the copper it mines to manufacturers across the globe at a competitive price.

2. Marko's is a regional home improvement store that sells lumber, tools, garden supplies, appliances, electrical equipment, and heating and air conditioning units to residential and commercial clients across the Midwestern United States.

3. Easy Air is a company that produces heating and air conditioning units. The company purchases some of its components from other manufacturers. However, the majority of the heating and air conditioning units are produced from scratch in-house, including the production of its own copper coils.

4. H&C Corporation is a company that purchases heating and air conditioning units in large quantities that are then sold in smaller quantities to other stores at an increased price.

5. SureFreight is a shipping company whose core clientele consists of electronics and home improvement manufacturers and retailers.

ACTIVITY 2

UNCLE BILL, INC.

Directions: Take turns reading this story aloud with your partner. As you read through the story, think about how Uncle Bill's growing business relates to the supply chain.

Uncle Bill grew up in a suburban neighborhood in the 1950s, a time when it was not uncommon for families to have gardens in their backyards. When he was 12, Uncle Bill was given a small plot of his family's garden to tend. He started selling the fruits and vegetables that he produced to neighbors in his town. Uncle Bill liked earning his own money, but there was only so much that his neighbors could buy. Uncle Bill decided that, if he wanted to make more money, he needed more clients. So he began advertising his garden fruit and vegetables to individuals and businesses outside his neighborhood.

His advertising worked...too well. Uncle Bill's business grew so quickly that he couldn't keep up with demand. His family's garden simply didn't have the capacity to produce the quantity of fruits and vegetables he needed to supply his clients, so he decided to purchase additional produce in order to fill his orders. Uncle Bill's father, who worked as a truck driver, helped his son find small farmers in more rural areas from whom he could purchase the fruits and vegetables he needed to keep his customers satisfied.

For the next several years, Uncle Bill slowly expanded his business re-selling the produce he purchased from local farms. By the time he was 25, he had acquired a number of grocery stores as clients, developed relationships with several farmers, and even purchased his own truck, which allowed him to pick up and deliver the produce from the farms to his clients.

However, Uncle Bill realized that too much of his money was going to pay for others to grow the produce—his family garden had been small, but at least he had kept more of the profits. He decided to buy one of the farms he used as a supplier and invest in additional land and equipment to build the farm's capacity for fruit and vegetable production. After a few years and a lot of hard work developing the farm he'd purchased, Uncle Bill was able to supply almost all of the produce he needed for his customers.

Through the process of purchasing and taking over a farm, Uncle Bill learned that he could cut some of the costs of running the farm if he produced his plants, instead of buying them from outside vendors. By taking the sprouts common to existing plants and developing his own plants, Uncle Bill was able to diversify his plant offerings to the point where he could cut out plant suppliers all together. He began growing all of his own plants.

Once again, Uncle Bill saw opportunity. He realized that people were willing to buy the seedlings and plants that his farm was now producing. It wasn't long before Uncle Bill had a lively nursery business of his own, and he developed this side of his business further when he bought out a local nursery competitor who was ready to retire.

During his time developing his produce and nursery operations, Uncle Bill had the opportunity to purchase some land with timber on it. He originally thought that he'd cut down the timber and make a profit by selling it to a lumber yard. However, Uncle Bill never turned down an opportunity to think creatively, and he decided to keep the timber, develop his own lumber yard, and use the wood to pursue a personal passion: designing and building outdoor furniture.

Uncle Bill already had retail outlets in place through his grocery store clients and nurseries. However, he realized that he could capture a greater share of the outdoor furniture market if he purchased a storefront. Uncle Bill leased a building and began selling his furniture direct to customers.

ACTIVITY 3

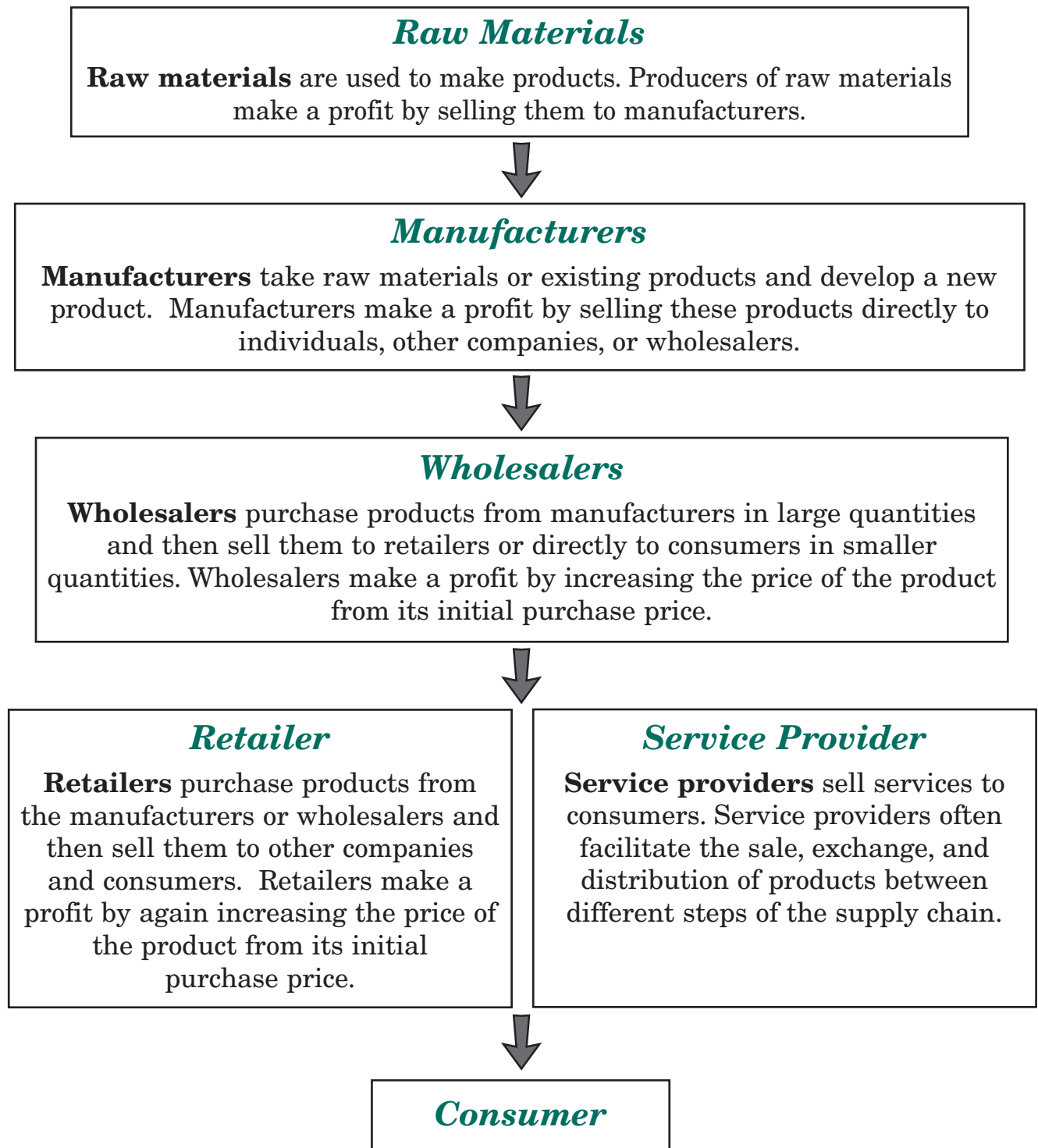
BUILDING A BUSINESS FROM ASSETS/RESOURCES

1. Describe some of the available assets in your area. These may include financial, social, cultural, human, environmental, and entrepreneurial.
2. Of these assets, which do you have the greatest access to?
3. What is something entrepreneurial you could do using one or more of these resources?
4. What type of business would this activity fall into (manufacturing, wholesaling, retailing, service-based business)?
5. Would it be possible for you to capture multiple steps in the supply chain?
6. If yes, how would you do so? For instance, can you manufacture a product and then sell it directly to the consumer and, in so doing, get a larger share of the profits?
7. What opportunities might exist to expand your business as it grows?

VISUAL 1

THE SUPPLY CHAIN

Supply Chain: The supply chain is all of the steps involved in making a product and delivering it to the customer.



VISUAL 2

ASSET ANALYSIS

In any region, there are existing resources or assets from which businesses can be built. These assets take the form of:

Financial assets:

Assets that have the potential to be transferred into or produce liquid capital (money). These resources might also be used to support entrepreneurs in the form of training and financing for businesses.

Examples include:

- Financial lenders: banks, credit unions, other lending agencies
- Existing businesses
- Economic development agencies
- Government offices
- Civic organizations

Human assets:

Assets that serve as a resource for creating jobs or hiring employees.

Examples include:

- Schools, colleges, and universities
- Community-based educational and job training programs
- Existing labor pool, such as unemployed workers, existing workers, and students
- Churches or other faith-based training programs
- Military

VISUAL 2, CONTINUED

ASSET ANALYSIS

Social assets:

Assets that provide opportunities for connecting and networking with people.

Examples include:

- Social groups, such as the Boy/Girl Scouts, Big Brothers/Sisters, gardening clubs
- Professional organizations, such as legal and medical organizations
- Fraternal groups, such as the Lions, Kiwanis, Rotary, and Veterans of Foreign Wars
- Religious organizations, youth groups, and service groups
- Educational groups, such as parent/teacher organizations and alumni organizations
- Recreational groups, such as sports teams/leagues, card clubs, and other interest groups
- Boards of directors of such organizations as banks, school boards, and chambers of commerce

Cultural assets:

Assets that impact quality of life by providing entertainment.

Examples include:

- Music attractions, such as the blues music of the Mississippi, jazz music of Chicago, Broadway in New York City, etc.
- Sports attractions, such as the Baseball Hall of Fame, professional and collegiate sports arenas, and local sporting team fields
- Food attractions, either regionally specific (Maine lobster, North Carolina barbeque, etc.) or culturally/ethnically specific (Amish, Mexican, Navajo, etc.)
- Historic and civic sites, such as battle fields, monuments, or seats of government
- Family entertainment venues: theme parks, water parks, etc.
- Religious attractions: historic churches or cathedrals
- Art attractions: museums, festivals, crafts, and shows

VISUAL 2, CONTINUED

ASSET ANALYSIS

Environmental assets:

Assets that relate to a region's geography.

Examples include:

- Beaches: resorts, stores, restaurants, and rentals
- Rivers, lakes, and oceans: fishing, boating, and commercial transit
- Parks: food, festivals, and family reunions.
- National parks, forests, and historic sites: camping and hiking
- Roadways: Interstate exits, historic roadways (Route 66), and scenic byways
- Wildlife: hunting, fishing, bird watching
- Railways

Entrepreneurial assets:

Assets that assist entrepreneurs in starting and operating their businesses.

Examples include:

- Chambers of Commerce
- Financial institutions
- Government supported services: Small Business Development Centers, Small Business Administration, Minority Business Assistance Centers, etc.
- Business incubators: buildings where entrepreneurs can start businesses and receive services such as advertising, accounting, legal, rent, and telecommunications at a reduced cost