The Enterprise Trading Game

1

Background

Using BP in Business to enhance your delivery

The BP in Business online and PDF case studies can provide more depth if you have time to discuss some of the business concepts that students encounter:

Case study 1: Competition, community and government, can help you explore the idea of supply and demand when you introduce trading and the futures market.

Case study 3: Leading and managing people, can provide further ideas when you help teams reflect on their performance and how they worked as a team.

Case study 6: Cash, costs, profits and finance, gives the 'bigger picture' of how BP seeks to manage its income and expenditure as a publicly listed company.

Each case study comes with student tasks that you could set or that the teacher could use in follow-up sessions if they wish. These use real information and data from the bp.com website to help students gain experience of using and interpreting real business data.

The origin of futures trading

One explanation for the idea of futures trading has its origins in the farming communities of Babylonia, in Mesopotamia (modern-day Iraq) around 1500 – 2000 BCE.

Farmers wanted the assurance of a fair price for their barley and wheat, before the harvest, and so they agreed a price per bushel with local merchants.

This created a new dilemma: how to record these agreements? The solution was cuneiform writing on clay tablets, where symbols for words and numbers were pressed into wet clay that was then fired – the earliest known form of writing.

At harvest time, farmers were paid the agreed price for their harvest.

Because these clay tablets were a permanent record of an agreement, they could be traded between merchants during the period between the agreement and the harvest.

With Iraq's huge oil reserves, it is an interesting coincidence that the way in which oil is traded today may have had its origins in the area almost 4,500 years ago, perhaps even giving rise to the written word in the process.

An alternative explanation is the story of Thales, a Greek philosopher, who made predictions about the future olive harvest and made money from negotiating in advance the exclusive use of the olive presses at harvest time, having guessed correctly that the harvest would be plentiful and demand for the presses would be high.

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2

Background cont.

Futures trading today

Futures trading involves the buying and selling of contracts on commodity markets. The buyers and sellers speculate whether the price of a commodity is going up or down in the future.

Dozens of commodities, including orange juice, grains, livestock, precious metals and oil are traded everyday. Traders are all trying to make a profit by buying a commodity at a low price and selling it at a higher price. Futures trading is mainly speculative 'paper' investing, i.e. it is rare for the investors to actually hold the physical commodity, just a piece of paper known as a 'futures contract'. This is essentially an agreement to buy or sell a commodity at a fixed price (decided now) for delivery at a future point in time.

Oil futures: an explanation

By agreeing in advance a price for oil, there are clear benefits to both buyers and sellers.

Benefits for buyers: Large purchasers of oil include airlines, distribution and transport networks and manufacturers. They are able to secure large volumes of oil at a known price and this gives them greater certainty to plan and operate their business. It can also help:

- with cash flow, since a business knows what provisions it needs to make
- a business to identify its financial needs and secure any additional investment or short-term cash facility.

Benefits for suppliers: The benefits of oil futures for those agreeing to supply oil are also significant:

- Those who agree to supply oil are able to secure some protection from future price changes; they know in advance the price they will receive for their oil.
- The additional certainty that futures provide could help the oil company to secure long-term financing for future oil exploration and production.
- There may also be an opportunity to earn a profit through speculation: if a supplier agrees to sell supplies at a future price, this price may turn out to be higher than the price they paid for the underlying commodity.