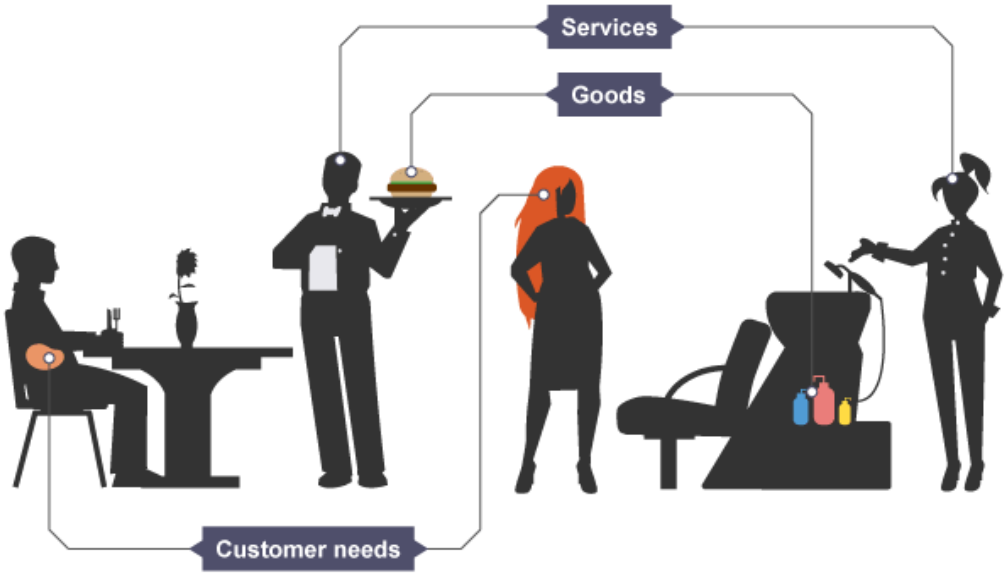
İSTANBUL TİCARET ÜNİVERSİTESİ

ENGLISH PREP.PROGRAM

EXTRA ARTICLES ON BUSINESS FOR SUMMER





What is a business?

A **business** is any organisation that makes **goods** or provides**services**.

There are many types of business in the UK. These range from small firms owned and run by just one self-employed person, through to large **companies** which employ thousands of staff all over the world.

Businesses exist to provide **goods** or **services**. If you need to purchase a lot of goods and services from another company you should try and find one with a good reputation.

Goods are physical products such as burgers or cars.

Services are non-physical items such as hairdressing.

Customer needs are the wants and desires of buyers. Companies want to stay relevant and **innovative** and often look at other successful companies, hot industry trends or new shiny products for inspiration.However, a vital component to growth is at every businesses' fingertips -- their customers.Yes, customers are the ones with the ability to determine your business' longevity and progress.

Nearly half a million businesses start up each year. A **business start- up** is a new firm operating in a market for the first time.

The vast majority of businesses are very small and operate in the **service sector.**



Businesses buy the products they need from suppliers – firms selling products to other businesses - and sell to customers. The individual who uses the product is called a consumer. Sometimes the customer and consumer are different people - for example, parents buy a pen for their child to use at school.

Businesses sell to customers in markets. A market is any place where buyers and sellers meet to trade products - this can be a high street shop or a website.

Businesses are likely to be in competition with other firms offering similar products.

Adding value

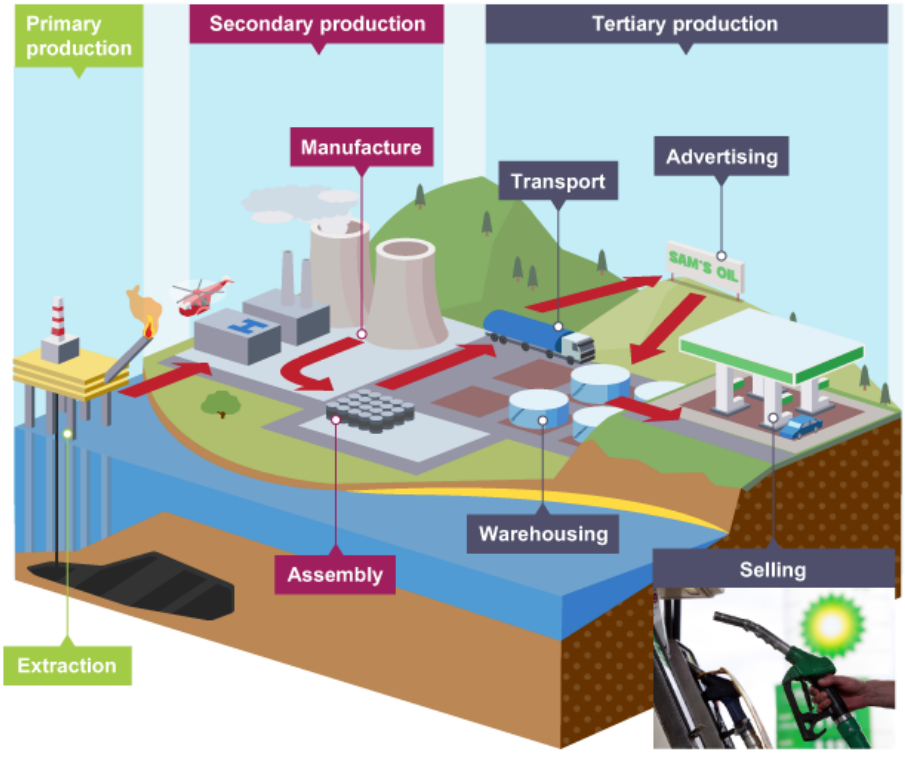
In order to create goods and services, a business buys or hires inputs such as raw materials, equipment, buildings and staff. These inputs are transformed into outputs called products. These products are the goods and services used by consumers. Production is the business activity of using resources to make goods and services.

A business adds value when the selling price of an item produced is higher than the cost of all the resources used to make it. Think of a pair of designer sunglasses which sell for £100. If the cost of the materials, employees, marketing and all other inputs used in making one set of sunglasses is just £20, then £80 worth of value has been added by the firm during production.

Primary, secondary and tertiary sectors

There are **three** main types of **industry** in which firms operate. These **sectors** form a chain of production which provides customers with finished goods or services.

- **Primary production:** this involves acquiring **raw materials.** For example, metals and coal have to be mined, oil drilled from the ground, rubber tapped from trees, foodstuffs farmed and fish trawled. This is sometimes known as extractive production.
- **Secondary production:** this is the **manufacturing and assembly** process. It involves converting raw materials into components, for example, making plastics from oil. It also involves assembling the product, eg building houses, bridges and roads.
- **Tertiary production:** this refers to the **commercial services** that support the production and distribution process, eg insurance, transport, advertising, warehousing and other services such as teaching and health care.



The chain of production shows **interdependence**: firms rely on other businesses in different sectors for raw materials, components or distribution.

Why start a business?

The skill involved in wanting to start and run a business is called **enterprise**. The individual who sets up their own business is called an **entrepreneur**.

There are several reasons why entrepreneurs are willing to take a calculated risk and set up a business. Possible motives include:

- Making a **profit.** A business does this by selling items at a price that more than covers the costs of production. Owners keep the profit as a reward for risk-taking and enterprise.
- The **satisfaction** that comes from setting up a successful business and being **independent.**
- Being able to **make a difference** by offering a service to the community such as a charity shop or hospice.

A new business needs its own **name** and a **product**. The challenge is to make goods and services that satisfy customers, are competitive and sell at a price that more than covers costs.

Taking a calculated risk

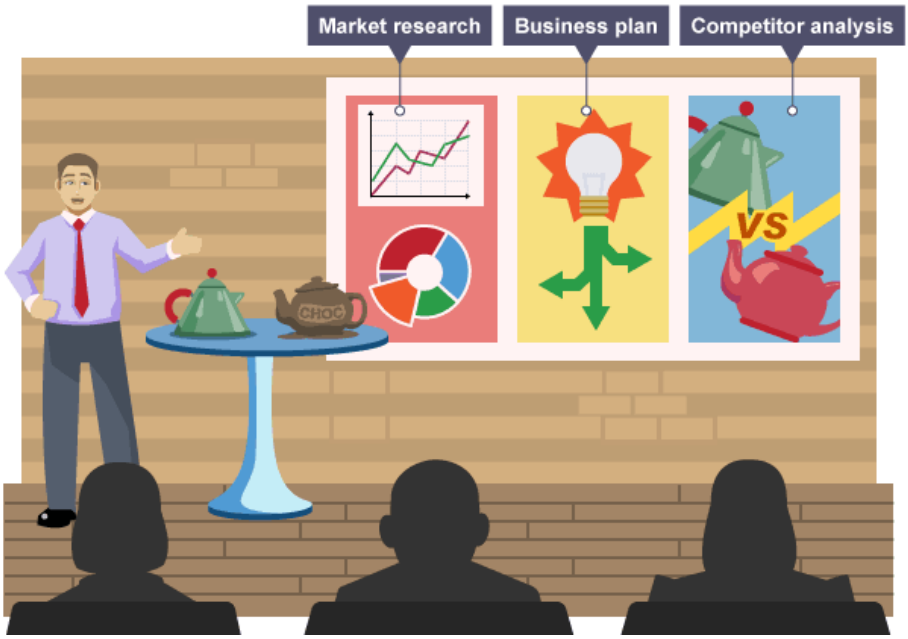
A new business starts out with few, if any, customers and is likely to face **competition** from existing firms. To succeed it needs to plan its launch carefully and work out how to create a competitive advantage over its rivals. To gain this advantage, it needs to offer a product which customers prefer to a rival's product.

Setting up a business involves **risks** and **reward**. Profit is the **reward** for risk-taking. Losses are the **penalty** of business failure.

An owner may decide to **close** a business if losses are being made, or if the level of profit is not enough to make trading risks or hours worked worthwhile.

A business plan

Most small businesses have very limited resources. **Research** is costly and can seem like a poor use of time. Some entrepreneurs ignore planning and analysis and instead rely on their **gut instinct**. They launch products they believe customers want and competitors cannot match. Poor planning is a major cause of **business failure**.



There is an alternative. A **business plan** is a report by a new or existing business that contains all of its research findings and explains why the firm hopes to succeed. A business plan includes the results of **market research** and **competitor analysis**. Analysis is when a business **interprets** information.

Drawing up a business plan forces owners to think about their aims, the competition they will face, their financial needs and their likely profits. Business plans help to reduce risk and reassure stakeholders, such as banks.

Aims and objectives of different business types

An aim or objective is a statement of what a business is trying to achieve over the next 12 months. For example, a business can set itself any of these targets:

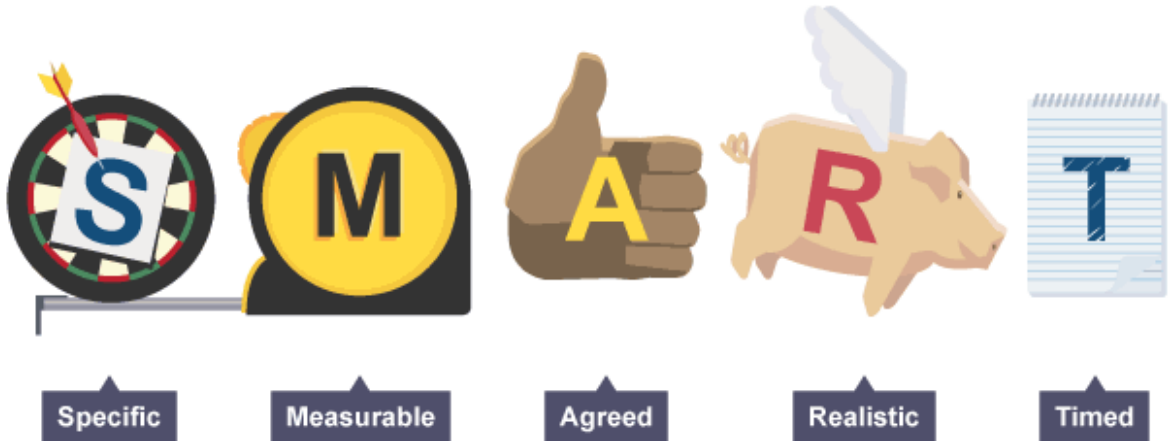
- survival
- increased profit
- growth
- increasing market share

Having an objective is useful because it helps staff to **focus** on shared aims. A business could instruct its staff to work towards increasing sales by 10% by the end of the year.

Different organisations have different **objectives**. Some businesses are run to make as much profit as possible for owners. However, not all businesses aim to make profit. Voluntary organisations such as charities are more concerned with providing a service to others.

Setting objectives

In most businesses, the **owners** decide on the objectives for the business.



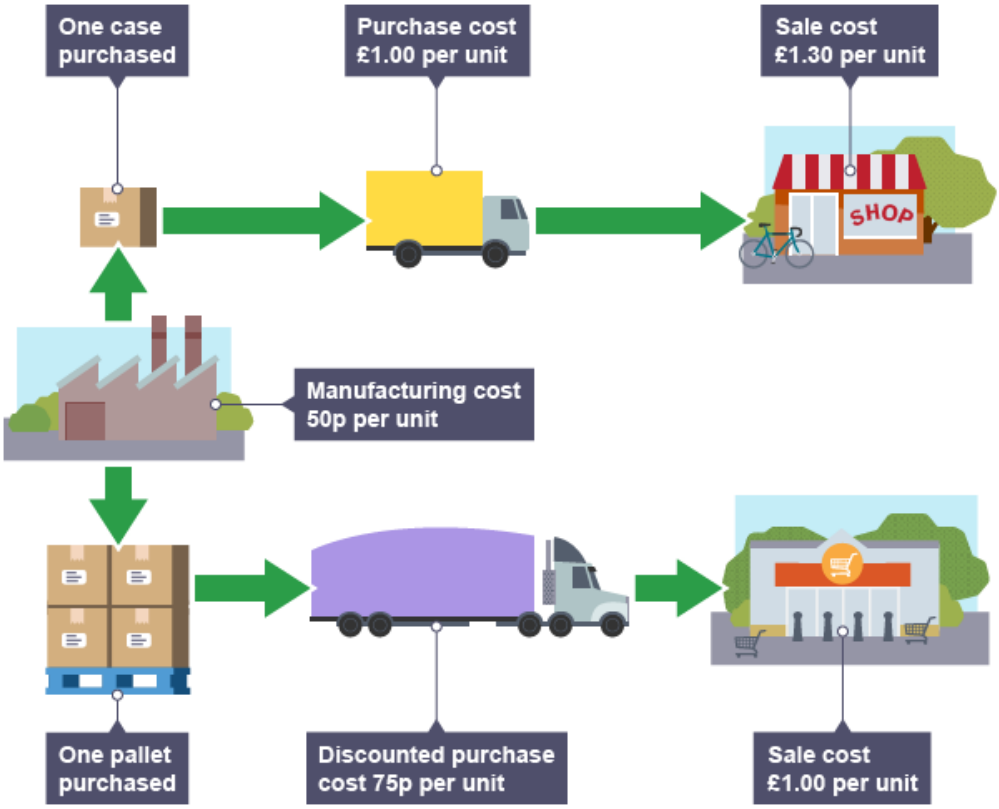
When a business first starts trading it has few loyal customers and no reputation. The most likely objective for a start-up business is simply **survival**. As the business grows and begins to win market share, the aim may shift towards **expansion** and/or **increasing profits**.

Some owners have a vague idea about their objectives. The best types of objective are **SMART**, which stands for:

- **Specific**: clearly state what is to be achieved, eg increased profits.
- **Measurable**: the desired outcome is a number value that can be measured, eg increase profits by 10%.
- **Agreed**: all staff are involved in discussing and agreeing an aim.
- **Realistic**: the target is possible given the market conditions and the staff and financial resources available.
- **Timed**: the target will be met within a given period of time, eg 12 months.

Benefits of a growing business

As a business **grows** it gains two major advantages over its smaller rivals. Large firms have more **influence** over market price. They're big enough to be **price setters**.



Large firms also often enjoy **economies of scale**. This means that a business has **lower unit costs** because of its large size. They can buy raw materials cheaply in bulk and also spread the high cost of marketing campaigns and overheads across larger sales.

For example, if a large firm can produce a given type of sunglasses for £20 while it costs its smaller rival an average of £30, then the larger firm has a £10 per unit **cost advantage**. Larger firms can charge lower prices or enjoy a higher profit margin.

Economies of scale are a major source of competitive advantage for large firms.

Methods of expansion

A business can grow in size through:

- **Internal (organic) growth** - the business grows by hiring more staff and equipment to increase its output.
- **External growth** - where a business **merges** with or **takes over**another organisation. Combining two firms increases the scale of operation.
- **Franchising** - where a business **leases its idea** to franchisees. This allows new branches to open across the country and internationally.

Reference : www.bbc.com/bitesize/subjects/zpsvr82

The Five Basic Principles of Economics

Understanding economics isn't necessarily **vital** to **managing a budget**, but it can certainly help you get a leg up in business. If you understand the ways in which businesses make money – the real principle of economics behind them – you're much more likely to know when it's time to ramp up production or slow things down.

There are five basic principles of economics that explain the way our world handles money and decides which **investments** are worthwhile and which ones aren't: **opportunity cost**, marginal principle, law of diminishing returns, principle of voluntary returns and real/nominal principle. While the marginal principle definition might explain the very fundamentals of turning **a profit,** the real/nominal principle can teach you how to understand the actual worth of a dollar.

Who Uses Each Principle Of Economics

You might not think you're the type of person who needs to use and understand each principle of economics, but the truth is you're probably using them every day without even realizing it. For example, even students use the five major principles of economics to analyze which courses are worth taking for the money. The average employee will use the **real/nominal principle** to prioritize home repairs. Anyone who's ever bought something in a store has used the principle of voluntary returns (unless, of course, they broke something in the store and were *forced* to buy it).

Opportunity Cost Concept

Before we get into any marginal principle examples, opportunity cost is one of the most basic economic concepts on the map. It’s something we understand without ever even thinking about it. Basically, the world has unlimited wants but very limited means, so there’s always a choice that has to be made. We give up one thing to have another but must **calculate the value and cost** to find which option will be most fruitful. Take this example:

The world has a limited beef supply. There’s only so much cattle that farmers can raise in any given year, but where that beef goes is totally up in the air. It can be turned into ground

beef and **mass-marketed** in supermarkets. It can be put in Slim Jims and other beef jerky products.

It can be transformed into beef broth and canned for Campbell's or sent to a local butcher. Only so many of those products can be made because there's only so much beef, so how do you decide how much of it gets made into beef jerky verses transformed into broth? A market system (**supply and demand**) is a simple answer.

Marginal Principle Concept

In short, the marginal principle definition is very basic and what we deal with every single day when running a business. You increase the level of an activity as long as its **marginal benefit** exceeds its **marginal cost**. In other words, it wouldn't be a very wise business decision to spend more money than you're taking in if you don't have an overarching plan for profitability. You might spend three years in the hole with startup costs and **rely heavily on investors**, but no one's going to be willing to invest if they don't see a pathway to turning a profit. Here's a very basic marginal principle example:

Say you run a doughnut shop. The flour, sugar, eggs and butter you put into the doughnuts cost around $.10 per doughnut. You sell each doughnut for $1.50. That's a huge profit, so it might seem like the marginal benefits do outweigh the costs.

Unfortunately, your store has poor Yelp ratings and you barely have any customers. Your rent starts to pile up, and even though your doughnuts themselves are profitable, the marginal benefit does *not* end up **exceeding the costs**. You ultimately shutter your business. That's the marginal principle definition in its most basic form.

Another marginal principle example? A store may choose to keep expanding their business as long as they see increased revenue. When a store like, say, Sears or Toys R Us sees that revenue has started to drastically shrink, they will, in turn, scale down or close altogether.

Law of Diminishing Returns

The law of diminishing returns also goes by a couple of other names. You might know it simply as diminishing returns or the principle of diminishing **marginal productivity**. This principle of economics shows that if one output of production is increased while keeping the others fixed, production will see an overall increase, but the rate of the increase gradually decreases.

The Principle of Voluntary Returns

The principle of voluntary returns is a principle of economics that promotes a free exchange of goods and services between buyers and sellers in a marketplace. This particular principle is used highly in international trade.

For example, each country has products they specialize in. Taiwan is a huge manufacturer of microchips. American companies buy these chips to make computers. These computers can then be sold back to Taiwanese consumers.

Basically, we **import** the products we don't specialize in and sell off the ones we do. Sometimes, those things are deeply intertwined. The key part of this principle is that this exchange is voluntary. You get the best rate and both parties are happy with the exchange.

Real/Nominal Principle

The real/nominal principle is one of the fundamentals of economics. Basically, it states that people aren't interested in the face (nominal) value of money. They're interested in the actual (real) value of money. The real value is how much goods money can buy and the key to understanding how much money is actually worth in the scheme of real society. This is specifically important when factoring in exchange rates and inflation or the value in regard to other goods.

For example, if a car costs $10,000, that could also pay for a year of rent. If an insurance policy costs $500 per month, that money could also be spent on gas and maintenance.

Our Society Thrives on the Five Principles

Our society thrives on the five basic economic principles – whether you're weighing the value of a mortgage, buying a new car or simply selling some old clothes on Etsy. The more you understand the way our economy works, the better you can get ahead of the curve and make the best financial choices for you.

1.

The 4 P's Of Marketing



Marketing Mix, a term coined by Neil Borden, are the ingredients that combine to capture and promote a brand or product's unique selling points, those that differentiate it from its competitors. The ideas behind Borden's model were refined over the years until E. Jerome McCarthy reduced them to 4 elements called "The Four Ps." This proposed classification has been used by marketing companies, **branding agencies** and web design companies throughout the world.

The 4P's were formalized and developed over the years by experts to ensure the creation and execution of a successful marketing strategy. Through the use of this tool, the attempt is to satisfy both the customer and the seller. When properly understood and utilized, this mix has proven to a key factor in a product's success.

The Four Ps Model

Product – The first of the Four Ps of marketing is product. A product can be either a tangible good or an **intangible service** that **fulfils a need** or want of consumers. Whether you sell custom pallets and wood products or provide luxury accommodations, it's imperative that you have a clear grasp of exactly what your product is and what makes it unique before you can successfully market it.

Price – Once a concrete understanding of the product offering is established we can start making some pricing decisions. Price determinations will impact profit margins, supply, demand and marketing strategy. Similar (in concept) products and brands may need to be positioned differently based on varying price points, while price elasticity considerations may influence our next two Ps.

Promotion – We've got a product and a price now it's time to promote it. Promotion looks at the many ways marketing agencies disseminate relevant product information to consumers and differentiate a particular product or service. Promotion includes elements like: advertising, public relations, social media marketing, email marketing, search engine marketing, video marketing and more. Each touch point must be supported by a well-positioned brand to truly maximize return on investment.

Place – Often you will hear marketers saying that marketing is about putting the right product, at the right price, at the right place, at the right time. It's critical then, to evaluate what the ideal locations are to convert potential clients into actual clients. Today, even in situations where the actual transaction doesn't happen on the web, the initial place potential clients are engaged and converted is online.

DEVELOPING A MARKETING MIX

Intuition and creative thinking are essential job requirements for a marketing manager. But relying on just these can lead to inaccurate assumptions that may not end up delivering results. To ensure a marketing mix that is based in research and combines facts with innovation, a manager should go through the following systematic process:

Step 1: Defining Unique Selling Proposition

The first item on the marketing manager's agenda should be to define what the product has to offer or its unique selling proposition (USP). Through customer surveys or focus groups, there needs to be an identification of how important this USP is to the consumer and whether they are intrigued by the offering. It needs to be clearly understood what the key features and benefits of the product are and whether they will help ensure sales.

Step 2: Understanding the Consumer

The second step is to understand the consumer. The product can be focused by identifying who will purchase it. All other elements of the marketing mix follow from this understanding. Who is the customer? What do they need? What is the value of the product to them? This understanding will ensure that the product offering is relevant and targeted.

Step 3: Understanding the Competition

The next step is to understand the competition. The prices and related benefits such as discounts, warranties and special offers need to be assessed. An understanding of the subjective value of the product and a comparison with its actual manufacturing distribution cost will help set a realistic price point.

Step 4: Evaluating Placement Options

At this point the marketing manager needs to evaluate placement options to understand where the customer is most likely to make a purchase and what are the costs associated with using this channel. Multiple channels may help target a wider customer base and ensure east of access. On the other hand, if the product serves a niche market then it may make good business sense to concentrate distribution to a specific area or channel.

Step 5: Developing Communication / Promotion strategy

Based on the audience identified and the price points established, the marketing communication strategy can now be developed. Whatever promotional methods are finalized need to appeal to the intended customers and ensure that the key features and benefits of the product are clearly understood and highlighted.

Step 6: Cross-check of the Marketing Mix

A step back needs to be taken at this point to see how all the elements identified and planned for relate to each other. All marketing mix variables are interdependent and rely on each other for a strong strategy. Do the proposed selling channels reinforce the perceived value of the product? Is the promotional material in keeping with the distribution channels proposed? The marketing plan can be finalized once it is ensured that all four elements are in harmony and there are no conflicting messages, either implicit or explicit.

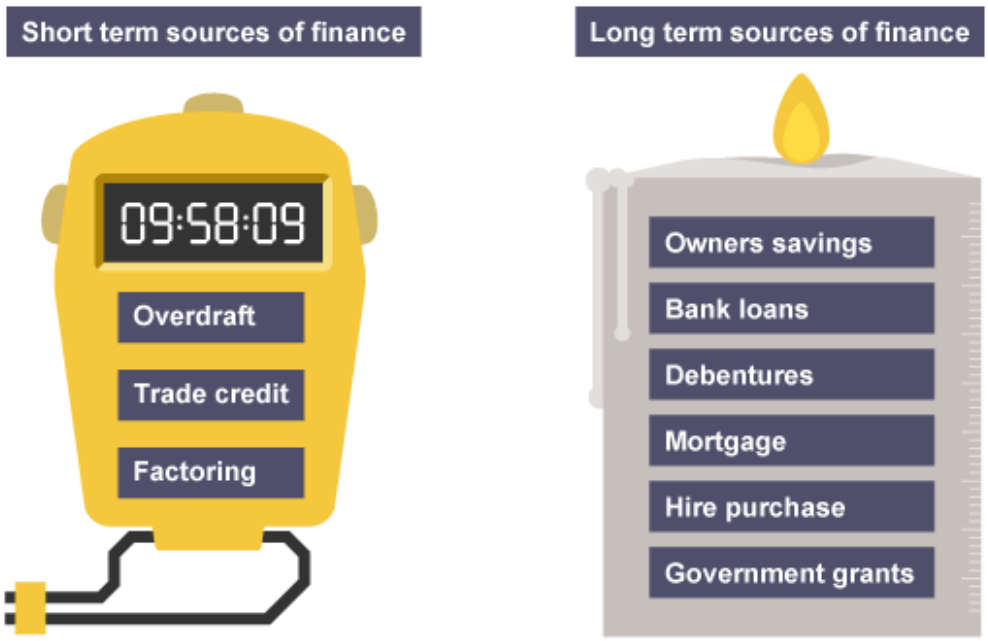
Reference : https://www.purelybranded.com/insights/the-four-ps-of-marketing/

Ways to finance a business

Some sources of finance are **short term** and must be paid back within a year. Other sources of finance are **long term** and can be paid back over many years.

Internal sources of finance are funds found inside the business. For example, profits can be kept back to finance expansion. Alternatively the business can sell **assets** (items it owns) that are no longer really needed to free up cash.

External sources of finance are found outside the business, eg from creditors or **banks**.



Sources of external finance to cover the short term include:

- An **overdraft facility** - where a bank allows a firm to take out more money than it has in its bank account.
- **Trade credits** - where suppliers deliver goods now and are willing to wait for a number of days before payment.
- **Factoring** - where firms sell their invoices to a factor such as a bank. They do this for some cash right away, rather than waiting 28 days to be paid the full amount

Long-term sources of external finance

Sources of external finance to cover the long term include:

- **Owners** who invest money in the business. For sole traders and partners this can be their **savings**. For companies, the funding invested by shareholders is called **share capital**.
- **Loans** from a bank or from family and friends.
- **Debentures** are loans made to a company.
- A **mortgage**, which is a special type of loan for buying property where monthly payments are spread over a number of years.
- **Hire purchase** or **leasing**, where monthly payments are made for use of equipment such as a car. Leased equipment is rented and not owned by the firm. Hired equipment is owned by the firm after the final payment.
- **Grants** from charities or the government to help businesses get started, especially in areas of high unemployment.

Creditors and debtors

A **creditor** is an individual or business that has lent funds to a business and is owed money. **A debtor** is an individual or business who has borrowed funds from a business and so owes it money.

There is a cost in borrowing funds. Money borrowed from creditors is paid back over time, usually with an additional payment of **interest**. Interest is the cost of borrowing and the reward for lending.

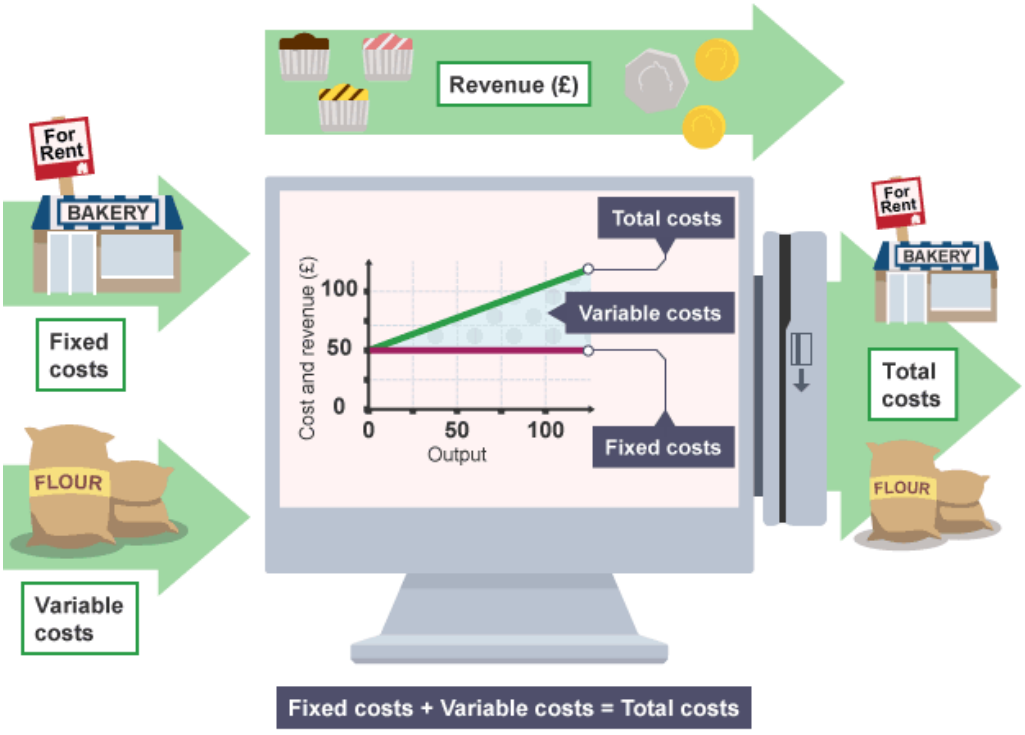
Revenue

Revenue is the income earned by a business over a period of time, eg one month. The amount of revenue earned depends on two things - the number of items sold and their selling price. In short, **revenue = price x quantity**.

For example, the total revenue raised by selling 2,000 items priced £30 each is 2,000 x £30 = £60,000.

Revenue is sometimes called **sales**, **sales revenue**, **total revenue**or **turnover**.

Costs



Costs are the expenses involved in making a product. Firms incur costs by trading.

Some costs, called **variable costs**, change with the amount produced. For example, the cost of **raw materials** rises as more output is made.

Other costs, called **fixed costs**, stay the same even if more is produced. **Office rent** is an example of a fixed cost which remains the same each month even if output rises.

Another way of classifying costs is to distinguish between **direct costs** and **indirect costs**. Direct costs, such as raw materials, can be linked to a product whereas indirect costs, such as rent, cannot be linked directly to a product.

The **total cost** is the amount of money spent by a firm on producing a given level of output. Total costs are made up of fixed costs (FC) and variable costs (VC).

Profit and loss



Put simply, **profit** is the surplus left from revenue after paying all costs. Profit is found by deducting total costs from revenue. In short: **profit = total revenue - total costs**.

For example, if a firm has a total revenue of £100,000 and a total cost of £80,000, then they are left with £20,000 profit.

Profit is the reward for **risk-taking**. A business can use profit to either:

- **reward** owners
- **invest** in growth
- **save** for the future, in case there is a downturn in revenue

Losses

Trading does not guarantee profit. A **loss** is made when the revenue from sales is not enough to cover all the costs of production. For example, if a company has a total revenue of £60,000 and a total cost of £90,000, then they have lost £30,000 from trading.

Losses can be reduced or turned into profit by:

- **cutting costs** - eg by letting staff go and asking those who remain to accept lower wages
- **increasing revenue** - eg by cutting prices and selling more items - if demand is elastic

Structure of the Profit and Loss Statement

A company's statement of profit and loss is portrayed over a period of time, typically a month, quarter, or fiscal year.

The main categories that can be found on the P&L include:

Revenue (or Sales)

Cost of Goods Sold (or Cost of Sales)

Selling, General & Administrative (SG&A)

Marketing and Advertising

Technology

Interest Expense

Taxes

Net Income

Reference : https://www.bbc.com/bitesize/guides/zxq2hyc/revision/2

https://corporatefinanceinstitute.com/resources/knowledge/accounting/profit-and-loss-statement-pl/

Entrepreneur or Entrepreneurship - What defines them?

'The entrepreneur,' said the French economist J.B. Say around 1800, 'shifts economic resources out of an area of lower and into an area of higher productivity and greater yield.' But Say's definition does not tell us who this 'entrepreneur' is. And since Say coined the term two hundred years ago, there has been total confusion over the definitions of 'entrepreneur' and 'entrepreneurship'.

The word 'entrepreneur' itself comes from the old French entrepreneur, which would literally mean 'take between', and from which we get 'enterprise' which suggests 'go in and take'. The implication here then is of someone who takes risks or responsibilities in the creation and management of a business venture. There is a pioneering aspect to the term 'entrepreneur' that could also apply to 'entrepreneurship'. Say's definition, however, might well define the latter better than the former.

An entrepreneur is often defined as one who starts his own, new and small business. But not every small business is entrepreneurial or represents entrepreneurship. The husband or wife who open another delicatessen store or another Mexican restaurant surely take a risk. But are they entrepreneurs? All they do is what has been done many times before. They gamble on the increased popularity of eating out, but create neither new satisfaction nor new consumer demand. Therefore, they are not entrepreneurs.
McDonald's, however, was entrepreneurship. It did not invent anything, but by applying management concepts and management techniques, and standardizing the 'product' , process and tools and basing a training formula on the work to be done according to required standards, McDonald's both drastically upgraded the yield from resources, and created a new market and a new customer. This is entrepreneurship.

Anita Roddick, founder of 'The Body Shop' has her own definition of an entrepreneur. She argues that entrepreneurs cannot be formed in Business Schools with their emphasis on financial management, marketing, product development etc, but that entrepreneurs are 'outsiders', people who think 'outside the box'. She believes that they take great ideas, perfect them and then try and sell them to as many people as possible. She says 'My God! If I make this idea really work, people will buy it from me, hopefully give me a profit.' To her, profit is an added bonus not the motivation of an entrepreneur. She accepts the need for all the things that Business Schools teach, but sees them as subservient to the creation and selling of a good idea. All she wants is 'to be the most idiosyncratic, the wildest, the bravest.'

So, while all new businesses have many factors in common, to be entrepreneurial, an enterprise has to have special characteristics over and above being new and small. Entrepreneurs are a minority among

new businesses. They create something new, something different; they change or transmute values. McDonald's displayed entrepreneurship, while 'The Body Shop' is the work of an entrepreneur.

The Urge to Merge

For companies hoping to boost profits and streamline their business model, mergers can be exciting times. But for the employees caught in the middle, the uncertainty such an upheaval brings means that for them it is more likely to be a time of fear, suspicion and worry.

Charles Harvey is a sales and marketing manager based in Manchester. The regional newspaper group he worked for merged with a national group four years ago, but he is still unable to relax. "Initially, everyone was worried about their jobs and there was an air of unrest about the place, but most people managed to go back to normal," he says. "In the first few years, I actually benefited from the merger, taking on additional cross-company projects, which was great for getting to know about the new company. But in the last eight months, the restructures have started and it's started to feel like a rollercoaster ride.

Nuala Page can sympathize. The PA, who works for a large banking corporation, has survived three mergers. "To be honest, the first two didn't really affect me because we took them over," she says. "There was a certain amount of 'them' and 'us', but because we knew our jobs were safe, we felt more confident. The third time it happened, we were taken over by a much bigger bank. My boss left, my whole department disbanded - everything just seemed to break down. The morale was dreadful - people hardly even bothered to come in and it definitely affected the business. Really solid, productive departments were broken up. We were told we'd be offered comparable jobs, but I certainly wasn't. I stuck it out for three months before I had to leave."

Page's experience highlights the fact that many mergers are, in truth, acquisitions, whereby one business actually buys another and incorporates it into its own business model. As Ben Williams, an Edinburgh-based corporate psychologist puts it: "There is no such thing as a merger. It is always a takeover of some sort. It really isn't a love affair."

The biggest fear, of course, is of redundancy. Business analyst Jason Owen was made redundant from a telecommunications company five years ago, after a merger took place. "The company made no secret that they were looking for a buyer, but ... it literally happened overnight," he says. "People started to get out while they could, others took retention bonuses and hoped they'd be able to find something if they lost their job at a later date. But there wasn't much in the way of new business, so the sales force lost their enthusiasm. Everything slowed down and you could tell people were just

hanging around to pick up their money. We turned up at work one day to be told the company had gone into administration and most of us were out of a job. I had a wife and three small children to support. It was terrifying."

Most people feel uncomfortable with change, so when a merger takes place, there are countless practical and emotional transitions to make. "At first there is negation," says Williams. "When change comes along, we don't like it and consequently, this stage is characterized by anger, panic and suspicion. People tend to go into denial. This is followed by a period of self-justification, when people present their reasons for rejecting change. Next is exploration. People start to realise that there's a possibility of improvement, reframe the problem and try to work out new ways of doing things. Then there's resolution, when the fear has been disabled and excitement starts to emerge about new challenges. Finally, there is growth, when people are ready to move out of their comfort zone, to face the bigger challenge. They realize that they can 'do' change."



You can follow online lessons on these links

https://www.coursera.org/learn/international-business-2

https://www.coursera.org/specializations/english-for-business

https://www.coursera.org/learn/international-business