FORMS OF BUSINESS OWNERSHIP

Section 2.1 (page 41)

- **Different forms of business ownership are:**
  - **Sole Proprietorships**
  - **Partnerships**
  - **Corporations**
  - *co-operatives (not studied in this course)*
  - **Franchises**

Sole Proprietorship

- Is a business owned by one person, normally referred to as the proprietor.
- The proprietor has many different responsibilities, they may be the accountant and the janitor for their business.
- The funding for this type of business usually comes from the business owners own pocket (their savings), or from friends, family, or a bank loan.
- The business can have employees other than the owner.

Disadvantages of Sole Proprietorship

- If the business does poorly, the owner is responsible for all the losses. The owner may even lose his/her home and other personal belongings.
- This is called ***unlimited liability***, and it is the biggest disadvantage of organizing a business this way.

Advantages of Sole Proprietorship

- If the business does well, the owner enjoys all the profits.
- Starting and administering the business is easier and less expensive than other forms of business.
- Sole proprietors can operate their businesses under their own name and not register it with the government.
- They can declare their business income on their personal taxes and not file a separate business tax form.

Partnerships

- A business that is usually operated by two or more individuals who want to share the costs and responsibilities of running a business. (Examples: Lawyers, Engineers, etc)
- They record the terms of their partnership in a **partnership agreement.**
- Examples of well known partnerships are**:** A&W, Black & Decker, M&M's, Proctor & Gamble…

  can you think of any others?

2 Different Kinds of Partnerships

- **General Partnership**: the most common form, all partners have unlimited liability for the firm's debts.

  (Meaning each partner could be held responsible for the other partner's business related debts.... In other words… if one goes down they all go down!)

- **Limited Partnership**: partners in this have limited liability, which means they are only responsible for paying back the amount they invested in the partnership. (so if the business goes down, their personal savings and other assets cannot be touched to pay the partnership's debts).

Advantage of Partnerships

- There is a shared responsibility in the business, all partners get to add their specific talents and get to share in the decision making.

Disadvantage of Partnerships

- Each partner is reliant on the others to do their share and contribute to the success of the business. Shared decision-making = Less control than with sole proprietorship

Corporations

- https://www.youtube.com/watch?v=wtMORWO5h9Y
- A corporation is a business that has been granted legal status with rights, privileges, and liabilities that are distinct from those of the people who work for the business.
- They can be as small as one person, or as large as a multinational (or transnational).
- Many people believe corporations to be enormous, but most are owned entirely by individuals, families, or small groups.

- Large corporations cannot be managed well if they are owned and funded by only one or two people…

  So the ownership of these corporations is divided into many small parts, called ***shares*** or ***stock,*** which the original owners sell through a ***stock exchange***.

- **Shareholders** are people who by the shares and therefore own part of the company. The more shares a shareholder owns, the greater control they have.

- To manage the many owners a **board of directors** is put into place to run the company.

- Shareholders have limited liability.
- This is an advantage because it encourages people to buy shares (less risk). If the company fails, shareholders only lose the amount they have invested…
- If the company profits, it may be used to expand the company itself, or it may be returned to the shareholders in the form of a **dividend**.

Types of Corporations

- Private Corporation: a corporation owned by a small number of shareholders.
- Public Corporation: a corporation with many shareholders whose shares can be bought and sold on a stock exchange. (ex. Rogers Communications, Vale INCO)
- Crown Corporation: a business owned and operated by the provincial or federal government. (ex. Canada Post, VIA Rail, CBC)
- Municipal Corporation: the formal name for a city or a town. (City of Corner Brook, Town of Pasadena)

Franchises

- https://www.youtube.com/watch?v=6fidL510akg
- In a franchise operation, the franchiser licenses the rights to its name, operating procedure, designs, and business expertise to the franchisee.
- In other words, one business licenses to another business.
- A franchisee buys a license to operate a ready made business and is often provided a fully operational facility.
- The franchiser and the franchisee are independent businesses from each other. This is why it is known as a hybrid form.

- This is a very popular form of business, because they offer brand recognition.
- Hotels, motels, fast-food restaurants, and automobile dealerships are examples.

Meeting the standard….

- Before a franchise is awarded, the franchisee must meet many requirements.
- Payment of the franchise fee to the franchiser.
- These fees can range from thousands to millions of dollars; more successful franchises = higher fees.
- In addition to the start up fee, the franchisee pays a monthly fee. This fee may be 5% of it's monthly sales.

- They also have to pay the franchiser for national and local advertising.
- All supplies for the business often have to be purchased through the franchiser.
- This type of quantity buying is a benefit to the franchisee because it lowers costs of supplies.
- Some franchisers require the franchisee to go through training to ensure their business standard, so that brand recognition and quality are guaranteed.
- Despite the high fees and costs, franchise operations are often very successful!