**CHAPTER 5: FORMS OF BUSINESS OWNERSHIP AND ORGANIZATION**

**Chapter Overview**

This chapter begins by focusing on small-business ownership, including the advantages and disadvantages of small-business ventures, the contributions of small business to the economy, and the reasons why small businesses fail. The chapter examines the services provided by the U.S. government’s Small Business Administration, the role of women and minorities in small business, as well as alternatives for small businesses, such as franchising. The chapter then moves on to an overview of the forms of private business ownership—sole proprietorships, partnerships, and corporations. In addition, the features of businesses owned by employees and families, as well as not-for-profit organizations, are discussed. Public and collective ownership are examined as well. The chapter concludes with an explanation of structures and operations typical of larger companies, and a review of the major types of business alliances.

**Glossary of Key Terms**

**Acquisition:** agreement in which one firm purchases another

**Board of directors:** governing body of a corporation

**Business incubator:** local programs designed to provide low-cost shared business facilities to small start-up ventures

**Business plan:** written document that provides an orderly statement of a company’s goals, methods, and standards

**Common stock:** shares that give owners voting rights but only residual claims to the firm’s assets and income distributions

**Conglomerate merger:** merger that combines unrelated firms, usually with the goal of diversification, spurring sales growth, or spending a cash surplus in order to avoid a takeover attempt

**Corporation:** legal organization with assets and liabilities separate from those of its owner(s)

**Employee ownership:** business ownership in which workers buy shares of stock in the company that employs them

**Franchisee:** individual or business firm purchasing a franchise

**Franchising:** contractual business arrangement between a manufacturer or other supplier, and a dealer such as a restaurant operator or retailer

**Franchisor:** firm whose products are sold to customers by the franchisee

**Home-based business:** firm operated from the residence of the business owner

**Horizontal merger:** merger that joins firms in the same industry for the purpose of diversification, increasing customer bases, cutting costs, or expanding product lines

**Joint venture:** partnership between companies formed for a specific undertaking

**Limited-liability corporation (LLC):** corporation that secures the corporate advantage of limited liability while avoiding the double taxation characteristic of a traditional corporation

**Microloans:** small-business loans often used to buy equipment or operate a business

**Merger:** agreement in which two or more firms combine to form one company

**Not-for-profit corporation:** organization whose goals do not include pursuing a profit

**Partnership:** association of two or more persons who operate a business as co-owners by voluntary legal agreement

**Preferred stock:** shares that give owners limited voting rights, and the right to receive dividends or assets before owners of common stock

**S corporation:** corporations that do not pay corporate taxes on profits; instead, profits are distributed to shareholders, who pay individual income taxes

**Small Business Administration (SBA):** principal government agency concerned with helping small U.S. firms

**Small business:** independent business with fewer than 500 employees, not dominant in its market

**Sole proprietorship:** business ownership in which there is no legal distinction between the sole proprietor’s status as an individual and his or her status as a business owner

**Stockholders:** owners of a corporation due to their purchase of stock in the corporation

**Venture capital:** money invested in a business by another business firm or group of individuals in exchange for an ownership share

**Vertical merger:** merger that combines firms operating at different levels in the production and marketing process

**Learning Objective 1: Discuss why most businesses are small businesses.** *A small business is an independently owned business having fewer than 500 employees. Generally it is not dominant in its field and meets industry-specific size standards for income or number of employees. A business is classified as large when it exceeds these expectations.*

**Annotated Lecture Outline**

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| **Opening Vignette: Snagajob’s Success Hooks Investors**  CEO and founder of Snagajob.com Shawn Boyer created his business in 1999 after striking out trying to find internship leads for a friend. Now, the online job search expanded into a community of roughly 30 million hourly job seekers, mostly between the ages of 18-32. Boyer’s own employee count rose from 150 to 300. Snagajob attracts their workers through benefits ranging from backup childcare, paternity leaves, and paid resort vacations to commemorate 5 and 10 year employment anniversaries. After the U.S. Small Business Administration awarded Boyer as the National Small Business Person of the Year, a venture capital firm made a $27 million investment in Snagajob, helping it reach mid-sized firm status. | *Lecture Enhancer: Poll students to find out how many of them work for small businesses. How many of those businesses are expanding?* |
| ***MOST BUSINESSES ARE SMALL BUSINESSES*** | PowerPoint Slide 3 |
| * 1. 98 percent of all U.S. companies are considered small businesses. | *Lecture Enhancer: Do these statistics about small business surprise you?* |
| * 1. Small firms have generated 64 percent of new jobs during the last 15 years. |  |
| * 1. Small firms employ more than half of all private-sector (nongovernment) workers. |  |
| * 1. Small firms hire 40 percent of high-tech workers such as scientists, engineers, and computer programmers. |  |
| 1. **What Is a Small Business?** | PowerPoint Slide 4 |
| * 1. A *small business* is a firm that is independently owned and operated and is not dominant in its industry. |  |
| * 1. Examples of industry-specific definitions of a small business: | *Lecture Enhancer: Why do you think the requirements to be considered a small business differ so much from industry to industry?* |
| * + 1. Small manufacturers must employ fewer than 500 workers, but wholesalers must employ fewer than 100. |  |
| * + 1. Retailers may generate up to $6 million in annual sales, but agricultural businesses must earn less than $750,000 annually. |  |
| * 1. Business owners want the small-business designation in order to take advantage of the many government benefits offered to small businesses. |  |
| * + 1. Small businesses are eligible for government loans. |  |
| * + 1. Small businesses are eligible for government purchasing programs. |  |
| 1. **Typical Small-Business Ventures** | PowerPoint Slide 5 |
| * 1. The past 15 years have seen some industries lose small businesses as larger firms have bought out smaller ones. |  |
| * 1. The small businesses that are the most likely to remain independent are those that: | Table 5.1 Business Sectors Most Dominated and Least Dominated by Small Firms |
| * + 1. sell personalized services |  |
| * + 1. rely on certain locations |  |
| * + 1. keep their overhead costs low |  |
| * 1. Nonfarming-related small firms: |  |
| * + 1. create more than half the nation’s GDP |  |
| * + 1. are usually focused on retailing or service industries, such as insurance. |  |
| * 1. Small firms have recently created a new niche: providing customized personal services. | *Lecture Enhancer: Can you think of a local small business that provides customized personal services?* |
| * + 1. These small businesses cater to the needs of individual customers in a way that big firms can’t. |  |
| * 1. Today small businesses provide most jobs in the construction, agriculture, wholesale trade, service, and retailing industries. | PowerPoint Slide 6  Figure 5.1 Major Industries Dominated by Small Businesses |
| * 1. Although most farm acreage is in the hands of large corporate farms, most U.S. farms are owned by individual farmers or families. |  |
| * 1. Home-based businesses are firms operated from the residence of the business owner. | *Class Activity:*  *Discuss the possible advantages and disadvantages of working at home.* |

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| * + 1. 52 percent of all small businesses in the United States are home-based, for a total number of around 16 million. | PowerPoint Slide 7 |
| * + 1. Benefits include more control over their business, more control over their personal time, lower overhead costs. | *Lecture Enhancer: What type of business owner might be the most attracted to creating a home-based business?* |
| * + 1. Technology like the Internet and smart phones makes it more convenient to run a home-based business. |  |
| * + 1. Drawbacks include isolation and less visibility to customers | *Class Activity:*  *Discuss the possible advantages and disadvantages of working at home.* |
| * 1. Many small businesses are more competitive because of the Internet. |  |
| * + 1. A small business must find ways to make its online presence effective. |  |
| * + 1. Establishing a Web site is generally less expensive than opening a retail store. |  |
| * + 1. A Web site reaches a broader spectrum of potential customers. |  |

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**Assessment Check Answers**

**1.1 How does the Small Business Administration (SBA) define *small business*?**

*A small business is defined as an independent business having fewer than 500 employees. However, those bidding for government contracts or applying for government assistance may vary in size according to industry.*

**1.2 In what industries do small businesses play a significant role?**

*Small businesses provide most jobs in construction, agriculture, wholesale trade, services, and retail trade. In addition, home-based businesses make up to 52 percent of small businesses in the U.S.*

**Learning Objective 2:**

**Determine the contributions of small businesses to the economy.**

*Small businesses create new jobs and new industries. They often hire workers who traditionally have had difficulty finding employment at larger firms. Small firms give people the opportunity and outlet for developing new ideas, which can turn into entirely new industries. Small businesses also develop new and improved goods and services.*

**Annotated Lecture Outline**

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| ***CONTRIBUTIONS OF SMALL BUSINESS TO THE ECONOMY*** | PowerPoint Slide 8 |
| * 1. Small businesses form the core of the U.S. economy, generating more than half the nation’s GDP. |  |
| * 1. Small businesses account for more than 97 percent of known U.S. exporters. |  |
| * 1. Small businesses ship more than 30 percent of all exported goods overseas each year. |  |
| * 1. Small businesses are credited with U.S. competitiveness in a number of world markets. |  |
| 1. **Creating New Jobs** | Table 5.2 New Job Opportunities for Small Businesses |
| * 1. On average, three of every four new jobs are created by companies with fewer than 500 employees annually. |  |
| * 1. Most of these new jobs are created by the smallest companies, those with four or fewer employees. |  |
| * 1. Small businesses contribute to the economy by hiring workers who have had difficulty finding jobs at larger firms, such as: |  |
| * + 1. Women returning to the workforce |  |
| * + 1. Former welfare recipients |  |
| * + 1. Workers with various challenges |  |
| * 1. Small businesses hire the youngest workers. | *Lecture Enhancer: Have you ever worked for a small business?* |
| 1. **Creating New Industries** |  |
| * 1. New industries are sometimes created when small businesses adapt to provide needed services to a larger corporate community. | *Class Activity:*  *Ask students who work for larger corporations what services that are now performed in-house might be the basis for a new company startup.* |
| * 1. New industries can be created when small businesses adapt to shifts in consumer interests and preferences. |  |
| * 1. New industries may be created when both the business world and consumers recognize a need for change. |  |
| 1. **Innovation** |  |
| * 1. Small businesses are adept at developing new and improved goods and services. |  |
| * 1. Innovation is often the entire reason for the founding of a new business. | *Lecture Enhancer: Provide an example of a small business that was created as a result of innovation.* |
| * 1. Small firms develop twice as many product innovations per employee as larger firms in a typical year. |  |
| * 1. Small businesses produce 13 times more patents per employee than larger firms. |  |
| * 1. 20th-century innovations developed by small businesses include: |  |
| * + 1. airplane |  |
| * + 1. personal computer |  |
| * + 1. soft contact lenses |  |
| * + 1. zipper. |  |
| * 1. 21st century small-business areas of innovation include: |  |
| * + 1. social networking | **Business Etiquette: How to Use Social Networking in Your Job Search** |
| * + 1. security |  |
| * + 1. green industries. |  |

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**Assessment Check Answers**

**2.1 What are the three key ways in which small businesses contribute to the economy?**

*Small businesses create new jobs, create new industries, and provide innovation.*

**2.2 How are new industries formed?**

*New industries are formed when small businesses adapt to shifts in consumer interests and preferences. Innovation and new technology can play a significant role. In addition, new industries may be created when both the business world and consumers recognize a need for change.*

**Learning Objective 3: Discuss why small businesses fail.** *About seven of every ten new businesses survive at least two years, but by the tenth year, 82% have closed. Failure is often attributed to management shortcomings, inadequate financing, and difficulty meeting government regulations.*

**Annotated Lecture Outline**

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| ***WHY SMALL BUSINESSES FAIL*** | PowerPoint Slide 9  *Class Activity: Restaurants are often characterized as a business with a high failure rate. Ask students what steps a person might take to reduce their risk of failure as a restaurant owner.* |
| Reasons for failure: management inexperience, inadequate financing, and the challenge of meeting government regulations. | PowerPoint Slide 10  Figure 5.2 Rate of Business Failure |
| 1. **Management Shortcomings** |  |
| * 1. Some shortcomings of small-business management may include: | *Lecture Enhancer: Why might small-business managers be more prone to these shortcomings than those in larger companies?* |
| * + 1. lack of people skills |  |
| * + 1. inadequate knowledge of finance |  |
| * + 1. inability to track inventory of sales |  |
| * + 1. poor assessment of the competition |  |
| * + 1. lack of time to do everything required. |  |
| * 1. Small-business owners can increase their chances of success if they: |  |
| * + 1. become educated in the principles of business |  |
| * + 1. know the industry in which they intend to operate |  |
| * + 1. develop good interpersonal skills |  |
| * + 1. understand their own limitations |  |
| * + 1. hire motivated employees |  |
| * + 1. seek professional advice on issues like finance, regulations, and other matters. |  |
| 1. **Inadequate Financing** |  |
| * 1. First-time business-owners often assume their firms will immediately generate enough funds from their initial sales to finance continuing operations. |  |
| * + 1. Most small businesses don’t turn a profit for months or even years. |  |
| * 1. Commercial banks and other financial institutions are the largest lenders to small businesses, accounting for 65 percent of total traditional credit to small firms. |  |
| * + 1. Commercial bank financing includes credit lines and loans for nonresidential mortgages, vehicles, specialized equipment, and leases. |  |

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| * 1. Credit cards remain an important source of financing for small businesses, especially for firms with fewer than 10 employees. | Figure 5.3 Sources of Small-Business Financing |
| * 1. Inadequate financing can make it difficult for small companies to attract and keep quality employees. | *Lecture Enhancer: How might a smaller company that cannot offer a competitive salary or benefits package still attract and keep quality employees?* |
| 1. **Government Regulation** |  |
| * 1. Paperwork costs consume billions of small-business dollars each year. |  |
| * + 1. Larger firms can hire specialists to handle the paperwork involved with governmental regulations. |  |
| * + 1. The smallest firms—with fewer than 20 employees— spend 45 percent more per employee than larger firms just complying with regulations. |  |
| * 1. Congress eases some burdens through exemptions for small businesses. |  |
| * 1. Taxes are another burden for small firms—local, state, and federal income tax, workers’ compensation, Social Security, and unemployment benefits. |  |
| * 1. The burden of taxes is balanced with tax incentives—including tax credits for use of biodiesel and renewable fuels, research activities, pension plan start-ups, and access for individuals with disabilities. |  |

**Notes:\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_**

**Assessment Check Answers**

**3.1 What percentage of businesses remain in operation five years after starting? Ten years?**

*About 50 percent are in business after five years; about 82 percent have folded by the ten-year mark.*

**3.2 What are the three main causes of small-business failure?**

*The three main causes of small-business failure are management shortcomings, inadequate financing, and difficulty complying with government regulations.*

**Learning Objective 4: Describe the features of a successful business plan.**

*A complete business plan contains an executive summary, an introduction, financial and marketing solutions, and résumés of the business principals. Within this structure, an effective business plan includes the company’s mission, an outline of what makes the company unique, identification of customers and competitors, financial evaluation of the industry and market, and an assessment of the risks.*

**Annotated Lecture Outline**

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| ***THE BUSINESS PLAN: A FOUNDATION FOR SUCCESS*** | PowerPoint Slide 11 |
| 1. A *business plan* is a written statement of a company’s goals, the methods by which it intends to achieve those goals, and the standards by which it will measure its achievements. |  |
| 1. A business plan secures financing for a firm and creates a framework for the organization. They: |  |
| * 1. give the organization a sense of purpose |  |
| * 1. identify the firm’s mission and goals |  |
| * 1. create measurable standards | *Lecture Enhancer: Give an example of a measurable standard that might be included in a business plan.* |
| * 1. outline a strategy for reaching company objectives. |  |
| 1. A typical business plan includes the following sections: |  |
| * 1. an *executive summary* that briefly answers the who, what, where, when, why, and how |  |

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| * 1. an *introduction* that includes a general statement of the concept, purpose, and objectives of the proposed business |  |
| * 1. separate *financial* and *marketing sections* that describe the firm’s target market and marketing plan as well as detailed financial forecasts of the need for funds and when the firm is expected to break even |  |
| * 1. *résumés of principals*—especially in plans written to obtain financing. | *Lecture Enhancer: Why might this section of the business plan be important for securing funding?* |
| 1. An effective business plan contains the written soul of a firm and addresses the following issues: |  |
| * 1. the company’s mission and the vision of its founders |  |
| * 1. an outline of what makes the company unique | *Class Activity: Ask students to imagine themselves as a potential investor in an idea that a friend or associate may present to them. What types of questions would they ask the friend/associate?* |
| * 1. the customers—who they are and how the business will serve them |  |
| * 1. the competition—who competitors are and how company will create superior offerings |  |
| * 1. financial evaluation of the industry and market conditions |  |
| * 1. assessment of the risks and strategies for dealing with them. | Appendix D Developing a Business Plan |

**Notes:\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_**

**Assessment Check Answers**

**4.1 What are the five main sections of a business plan?**

*The five sections are the executive summary, introduction, financial section, marketing section, and résumés of principals.*

**4.2 Why is an effective business plan important to the success of a firm?**

*The business plan puts in writing all the reasons why the firm can be successful. It contains the written soul of the firm. It is the document that secures financing and creates a framework for the organization.*

**Learning Objective 5: Identify the available assistance for small businesses.** *The SBA guarantees loans made by private lenders, including microloans and those funded by Small Business Investment Companies. It offers training and information resources, so business owners can improve their odds of success. The SBA also advocates small-business interests within the federal government and provides specific support for businesses owned by women and minorities. State and local governments also have programs designed to help small businesses get established and grow. Venture capitalists are firms that invest in small businesses in return for an ownership stake.*

**Annotated Lecture Outline**

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| ***ASSISTANCE FOR SMALL BUSINESSES***  Once a business plan has been created, various sources can be tapped for loans and other types of financing. These include:   * government agencies * private investors | PowerPoint Slide 12 |
| Sometimes government allocation of funds to certain firms is subject to criticism. |  |
| 1. **The Small Business Administration** | PowerPoint Slide 13 |
| * 1. The *Small Business Administration (SBA)* is the principal government agency concerned with helping small U.S. firms and is the advocate for small businesses within the federal government. |  |
| * 1. The SBA has developed a number of financial programs that address the various needs of small businesses. |  |

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| 1. **Financial Assistance from the SBA** |  |
| * 1. Direct SBA loans are available in only a few special situations, such as cases of natural disaster, energy conservation, or development programs. |  |
| * 1. SBA-Guaranteed Loans |  |
| * + 1. SBA provides guarantees for small-business loans by private lenders. |  |
| * + 1. To qualify, borrowers must: * be unable to secure conventional commercial financing on reasonable terms * be a “small business” as defined by SBA terms. |  |
| * 1. *Microloans* of up to $35,000 are guaranteed by the SBA to start-ups and other very small firms. |  |
| * + 1. The average loan is $13,000 with a maximum term of 6 years. |  |
| * + 1. Microloans are used to buy equipment or operate a business but not to buy real estate or pay off other loans. |  |
| * + 1. Sources of microloans include the Economic Development Administration, state governments, and private lenders. |  |
| * 1. Direct loans are available through SBA-licensed organizations called *Small Business Investment Companies (SBICs).* |  |
| * + 1. SBICs are run by experienced venture capitalists. |  |
| * + 1. SBICs use their own capital, supplemented with government loans, to invest in small businesses. |  |
| * + 1. SBICs are profit-making enterprises but are more flexible than banks in their lending decisions. |  |
| 1. **Other Specialized Assistance** | PowerPoint Slide 14 |
| * 1. Set-aside programs for small businesses are contracts saved for small firms. |  |
| * 1. Other SBA services include online resources, training, and local small business development centers. |  |
| 1. **Local Assistance for Small Businesses** |  |
| State and local governments often have programs in place to help small businesses get established and grow. |  |
| 1. **Business Incubators** |  |
| * 1. *Business incubators* are organizations that provide low-cost shared facilities to small start-up ventures. | **Hit & Miss: Turning Technologies Creates High-Tech Jobs** |
| * 1. Tenants often share clerical staff, computers, and other businesses services. |  |
| * 1. The objective is for that after a few months or years, the business will be ready to move out and operate on its own. |  |
| * 1. There are more than 1,400 business incubator programs nationwide. |  |
| * + 1. 94 percent of business incubators are run by not-for-profit organizations focused on economic development. |  |
| * + 1. More than half are operated in urban areas. |  |
| * + 1. Nearly half focus on new-technology businesses. |  |
| 1. **Private Investors** | PowerPoint Slide 15 |
| * 1. Small-business owners soon look for greater sums of money in order to continue operating and eventually grow. |  |
| * 1. *Venture capital* is money invested in the small business by another business firm or group of individuals in exchange for an ownership share. |  |
| * + 1. Venture capitalists look for companies in which to invest even when the economy is sluggish. |  |
| * + 1. Recently, investors have expressed optimism and a focus on information technology, such as the Internet, cloud computing, and mobile/telecom. |  |
| * + 1. Venture capitalists usually have tough requirements for a solid business plan. | *Lecture Enhancer: Why would venture capitalists have tougher requirements for a business plan than a bank?* |
| 1. **Small-Business Opportunities for Women and Minorities** | PowerPoint Slide 16 |
| * 1. Over 10 million women-owned firms employ more than 13 million people and generate nearly $2 trillion in sales in the U.S. today. | *Lecture Enhancer:*  *Can you think of a woman-owned business?* |
| * 1. 40 percent of all privately held companies are owned by women. |  |

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| * 1. Nearly 2 million businesses are owned by women of color, which employ 1.2 million people and generate $165 billion in annual revenues. |  |
| * 1. Reasons women start their own businesses: |  |
| 1. to bring a unique business idea to life |  |
| 1. they’ve lost their jobs |  |
| 1. they’ve left their jobs out of frustration with bureaucracy or because they felt blocked from advancement opportunities |  |
| 1. they are the primary caregivers in their families and need increased job flexibility. |  |
| * 1. SBA assistance programs for women-owned small businesses include the Contract Assistance for Women Business Owners program, the Women’s Network for Entrepreneurial Training, and the Center for Women’s Business Research. |  |
| * 1. The growth of firms owned by African Americans, Hispanics, and Asian Americans has outpaced growth in the number of U.S. businesses overall. | PowerPoint Slide 17 |
| * 1. There is a strong presence of minorities in the service and retail industries. | Figure 5.4 Types of Businesses Owned by Racial and Ethnic Minorities |
| * 1. SBA assistance programs for minority-owned small businesses include the Mentor-Protégé Program. | *Lecture Enhancer:*  *Can you think of a minority-owned business?* |

**Notes:\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_**

**Hit & Miss: Turning Technologies Creates High-Tech Jobs**

**Summary**

Turning Technologies, a technology company based in Youngstown, Ohio, that makes audience-response systems, was helped by a local business organization that provides start-up tech firms with free rent and utilities. Turning Technologies brought dozens of jobs to a city suffering from an 18 percent unemployment rate. It now has more than 6,500 clients, employs 120 people, and pays corporate income taxes on more than $30 million in annual revenue.

**Questions for Critical Thinking**

**1. Why might a company such as Turning Technologies locate outside the high-tech hotspots where most firms are? List some possible advantages and disadvantages to this strategy.**

*Some possible advantages to locating a company like Turning Technologies in a city outside of Silicon Valley are that it would more likely to be eligible for special assistance programs from organizations like business incubators and that it would not have to compete with the larger tech firms for talented employees. Some possible disadvantages are that clients might not expect or look for tech firms to be located in cities like Youngtown, as opposed to Silicon Valley locations, as well as the fact that a firm located outside typical high-tech hotspots might have a hard time finding qualified employees.*

**2. What should a company like Turning Technologies do if, as it grows, it needs to hire people with technical experience or skills that are hard to find in a depressed area?**

*A company in this situation would have to pursue aggressive recruiting tactics and offer attractive salaries and benefit packages, as well as relocation reimbursement, in order to recruit and retain high-quality employees from outside locations.*

**Assessment Check Answers**

**5.1 What are the various ways the SBA helps small businesses?**

*The SBA guarantees business loans; helps small businesses compete for government set-aside programs; and provides business information, advice, and training to owners of small businesses.*

**5.2 What are business incubators?**

*Business incubators are programs organized by community agencies that provide such services as rental space, clerical staff, and office equipment in an effort to help small businesses get started.*

**5.3 Why are small businesses good opportunities for women and minorities?**

*Women feel they can achieve more as small-business owners and can balance family and work more easily if they own their own firms. Minority business owners can receive special assistance from programs like the Mentor-Protégé Program provided by the SBA.*

**Learning Objective 6: Explain franchising.**

*A franchisor is a large firm that permits a small-business owner (franchisee) to market and sell its products under its brand name, in return for a fee. Benefits to the franchisor include opportunities for expansion and greater profits. Benefits to the franchisee include name recognition, quick start-up, support from the franchisor, and the freedom of small-business ownership.*

**Annotated Lecture Outline**

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| ***FRANCHISING*** | PowerPoint Slide 18 |
| 1. **Franchising** | Table 5.3 Top Ten Franchises |
| * 1. *Franchising* is a contractual agreement that allows a dealer to produce and market a supplier’s good or service. |  |
| * 1. Franchising reduces the risk, time, and effort of starting a business. |  |
| 1. **The Franchising Sector** |  |
| * 1. Franchised businesses account for nearly 50 percent of all retail sales, or nearly $2 trillion, and 18 million jobs. They account for about 900,000 businesses and a gross value of nearly $870 billion. |  |
| b. Franchising overseas is a growing trend for businesses whose goal is to expand into foreign markets. | *Lecture Enhancer:*  *What might be the advantages for a franchise to expand into foreign markets?* |
| 1. **Franchising Agreements** | PowerPoint Slide 19 |
| * 1. The *franchisee* is the individual or firm who purchases the franchise and agrees to sell the goods or services under certain terms. |  |
| * 1. The *franchisor* is the firm whose products are sold by the franchisee. |  |
| * 1. Franchise agreements can be complex: |  |
| * + 1. they often involve an initial purchase fee plus agreed-upon start-up costs |  |
| * + 1. business people interested in purchasing a more expensive franchise often group together |  |
| * + 1. the franchisor usually stipulates the purchase of certain ingredients or equipment, pricing, and marketing efforts. |  |
| 1. **Benefits and Problems of Franchising** | PowerPoint Slide 20 |
| * 1. *Benefits* for the *franchisor* include: |  |
| * + 1. opportunities for expansion |  |
| * + 1. manage a larger and more complex business with fewer direct employees |  |
| * + 1. franchisees are more highly attentive to management issues because of their stake as business owners |  |
| * + 1. greater return on investment |  |
| * + 1. can negotiate better deals on ingredients, supplies, even real estate because of its financial strength |  |
| * + 1. sometimes the ideas or successes of individual franchisees an benefit the entire company. | **Hit & Miss: One Small Franchise Produces One Big Idea** |

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| * 1. *Benefits* for the *franchisee* include: | *Lecture Enhancer:*  *Are you a loyal customer of any franchise?* |
| * + 1. quickest and possibly least risky way to become a business owner |  |
| * + 1. benefit of name recognition that includes a loyal following of customers | *Class Activity:*  *Ask students how they might research a frozen custard ice cream franchise opportunity.* |
| * + 1. established management system with performance record |  |
| * + 1. franchisor-provided support including financing, real-estate assistance, business training, supplies, and marketing tools |  |
| * + 1. combines the freedom of business ownership with the support of a large company. |  |
| * 1. *Problems* for the *franchisor* include: |  |
| * + 1. if its franchisees fail in any way, that failure reflects on the brand as well as the bottom line |  |
| * + 1. when a firm initially offers franchises, the company overall may lose money for several years |  |
| * + 1. the franchisor loses absolute control over the business. |  |
| * 1. *Problems* for the *franchisee* include: |  |
| * + 1. franchisee faces a large outlay of cash in initial investment, fees, etc. |  |
| * + 1. payments to the franchisor can add to the financial burden of the franchisee until the owner begins to earn a profit |  |
| * + 1. restrictive franchise agreement. |  |
| * 1. Franchisors and franchisees must work well together to maintain standards of quality in their goods and services. |  |
| * + 1. If customers are unhappy with their experience at one franchise location, they might avoid stopping at others. | *Lecture Enhancer:*  *As a customer, have you ever refused to shop at one franchise location due to poor service or quality of goods at another location ?* |

**Notes:\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_**

**Hit & Miss: One Small Franchise Produces One Big Idea**

**Summary**

Stuart Frankel is a SUBWAY franchisee who created the “$5 footlong” promotion to increase sales at his own franchise in Florida. Sales increased by double digits, so Subway’s corporate marketing team pushed the promotion nationwide.

**Questions for Critical Thinking**

**1. Why do you think Stuart Frankel’s idea was so successful with consumers? Would it have been as successful during different economic circumstances? Why or why not?**

*Stuart Frankel’s $5 footlong idea was so successful with consumers because they could enjoy a healthy, “fast” meal while saving money. Yes, the $5 footlong idea would most likely have been just as successful during different economic circumstances because customers always appreciate a fair bargain.*

**2. A franchise company is only as good as its franchisees. And a franchisee’s success is based in part on the decisions and support of corporate leadership. If the $5 footlong promotion had failed, how do you think the outcome would have affected Frankel’s franchise business? How might it have affected SUBWAY?**

*If the $5 footlong promotion had failed at the national level, it would likely not affect Frankel’s franchise business in the same way it would affect SUBWAY as a whole because it was successful among Frankel’s local customers. A failed national promotion is always a drawback for a large company like SUBWAY, particularly in the way it negatively affects the public’s perception of the brand.*

**Assessment Check Answers**

**6.1 What is the difference between a franchisor and a franchisee?**

*A franchisor permits a small-business owner (franchisee) to market and sell its products under its brand name, in return for a fee.*

**6.2 What are benefits to both parties of franchising?**

*Benefits to the franchisor include opportunities for expansion and greater profits. Benefits to the franchisee include name recognition, quick start-up, support from the franchisor, and the freedom of small-business ownership.*

**6.3 What are the potential drawbacks of franchising for both parties*?***

*The drawbacks for the franchisor include mismanagement and failure on the part of any of its franchisees, over-expansion, and loss of absolute control over the business. Drawback for the franchisee include an initial outlay of expenses, problems due to failure on the part of the franchisor or other franchisees, and restrictive franchise agreements.*

**Learning Objective 7: Outline the forms of private business ownership.**

*A sole proprietorship is owned and operated by one person. While sole proprietorships are easy to set up and offer great operating flexibility, the owner remains personally liable for all of the firm’s debts and legal settlements. In a partnership, two or more individuals share responsibility for owning and running the business. Partnerships are relatively easy to set up, but they do not offer protection from liability. When a business is set up as a corporation, it becomes a separate legal entity. Investors receive shares of stock in the firm. Owners have no legal and financial liability beyond their individual investments. In an employee-owned business, most stockholders are also employees. Family-owned businesses may be structured legally in any of these three ways but face unique challenges, including succession and complex relationships. The legal structure of a not-for-profit corporation stipulates that its goals do not include earning a profit.*

**Annotated Lecture Outline**

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| ***FORMS OF PRIVATE BUSINESS OWNERSHIP*** | PowerPoint Slide 21  Figure 5.5 Forms of Business Ownership |
| * 1. Businesses fit into one of three categories of ownership: sole proprietorship, partnership, or corporation. | PowerPoint Slide 22  PowerPoint Slide 23 |
| * 1. Sole proprietorships are the most common. |  |
| * 1. Because there is no universal formula, some business owners prefer to organize their companies further into S corporations, limited-liability partnerships, or limited-liability corporations. |  |

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| * 1. In addition to the three main legal structures, other options for ownership include employee-owned businesses, family-owned businesses, or not-for-profit organizations. |  |
| 1. **Sole Proprietorships** |  |
| * 1. In a *sole proprietorship,* the company is owned and operated by one person. |  |
| * 1. The sole proprietorship is the oldest, simplest, and most common form of business ownership. | *Lecture Enhancer: Why do you think sole proprietorships are the most common type of business ownership?* |
| * 1. No legal distinction separates the sole proprietor’s status as an individual from his or her status as a business owner. |  |
| * 1. Most are small businesses, such as repair shops, small retail stores, and service providers such as plumbers, hair stylists, and photographers. |  |
| * 1. Advantages: |  |
| * + 1. easy to form and dissolve; minimal legal requirements |  |
| * + 1. owner has maximum management flexibility |  |
| * + 1. owner has rights to all profits. |  |
| * 1. Disadvantages: |  |
| * + 1. unlimited personal liability for business debts | *Class Activity:*  *Ask class members to offer a type of business (painting, landscaping, pet grooming, etc.), then to provide examples of injuries, accidents, or damage that might occur in that business.* |
| * + 1. business must operate with financial resources limited to the owner’s personal funds |  |
| * + 1. management deficiencies |  |
| * + 1. higher chance of being audited by the IRS |  |
| * + 1. lack of continuity (e.g., illness can dissolve a business). |  |
| 1. **Partnerships** |  |
| * 1. In a *partnership,* the company is operated by two or more people who are co-owners per a voluntary legal agreement. |  |
| * 1. Advantages: |  |
| * + 1. easy to form |  |
| * + 1. greater financial capability |  |
| * + 1. shared decision making |  |
| * + 1. can benefit from complementary management skills. |  |
| * 1. Disadvantages: |  |
| * + 1. unlimited financial liability—each partner bears full responsibility for the debts of the firm, and each is liable for the actions of the other partners |  |
| * + 1. more difficult to dissolve—partner must find someone to buy out his or her interest |  |
| * + 1. interpersonal conflicts can affect business. |  |
| 1. **Corporations** | PowerPoint Slide 24 |
| * 1. In a *corporation,* the company’s assets and liabilities are separate from those of its owner(s). |  |
| * 1. Advantages: |  |
| * + 1. limited financial liability for owners—they lose only the money they have invested |  |
| * + 1. expanded financial capabilities such as stock sales and internal fund transfers. |  |
| * 1. Disadvantage: double taxation of corporate earnings. |  |
| * 1. To avoid double taxation of corporate earnings: |  |
| * + 1. *S corporations* can pay federal income taxes as partnerships while retaining the liability limitations of corporations. |  |
| * + 1. *Limited liability companies (LLCs)* have the corporate advantage of limited liability while avoiding the double taxation. | *Lecture Enhancer: Why might a sole proprietorship or partnership firm want to become an LLC?* |
| 1. **Employee-Owned Corporations** |  |
| * 1. In *employee ownership,* workers buy shares of stock in the company that employs them. | **Going Green: King Arthur Flour: Employee-Owned and Green** |
| * 1. This form of corporate ownership is becoming increasingly popular. |  |
| * + 1. 20 percent of all employees of companies report owning stock in their companies. |  |
| * + 1. 25 million Americans own employer stock through *employee stock ownership plans (ESOPs),* options, stock purchase plans, 401(k) plans, and other plans. |  |
| * 1. Trends in business leading to the increase in employee-owned corporations: | *Class Activity:*  *Ask students what are the potential benefits and risks of employee ownership.* |
| * + 1. employees want to share in whatever profit their company earns |  |
| * + 1. company executives want employees to care deeply about their firm’s overall success. |  |
| 1. **Family-Owned Businesses** |  |
| * 1. Considered by many to be the backbone of American business. | *Lecture Enhancer: Think of a family-owned business. What is your impression of the owner(s)?* |
| * 1. Advantages: |  |
| * + 1. owners may be viewed as everything from pioneers in business to royalty |  |
| * + 1. structure can be more flexible |  |
| * + 1. a documented plan for succession from one generation to the next is a huge source of security for the firm’s continuity. |  |

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| * 1. Disadvantages: |  |
| * + 1. a lack of a formal structure is a frequent cause of family turmoil, legal disputes, and business dissolution | *Class Activity:*  *Lead a class discussion about the pros and cons of working with and owning a business with family members.* |
| * + 1. a lack of legal planning for succession can cause chaos |  |
| * + 1. only a small percentage of family-owned businesses survive into the second or third generation. |  |
| 1. **Not-for-Profit Corporations** |  |
| * 1. *Not-for-profit corporations* are organizations whose goals do not include pursuing a profit. |  |
| * 1. 1.5 million not-for-profits operate in the U.S. |  |
| * 1. Most states set out separate legal provisions for organizational structures and operations of not-for-profit corporations. |  |
| * + 1. do not issue stock |  |
| * + 1. ownership rarely changes |  |
| * + 1. exempt from paying income taxes. |  |

**Notes:\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_**

**Going Green**

**King Arthur Flour: Employee-Owned and Green**

**Summary**

King Arthur Flour dates back to 1790 in Vermont and continues to provide bakers, manufacturers, and consumers nationally with flour today. Since 1996, the company has also been 100% employee-owned. A major goal of King Arthur employees is to establish an eco-friendly atmosphere. Employees install recycling pans at their work site and save 65,000 kilowatts of electricity per year by replacing old light fixtures with energy-saving bulbs. Food scraps from King Arthur’s bakery and café go feed local farm animals, while coffee grounds go to a compost. The company also promotes eco-friendly habits through purchasing Green-seal certified cleaning products, recycled computer paper, and biodegradable pallet wrap. Carpoolers are granted prime parking, while helmets and bikers are provided for workers for their commute between the company buildings. King Arthur is a certified B corporation, meaning it prides itself on its commitment to addressing environmental, sustainable, and social concerns.

**Questions for Critical Thinking**

**1. Do you think having a stake in the company’s success motivates employees to conserve energy and resources? Why or why not?**

*Having a stake in the company’s success can motivate employees to conserve energy and resources because the employees are making their own conscious decision to choose to consider the environment rather than following company regulations.*

**2. What can private or publicly owned firms learn from King Arthur’s green efforts?**

*Private or publicly owned firms who learn about King Arthur’s green efforts can learn how employees with more say in their business’ activity are more dedicated to their business’ causes. Also, the green efforts prove that benefits to eco-friendly habits extend to other areas, like supporting other local businesses.*

**Assessment Check Answers**

**7.1 What are the key differences among sole proprietorships and partnerships?**

*Sole proprietorships and partnerships expose their owners to unlimited financial liability from their businesses. Sole proprietorships are more flexible and easier to dissolve than partnerships. Partnerships involve shared workload and decision making, whereas sole proprietorships are entirely the responsibility of one business owner.*

**7.2 What is a corporation?**

*A corporation is a legal organization with assets and liabilities separate from those of its owners. A corporation can be a large or small business.*

**7.3 What is the main distinction of a not-for-profit corporation?**

*A not-for-profit corporation is set up legally so that its goals do not include pursuing a profit. Most states set out specific legal provisions for organizational structures and operations of not-for-profit corporations. They are exempt from paying income taxes.*

**Learning Objective 8: Describe public and collective ownership of business.**

*Public ownership occurs when a unit or agency of government owns and operates an organization. Collective ownership establishes an organization referred to as a cooperative, whose owners join forces to operate all or part of the functions in their firm or industry.*

**Annotated Lecture Outline**

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| ***PUBLIC AND COLLECTIVE OWNERSHIP OF BUSINESS*** | PowerPoint Slide 25 |
| 1. **Public (Government) Ownership** |  |
| * 1. *Public ownership* occurs when a unit or agency of a government owns and operates an organization. |  |
| * + 1. Local governments often own parking structures and water systems. |  |
| * + 1. Some states operate toll roads, highways, or dams. | *Lecture Enhancer:*  *Can you think of an example of public ownership in your state?* |
| * 1. Public ownerships sometimes results when private investors are unwilling to invest in a high-risk or unprofitable project (Amtrak). |  |
| 1. **Collective (Cooperative) Ownership** |  |
| * 1. A *cooperative* (or *co-op*) is an organization whose owners join forces to operate all or part of the activities in their firm or industry. |  |
| * 1. 100 million people worldwide are employed by cooperatives. |  |

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| * 1. Cooperatives allow small businesses to pool their resources on purchases, marketing, equipment, distribution, and expertise. |  |
| * 1. Discount savings can be split among members of a cooperative. |  |
| * 1. They are common among agricultural businesses. |  |

**Notes:\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_**

**Assessment Check Answers**

**8.1 What is public ownership?**

*Public ownership occurs when a unit or agency of government owns and operates an organization.*

**8.2 What is collective ownership? Where are cooperatives typically found, and what benefits do they provide small businesses?**

*Collective ownership establishes an organization referred to as a cooperative (co-op), whose owners join forces to operate all or part of the functions in their firm or industry. Cooperatives are frequently found among agricultural businesses. They can also occur in retail. Cooperatives allow small firms to pool their resources, share equipment and expertise, and help each other through difficult times.*

**Learning Objective 9: Discuss organizing a corporation.**

*There are three types of corporations: domestic, foreign, and alien. Stockholders, or shareholders, own a corporation. In return for their financial investments, they receive shares of stock in the company. Stockholders elect a board of directors, who set overall policy. The board hires the chief executive officer (CEO), who then hires managers.*

**Annotated Lecture Outline**

|  |  |
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| ***ORGANIZING A CORPORATION*** |  |
| 1. **Types of Corporations** |  |
| * 1. Firms first decide where to locate headquarters and where to do business. |  |
| * 1. Types of Corporations |  |
| * + 1. A firm is a *domestic corporation* in the state where it is incorporated. |  |
| * + 1. When a company does business in states other than the one where it has filed incorporation papers, it is registered as a *foreign business* in each of those states. |  |
| * + 1. A firm incorporated in one nation that operates in another is known as an *alien corporation* where it operates. |  |
| * + 1. A firm can operate under all three definitions, particularly large corporations with operations scattered all around the world. |  |
| 1. **Where and How Businesses Incorporate** |  |
| * 1. Where to Incorporate |  |
| * + 1. Most businesses want to be near their customers. |  |
| * + 1. Real estate prices and local services like public transportation and communications networks are factors. |  |
| * + 1. Access to a good labor pool is a factor, particularly for online businesses. |  |
| * + 1. A U.S. firm can incorporate in any state it chooses. |  |
| * + 1. Larger firms often compare the tax incentives offered in different states when deciding where to incorporate. |  |
| * 1. The Corporate Charter |  |
| * + 1. Most states require at least three *incorporators*—the individuals who create the corporation—to file articles of incorporation. | Figure 5.6 Traditional Articles of Incorporation |
| * + 1. The new corporation must select a name that is different from names used by other businesses. |  |
| * + 1. States grant a *corporate charter,* the legal document that formally establishes a corporation. |  |
| * + 1. After securing the charter, owners prepare the company’s bylaws. |  |
| 1. **Corporate Management** | PowerPoint Slide 26 |
| * 1. Corporations typically have five levels of management and ownership, although a smaller firm might not contain all five. | Figure 5.7 Levels of Management in a Corporation |
| * 1. Typical levels of management range from stockholders down to supervisory management. |  |

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| 1. **Stock Ownership and Stockholder Rights** |  |
| * 1. *Stockholders* buy shares of stock in the corporation, becoming part owners of it. |  |
| * 1. Closed or Closely Held Corporations |  |
| * + 1. Some companies are owned by few stockholders, and the stock is generally unavailable to outsiders. |  |
| * + 1. In these *closed* or *closely held* *corporations,* stockholders control and manage all of the company’s activities. |  |
| * + 1. Family-owned businesses are often closed or closely held corporations. |  |
| * 1. Publicly Held Corporations |  |
| * + 1. Open or *publicly held corporations* sell stock to the general public. |  |
| * + 1. Diversified ownership leads to a broader scope of operations. |  |
| * + 1. They typically hold annual stockholders’ meetings where stockholders vote on corporate decisions. |  |
| * 1. Classes of Stock |  |
| * + 1. Owners of *preferred stock* have limited voting rights but receive dividends before common stock holders. |  |

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| * + 1. Owners of *common stock* have voting rights but only residual claims on a firm’s assets—they are the last to receive any income distributions. |  |
| * + 1. One share is typically worth one vote, so small stockholders generally have little influence on corporate management action. |  |
| 1. **Board of Directors** |  |
| * 1. Stockholders elect a *board of directors,* the governing body of a corporation. |  |
| * + 1. The board sets overall policy. |  |
| * + 1. The board authorizes major transactions. |  |
| * + 1. The board hires the chief executive officer (CEO). |  |
| * 1. Most boards include: |  |
| * + 1. inside directors—corporate executives; the top executive often also chairs the board |  |
| * + 1. outside directors—people who are not otherwise employed by the organization, typically stockholders. |  |
| 1. **Corporate Officers and Managers** |  |
| * 1. The CEO, chief operating officer (COO), and chief financial officer (CFO) make most major corporate decisions: | **Solving an Ethical Controversy: Do Some Bosses Earn Too Much?** |
| * + 1. bound by stricter regulations regarding their firm’s financial statements than in the past |  |
| * + 1. process for nomination to board is more complex than in the past. |  |
| * 1. Middle managers handle ongoing functions of the company. |  |
| * 1. Supervisory personnel at the first tier of management: |  |
| * + 1. coordinate day-to-day operations |  |
| * + 1. assign specific tasks to employees |  |
| * + 1. evaluate job performance. |  |

**Notes:\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_**

**Assessment Check Answers**

**9.1 What are the two key elements of the incorporation process?**

*The two key elements are where to incorporate and the corporate charter.*

**9.2 Identify the five main levels of corporate ownership and management.**

*The five levels are: stockholders, board of directors, top management, middle management, and supervisory management.*

**Learning Objective 10: Explain what happens when businesses join forces.***In a merger, two or more firms combine to form one company. A vertical merger combines firms operating at different levels in the production and marketing process. A horizontal merger joins firms in the same industry. A conglomerate merger combines unrelated firms. An acquisition occurs when one firm purchases another. A joint venture is a partnership between companies formed for a specific undertaking.*

**Annotated Lecture Outline**

|  |  |
| --- | --- |
| ***WHEN BUSINESSES JOIN FORCES*** | PowerPoint Slide 27 |
| 1. **Mergers and Acquisitions (M&A)** |  |
| * 1. A *merger* occurs when two or more firms combine to form one company. |  |
| * 1. An *acquisition* occurs when one firm purchases another firm, or a division or subsidiary of another firm, acquiring that firm’s debts as well as its assets. |  |
| * 1. Three types of mergers: |  |
| * + 1. A *vertical merger* combines firms operating at different levels in the production or marketing process to: - ensure adequate flow of raw materials and supplies or - increase distribution. | *Class Activity: Ask students to share their ideas of benefits that might result from a merger of two large banks.* |
| * + 1. A *horizontal merger* combines firms in the same industry to diversify, increase customer bases, cut costs, or expand product lines. |  |
| * + 1. A *conglomerate merger* combines unrelated firms to diversify, spur sales growth, or spend a cash surplus to avoid becoming a takeover target. |  |

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| 1. **Joint Ventures: Specialized Partnerships** |  |
| * 1. A *joint venture* is a partnership between companies formed for a specific undertaking: |  |
| * + 1. common when a firm wants to enter a foreign market |  |
| * + 1. may enable firms to solve a mutual problem. |  |
| * 1. Each partner shares the operation’s costs, risks, management, and profits. |  |
| * 1. Joint ventures between for-profit firms and not-for-profit organizations are becoming more common. | *Lecture Enhancer:*  *Can you think of an example of a joint venture between a commercial firm and a not-for-profit organization?* |
| * 1. Not-for-profits receive funding, marketing exposure, and manpower they might not otherwise generate. |  |

**Notes:\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_**

**Answers to Assessment Check**

**10.1 Distinguish between a merger and an acquisition*.***

*In a merger, two or more firms combine to form one company. In an acquisition, one firm purchases the property and assumes the obligations of another firm. Acquisitions also occur when one firm buys a division or subsidiary from another firm.*

**10.2 What are the different kinds of mergers?**

*Mergers can be classified as vertical, horizontal, or conglomerate.*

**10.3 What is a joint venture?**

*A joint venture is a partnership between organizations formed for a specific undertaking.*

**Answers to Review Questions**

**1. Describe how a small business might use innovation to create new jobs.**

*Small businesses are more adept than larger firms at developing new and improved goods and services. They can respond to customer demand more quickly and responsively. When a small business responds to consumer needs or wants in an innovative way, the business may grow, leading to a need for more employees. For example, small firms have recently created a new niche: providing customized personal services to customers. As firms in this new niche grow, there is an increased demand for employees.*

**2. Why do so many small businesses fail before they reach their tenth year?**

*Small businesses typically fail because of management shortcomings, inadequate financing, and difficulties with government regulations.*

**3. What are the benefits of developing and writing an effective business plan?**

*A well-written business plan helps clarify a firm’s identity in the mind of the owner and potential investors by stating the company’s mission and vision, its goals, how it will achieve those goals, and how it will measure its progress. It gives new firms a sense of purpose and provides guidelines, leadership, standards, and a communications avenue.*

**4. What is the Small Business Administration (SBA)? How does it assist small companies, financially and in other specialized ways?**

*The SBA is a federal agency created to provide small firms with management training and consulting, financial advice, and support in securing government contracts.* *It rarely provides direct loans but does guarantee loans from private lenders, particularly microloans, for start-up costs and operating expenses.*

*The SBA provides extensive advice from experts in their fields through online resources, training, and local small business development centers. The SBA also provides specific assistance programs for women-owned and minority-owned small businesses.*

**5. Describe how local governments and business incubators help small firms get established and grow.**

*Business incubators are programs organized by community agencies that provide such services as rental space, clerical staff, and office equipment in an effort to help small businesses get started. Tenants often share clerical staff, computers, and other businesses services.*

**6. Why are so many small-business owners attracted to franchising? Under what circumstances might it be better to start an entirely new business instead of purchasing a franchise?**

*Small-business owners are attracted to franchising because it offers many advantages, including a recognizable company name, a proven and successful business model, a tested management program, business training, and usually faster profits than with independent start-up businesses.*

*It might be better to start an entirely new business rather than purchase a franchise if the franchising company has a negative reputation or a history of overall poor financial performance.*

**7. What are the benefits and drawbacks to traditional corporate structure? How do S corporations and limited liability corporations enhance the corporate legal structure?**

*The benefits of the traditional corporate structure include the limited legal risk to owners and stockholders because lawsuits are filed against the corporation instead of the individual; the specialized skills of many employees; access to expanded finances and internal financing; efficient manufacturing and operations; the ability to charge competitive prices and attract more customers; and the potential for substantial profits.*

*The drawbacks to the traditional corporate structure include double taxation of earnings (corporate and personal); they are more difficult to form; they are more closely regulated with increasing numbers of laws being enacted; there is less freedom and flexibility due to responsibilities to stockholders and investors.*

*S corporations and limited liability corporations enhance the legal structure of a corporation by allowing a corporation to avoid double taxation while retaining the advantage of limited liability.*

**8. Cooperatives appear frequently in agriculture. Describe another industry in which you think collective ownership would be beneficial, and explain why.**

*Another industry in which collective ownership would be beneficial is retail. A group of individual clothing designers could share retail space, marketing, equipment, and salespeople in one boutique rather than incur the costs of doing so independently. In addition, the option of having several designers’ clothing to choose from in one store would attract a greater number of customers, leading to cross-over purchases.*

**9. In a proprietorship and in partnerships the owners and the managers of the business are the same people. How are ownership and management separated in corporations?**

*In corporations, a board of directors serves as the top control level and is responsible for representing the interest of the owners. While an owner of a corporation might have a position on the board, the entire board, rather than solely the owner must approve management decisions. The board also has authority and responsibility to monitor the performance of management.*

**10. How might a joint venture between a commercial firm and a not-for-profit organization help both achieve their goals?**

*In a joint venture, the not-for-profit could receive funding, marketing, and manpower they might not otherwise generate.*

**Projects and Teamwork Applications**

1. Have students discuss the business and what made it successful. What characteristics of the founder contributed to its success? What types of products or services were involved? Have students look at the range of businesses and industries represented by the businesses explored by the class. Point out that this illustrates the wide variety of opportunities and almost unlimited ventures, affecting all aspects of life, that small business offers.

2. Ask students about the franchise businesses they chose. What did they discover about it online? What particular aspects of franchising interested them or turned them off? Did they have any preconceived notions or starry-eyed ideas about how easy this might be? What type of partnership in this venture appeals to them?

3. Discuss the industries in which their small business idea would operate and what they intend to accomplish. Discuss the difficulties they encountered in writing a business plan and what information surprised them during their research. What difficulties did they experience in making decisions about funding and form of their business?

4. Discuss whether or not consumers benefit from publicly owned companies. Does the type of commodity (water) or service (mail delivery) make a difference? Are there certain advantages? Disadvantages?

5. Why would the joint venture proposed be beneficial and how would each of the partners contribute to its success? What is it about the goal of the joint venture that is so appealing? What difficulties did students encounter in trying to formulate a proposal or an advertisement for the joint venture?

**Web Assignments**

**1**. **Small business successes**. Visit the Web site at <http://www.entrepreneur.com/startingabusiness/successstories/index.html>. Scroll through the titles of success stories and choose one that interests you. Read the feature and prepare a brief report answering these questions:

a. What does the firm do?

b. Where did the idea originate?

c. What expertise does the owner have?

d. How did the business begin?

e. Who are its competitors?

**2. Great small workplaces**. Winning Workplaces is a not-for-profit organization that is “committed to helping small and midsize organizations create high-performance workplaces.” Visit the organization’s Web site at <http://www.winningworkplaces.org> and read at least two postings or articles there that interest you. Summarize the articles and explain how they help fulfill the Winning Workplaces’ mission of helping small businesses succeed.

**3**. **Family–business tips for success.** Go to the Web site for *Family Business Magazine* at <http://www.familybusinessmagazine.com> and click on the feature article. Read the piece to learn about a particular family-owned business. Alternatively, choose a family-owned business such as S. C. Johnson (large) or Cider Hills Farm (small) and visit the firm’s Web site to learn how the company has grown over the years and achieved success.

*Note*: Internet Web addresses change frequently. If you do not find the exact sites listed, you may need to access the organization’s or company’s home page and search from there.

**Case 5.1**

**Ideeli Gives Members (and Suppliers) Daily Deals**

**Answers to Questions for Critical Thinking:**

**1. Do you agree with Paul Hurley that future retailers will adopt his site’s flash-sale model? Why or why not?**

*Future retailers will likely adopt to Paul Hurley’s idea of having flash-sales because it is an innovative way to incorporate retail with modern technology. Also, retailers will likely be drawn to the idea in that it promises more consumer interest since customers have to be members of their site in order to learn about sales and promotions.*

1. **What effect does the membership requirement have on the way the company operates?**

*The membership requirement helps gain consumer support for Ideeli since Ideeli sales and promotions cannot be found by conducting a Google search for clothing sales. In this way, consumers will not stray to other online clothing sales but stay dedicated to Ideeli.*

**Case 5.2**

**Small Meets Big: Patagonia and Walmart Join Forces for the Environment**

**Answers to Questions for Critical Thinking**

**1. The alliance between Patagonia and Walmart is an excellent example of a smaller business and a huge firm working together to achieve an objective. Do you think the same results would be possible if Walmart acquired Patagonia? Why or why not?**

*Achieving the same results if Walmart acquired Patagonia would be far less likely because of the dramatically different cultures and values of the two organizations. Walmart is a mammoth, global, mass-merchant organization that has based its success on a low-cost structure, enabling low prices. Patagonia, on the other hand, serves a much narrower consumer audience, and its success is based upon serving the unique needs and wants of its consumers. Often this may entail higher prices as well as purchasing and producing in smaller quantities. These strategic differences would likely lead to conflict.*

**2. Walmart is learning from Patagonia. But what might Patagonia learn from Walmart?**

*Patagonia could learn how to improve sourcing and purchasing materials on a cost-effective basis globally. Additionally, Walmart offers the opportunity to provide a model for Patagonia to learn how to improve management of far-flung multiple retail stores. Finally, Patagonia may imitate Walmart’s outstanding supply chain management, information technology, and logistics integration.*

**CHAPTER 5: COLLABORATIVE LEARNING EXERCISES**

### **1—Small Business Options**

### Learning Objectives: 1, 3, and 4

Purpose:

## To help students focus on the critical success factors for a small business.

Background:

A great idea coupled with thoughtful planning gives a dramatic boost to the chance of new business success. While the actual planning process clearly does (and should!) take a great deal of time, this exercise is designed to give students a quick, hands-on experience with the bare fundamentals.

Relationship to Text:

Typical Small Business Ventures— Learning Objectives 1, 3 and 4

Estimated Class Time:

## About 40 minutes (depending on class size)

Preparation/Materials:

## None needed

Exercise:

Divide your class into “entrepreneurial groups” of 3 to 5 students. Give each group about 10 minutes to decide what kind of business they would like to launch (the short timeframe typically pays off in high energy and creative ideas). Each group must answer the following questions:

* What is your core product or service?
* What is your point of difference versus the competition?
* Why will you succeed?
* How much funding would you need for start-up through year 1?
* How would you allocate that money?

Encourage them to be creative (but you may want to warn them to keep it clean!).

Reconvene as a class and tell them that they are now wealthy investors, eager to discover and fund the “next big thing.” Their upper investment limit is $750,000, but they want to spend the least possible amount for the highest possible return. They must evaluate ideas on the following criteria:

* Breakthrough concept
* Clear point of difference versus competition
* Focused planning
* Smart allocation of funds

Direct each group to give a mini-presentation (less than 5 minutes) of their new business idea. After the groups have presented, ask the class to vote by a show of hands for the business that they would fund (and they cannot vote for their own business). Follow-up discussion is often spontaneous, but if not, you may want to ask them as a class to identify the characteristics of winning ideas.

**2—Franchising**

Learning Objective: 6

Purpose:

To review and reinforce the types of advantages franchising may provide to a franchisee as compared to starting one’s own business “from scratch.”

Background:

Starting one’s own business involves great risks and often results in failure. Accordingly, many entrepreneurs choose franchising as an alternative path to operate their own enterprise. This exercise is designed to enable students to develop and discuss how franchising might lower or eliminate the entrepreneurial risks, while minimizing the chance of failure.

Relationship to Text:

Franchising—Learning Objective 6

Estimated Class Time:

## Approximately 30 minutes

Preparation/Materials:

You’ll need several pads of sticky notes, sufficient to provide one pad to each team to use in this brainstorming exercise.

Exercise:

Organize the class into teams. Assign 4 to 5 students to each team. Ask each team to consider the ways in which a franchisee can lower their risk and enjoy advantages by owning and operating a franchise, as contrasted to starting a business “from scratch.” Ask each team to agree on a spokesperson who will summarize and share the team’s ideas with the entire class.

Teams should then discuss their ideas and record them on a sticky note in note-style form. They can stick the ideas on the adjacent wall as they brainstorm.

After about 15 minutes, ask the spokesman to summarize (in writing) the ideas and come to the front of the class and share them with the entire class. The instructor can list each idea on the classroom board. Duplicate ideas from other teams can be checked off as they are presented.

The instructor then can summarize all the benefits the entire class developed. This exercise will reinforce the value of franchising.

### **3—Business Names**

Learning Objective: 9

Purpose:

## To demonstrate the importance of finding the right name for a new business.

Background:

In today’s highly competitive business environment, finding the right name for a new business can offer a significant competitive edge. The company name should not only be easy to pronounce and remember, but it should also reflect the company image and product line. Dell Computer Corporation, for example, recently changed its name simply to Dell Inc., in order to reflect the broader range of products that they now offer. This exercise is designed to help students think through the issues involved in choosing the right name.

Relationship to Text:

Naming Your Business—Learning Objective 9

Estimated Class Time:

## 10–15 minutes

Preparation/Materials:

## None needed

Exercise:

## Ask your students to call out their favorite business names and write the list on the board. Brainstorm with them a second list of the qualities of a great name (possibilities include memorable, punchy, descriptive, etc.).

Break the class into groups of 3 to 5 students, and give each group 5 minutes to come up with a new name for your college or university, using the criteria that you just developed as a class. Encourage them to be creative, even outrageous.

Reconvene as a class, and ask each group to share their name and the rationale. Vote on the top three names. (This is typically a lot of fun!)

### **4—Minority-Owned Small Businesses**

### Learning Objective: 5

Purpose:

To highlight minority representation among small-business owners.

Background:

The highest-profile entrepreneurs are typically young, educated white men from advantaged backgrounds. Examples include Bill Gates (Microsoft), Michael Dell (Dell Inc.), and Jeff Bezos (Amazon). People who fall into this group take the risk of starting new businesses in part because they can afford to fail; they are cushioned by their financial and informational resources. But another significant group of entrepreneurs start new businesses in part because they find themselves shut out of the best opportunities in the established workforce. A portion of minority entrepreneurs fall into this category, and this exercise is designed to showcase their success.

Relationship to Text:

Minority-Owned Businesses—Learning Objective 5

Estimated Class Time:

5–10 minutes

Preparation/Materials:

## If possible, recruit a minority or immigrant business owner to speak to your class about his or her experiences (this will, of course, add time to the exercise).

Exercise:

The growth of firms owned by African Americans, Hispanics, and Asian Americans has outpaced growth in the number of U.S. businesses overall.

Discussion questions: Why are these groups starting businesses at such a rapid rate? What are the advantages or disadvantages of being a minority business owner? Should minority-owned businesses receive extra help from the government? Why or why not? Encourage your class to uncover both sides of this issue.

### **5—Board of Directors**

Learning Objective: 9

Purpose:

To help students identify the qualities of effective board members.

Background:

In the wake of recent ethical and financial meltdowns at major corporations, boards of directors are now subject to close scrutiny from both the government and the investor community to ensure that they fulfill their oversight responsibilities. One issue appears to be the prevalence of inside directors and outside directors with close ties to management. This discussion-based exercise is designed to encourage students to engage in critical thinking with regard to appropriate and effective board members.

Relationship to Text:

Board of Directors—Learning Objective 9

Estimated Class Time:

## About 10 minutes

Exercise:

You may want to begin by sharing with your class that in January 2000, *BusinessWeek* developed a list of The Best and Worst Corporate Boards, identifying independence and accountability (which stems from stock ownership) as key factors for effective boards. GE, Johnson & Johnson, and Campbell Soup were at the top of the list. The Walt Disney Company was at the bottom, due to a plethora of inside directors.

Beyond the basics of independence and stock ownership, brainstorm with your class about the kinds of people an effective company would want to recruit for their boards. If they need some help, encourage them to consider people with financial/banking background, legal knowledge, legislative experience, academic background, industry experience, etc. Why would it make sense to seek board members with a diversity of experience? Why is significant stock ownership also crucial?