

# A86012 Management and Principles of Accounting (2019/2020)

Session 2

Types of Business

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# SESSION OBJECTIVES & OVERVIEW

# Session Objectives

*At the end of this session students will be able to:*

- *Articulate the **different options for conducting business** and some of the advantages/disadvantages of these*
- *Appreciate the specific **challenges facing small businesses and entrepreneurs***
- *Understand how **franchising** can be used to grow a business*
- *Understand **how businesses evolve** from being local to national, multinational, transnational, global and glocal.*

# Session 2 Overview

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Session objectives and outline	5
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# Course Overview

1. What is business	15. Accounting: glossary, vocabulary, terms
<b>2. Types of business</b>	16. Introduction to financial accounting
3. Management	17. Accounting for business transactions
4. Review session 1	18. Recording transactions, journal and ledger
5. Marketing	19. Recording owner's contributions & financing
6. Marketing strategy	20. Review session 1
7. Review session 2	21. Recording long-lived assets and investments
8. Operations	22. Recording purchases
9. Finance	23. Recording sales and employee compensation
10. Financial management	24. Review session 2
11. Review session 3	25. Adjusting and closing entries
12. Human resources	26. Adjusting and closing entries ...continued
13. Review session 4	27. Cases and exercises
<b>14. Exam</b>	<b>28. Exam</b>

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# **RECAP OF SESSION 1- WHAT IS A BUSINESS**

# Session 1 Validation

- What is a business?
- What are the four main types of economic systems and what are the differences?
- What is the importance of business ethics and corporate social responsibility?
- Why do nations trade and what barriers to international trade exist?
- What International Trade Organizations exist?

# ORGANIZATIONAL OPTIONS



# Table 4-1 Various Forms of Business Ownership 1

of 2

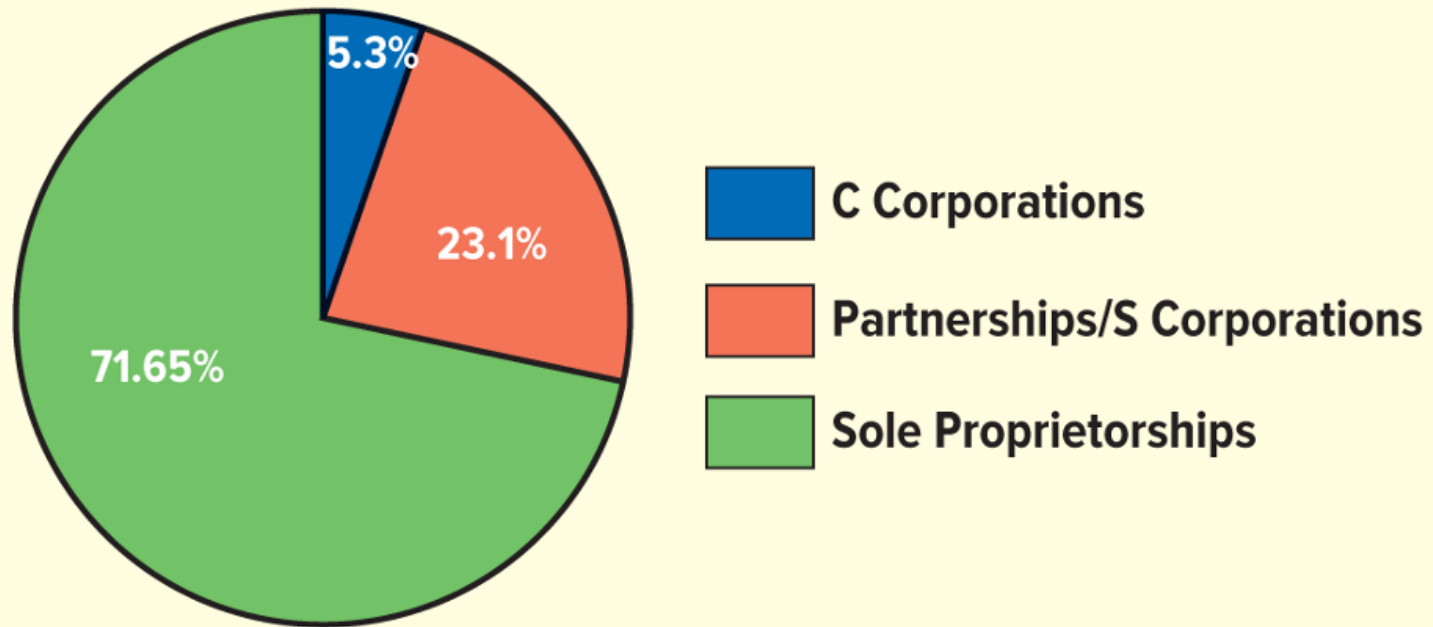
<b>Structure</b>	<b>Ownership</b>	<b>Taxation</b>	<b>Liability</b>	<b>Use</b>
Sole proprietorship	One owner	Individual income taxed	Unlimited	Owned by a single individual/easiest way to conduct business
Partnership	Two or more owners	Individual owners' income taxed	Somewhat limited	Easy way for two individuals to conduct business
Corporation	Any number of shareholders	Corporate and shareholder taxed	Limited	A legal entity with shareholders or stockholders

# Table 4-1 Various Forms of Business Ownership <sup>2</sup>

of 2

<b>Structure</b>	<b>Ownership</b>	<b>Taxation</b>	<b>Liability</b>	<b>Use</b>
S corporation	Up to 100 shareholders	Taxed as a partnership	Limited	Legal entity with tax advantages for restricted number of shareholders
Limited liability company	Unlimited number of shareholders	Taxed as a partnership	Limited	Avoid personal lawsuits

# Figure 4-1 Comparison of Sole Proprietorships, Partnerships/ S Corporations, and C Corporations



Source: Hodge, Scott A. "The U.S. Has More Individually Owned Businesses than Corporations," Tax Foundation, January 13, 2014, <http://taxfoundation.org/blog/us-has-more-individually-owned-businesses-corporations> (accessed April 9, 2017).

# Generic Types of Business

Sole proprietor			
Partnership	Unlimited Liability	Limited Liability (LLP)	
Company/Corporation	Private	Public (PIE)	European Company
Co-operative			
Joint Venture/consortium			
Foundation/Trust			

# Sole Proprietorships 1 of 3

## **Sole Proprietorships**

- Owned and operated by one individual
- Many focus on services rather than manufacturing
- Typically employ fewer than 50 people
- Comprise nearly three-fourths of all U.S. companies
- Women business owners less likely to get access to credit

## **Advantages of Sole Proprietorships**

- Ease and cost of formation
- Allows high level of secrecy
- Owner keeps all profits
- Flexibility and control of business
- Government regulation is minimal
- Taxed at individual tax rates
- Can be dissolved easily

## **Disadvantages of Sole Proprietorships**

- Unlimited liability
- Scarce external funding
- Owners need diverse skills
- Success is tied to the owner
- Lack of qualified employees
- Higher taxation rate

## Partnership

- Two or more persons as co-owners
- Minimizes disadvantages of sole proprietorship and maximizes its advantages
- Typically larger than sole proprietorships, but smaller than corporations



## Types of Partnership

- **General partnership**
  - Each partner has unlimited liability for debts
- **Limited partnership**
  - Risky investment projects where chance of loss great
  - Do not share management, but share profits

## Articles of Partnership

- Lists assets each partner contributed
- States management duties
- Specifies division of profits and losses
- Specifies restrictions

## **Advantages of Partnerships**

- Easy to organize
- Availability of capital and credit
- Combined knowledge and skills
- Swift decision making
- Government regulations are few

## **Disadvantages of Partnerships**

- Unlimited liability
- Responsible for each others' decisions
- New agreement needed if partnership changes
- Difficult to sell a partnership interest
- Distribution of profits may be uneven
- Cannot find external funding as easily as large corporations

## Taxation of Partnerships

- Quasi-taxable organizations
  - Do not pay taxes, but do file a tax return providing information on profitability and distribution of profits
  - Partners report their share of the profits and pay taxes at income tax rate for individuals

## Corporation

- Assets and liabilities are separate from owners
- Has many of the rights, duties, and powers of a person
  - Own and transfer property
  - Enter into contracts
  - Sue and be sued in court
- Account for the majority of all U.S. sales and income

## Stocks and Dividends

- Corporations are typically owned by many individuals and organizations who own shares
- **Stock**
  - May be bought, sold, gifted, or inherited
- **Dividends**
  - Profits distributed to stockholders
  - Not all after-tax profits paid to stockholders

## Creating a Corporation

- Incorporators create the corporation
- Follow state procedure for chartering the corporation
- Incorporators file legal articles of incorporation with the state
- State issues legal **corporate charter** to the company
- Owners establish bylaws and elect board of directors

## **Types of Corporations**

- Domestic corporation
  - Conducts business in state in which it is chartered
- Foreign corporation
  - Conducts business outside state in which it is chartered
- Alien corporation
  - Conducts business outside nation in which it is incorporated



## **Types of Corporations** continued

- **Private corporation**
  - Owned by just one or a few people
  - No stock sold to the public
  - Not required to disclose financial information publicly
- **Initial public offering (IPO)**
  - Selling stock on public markets for first time
  - Done when a private corporation wishes to “go public” or raise additional capital and expand

## **Types of Corporations** continued

- **Public corporations**

- Anyone may buy, sell, or trade stock

- Two types of public corporations

- **Quasi-public corporation**

- Owned and operated by government
- Provides service but often operates at loss

- **Nonprofit corporation**

- Focuses on providing service rather than earning profit
- Not owned by government

## Elements of a Corporation

- **Board of directors**
  - Responsible for meeting objectives on schedule
  - Legally liable for mismanagement or misuse
  - Important duty is hiring corporate officers
  - Two types of directors:
    - Inside—employees of company
    - Outside—people unaffiliated with company

## Elements of a Corporation continued

- **Preferred stock**
  - Have first claim to profits
  - Dividend payments on preferred stocks are usually fixed percentage of initial issuing price (set by board of directors)
    - If a share of preferred stock originally cost 100 dollars and the dividend rate was stated at 7.5 percent, the dividend payment will be 7.50 dollars per share per year

## **Elements of a Corporation** continued

- **Common stock**
  - Have voting rights, yet no preferential treatment regarding dividends
  - May vote by proxy—can assign their voting privilege to someone else
  - Have preemptive rights—can buy new shares of stock

## **Advantages of Corporations**

- Limited liability
- Ease of transfer of ownership
- Perpetual life
- Securing funding is easier than for other forms of business
- Expansion potential

## **Disadvantages of Corporations**

- Double taxation
- Expensive to form
- Disclosure of information to government and public
- Owners and managers are not always the same and can have different goals

## **Joint Ventures**

- Control can be divided equally, or one partner may control decision making
- Used for ventures that call for large investments, such as development of new products

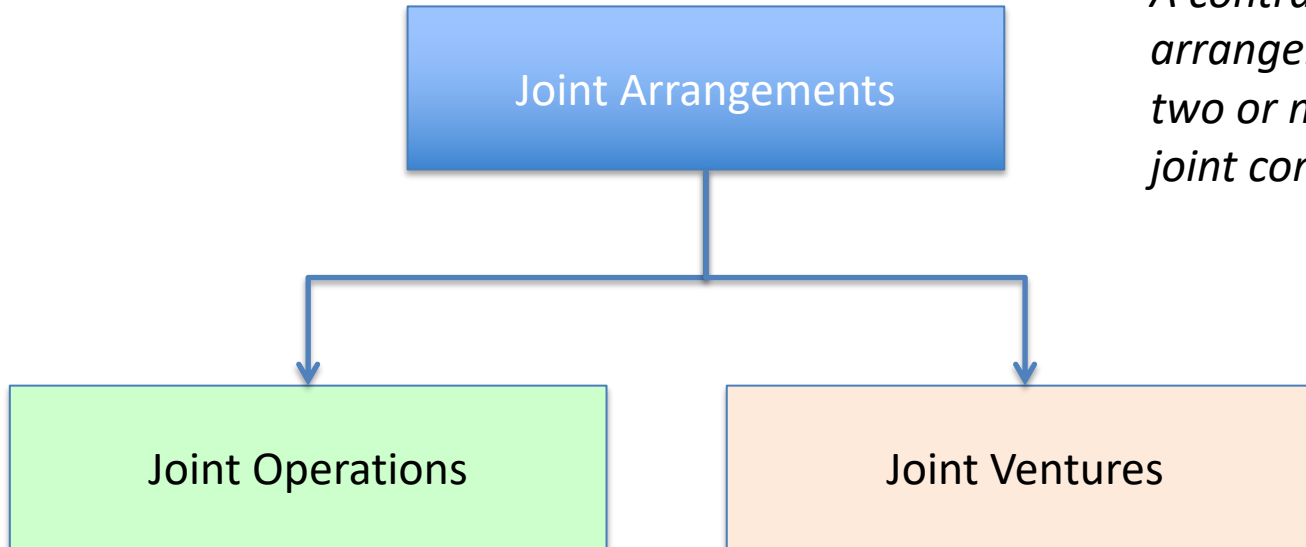
## **S Corporations**

- Eliminates double taxation and retains limited liability benefit
- Very popular with entrepreneurs, representing nearly half of all corporate filings



# Joint arrangements

## IFRS 11



*A contractual arrangement giving two or more parties joint control*

*The parties have rights to the **assets**, and obligations for the **liabilities**, relating to the arrangement. Joint Operators.*

*The parties have rights to the **net assets** of the arrangement. Joint Venturers.*

## **Limited Liability Companies**

- Limited liability and taxation like a partnership
- Considered blend of best characteristics of corporations, partnerships, and sole proprietorships

## **Cooperatives**

- Banded together to reap benefits of belonging to larger organization
- Set up not to make money as an entity, but so members can become more profitable or save money

# Italy - Types of Business Organization

Civil Code			
Imprenditore	One who carries out an organized economic activity to produce or exchange goods or services		
Piccoli imprenditori	Those who cultivate the land, artisans, small shopkeepers, those who carry out business activities either by themselves or with family members		
Contratto di società	When two or more persons contribute goods or services to carry out together a business activity with the objective of sharing the profits		
Società semplice	Contract not subject to any particular form		
S.n.c.	Società in nome collettivi – The shareholders are jointly and severally responsible with unlimited liability		
S.a.s	Società in accomodato semplice – Soci accomandatari jointly and severally liable with unlimited liability – Soci accomandanti – liability limited to their quotas		
S.p.A.	Società per azioni – Only the company is liable up to the amount of its shareholders' equity		
S.r.l.	Società a responsabilità limitata - Only the company is liable up to the amount of its shareholders' equity		
Cooperative	Businesses with mutualistic objectives can incorporate with limited liability		
Consorzi	Can be regulated by contract or through the formation of a company		

# Societas Europaea



Allianz SE  
Annual Report 2015



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- European Companies in each country
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#### What you need to know about the European Company Statute



The European Company (also known by its Latin name *Societas Europaea* or SE) is a type of public limited-liability company regulated under EU law.

The European Company Statute offers:

- a **simpler way to run your business** if you are active in more than one EU country. For example, you can reorganise your activities under a single European label
- **greater mobility in the integrated EU market**: for example you can transfer your registered office to another EU country without having to dissolve the company
- a **framework for how to involve staff** – employed in more than one country – in the running of your business.

Since its introduction in 2004, the European Company statute has been adopted by more than 1800 businesses that run their activities in more than one EU country. If you are looking to capitalise on business opportunities in Europe, it could also be the best solution for you!

Disclaimer [\[more\]](#)

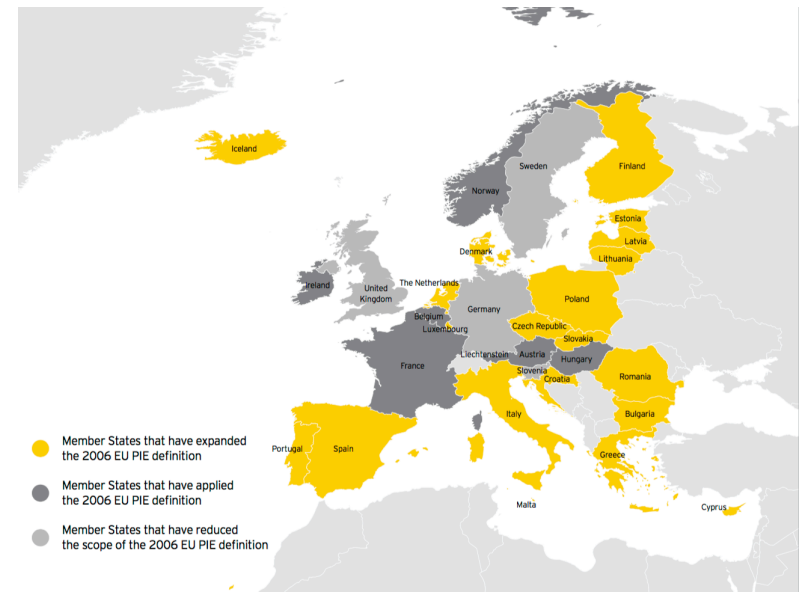
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# Public Interest Entities

The most recent definition of public-interest entities (PIEs) in the European Union is included in Article 2 point 13 of Directive 2014/56/EU and is as follows:

“Public-interest entities’ means:

- (a) Entities governed by the law of a Member State whose transferable **securities are admitted to trading on a regulated market** of any Member State within the meaning of point 14 of Article 4(1) of Directive 2004/39/EC;
- (b) **Credit institutions** as defined in point 1 of Article 43(1) of Directive 2013/36/EU of the European Parliament and of the Council, other than those referred to in Article 2 of that Directive;
- (c) **Insurance undertakings** within the meaning of Article 2(1) of Directive 91/674/EEC or;
- (d) **Designated by Member States** as public-interest entities, for instance undertakings that are of significant public relevance because of the nature of their business, their size or the number of their employees.”



Source: EY EU Audit Legislation October 2014

# TRENDS IN BUSINESS OWNERSHIP

# Trends in Business Ownership: Mergers and Acquisitions 1 of 4

## **Mergers**

- Horizontal merger
  - Firms that make and sell similar products to same customers
- Vertical merger
  - Companies operating at different but related levels of an industry
- Conglomerate merger
  - Firms in unrelated industries

# Trends in Business Ownership: Mergers and Acquisitions 2 of 4

## **Acquisition**

- Acquired company may become subsidiary

## **Corporate raider**

- Company or individual who wants to acquire or take over another company and first offers to buy some or all of its stock at premium



# Trends in Business Ownership: Mergers and Acquisitions 3 of 4

## Techniques to Head Off Hostile Takeovers

- Poison pill
  - Firm allows stockholders to buy more shares of stock at lower prices than current market value
- Shark repellent
  - Management requires large majority of stockholders to approve takeover
- White knight
  - More acceptable firm that is willing to acquire threatened company

# Trends in Business Ownership: Mergers and Acquisitions 4 of 4

## **Leverage Buyout (LBO)**

- Group of investors borrows money to acquire company, using assets of purchased company to guarantee repayment
- Mergers and acquisitions (particularly merger mania in the late 20th century) have been criticized
- Executives have to focus excessively on avoiding takeovers, not on managing the business

# Some Major M&A Deals

Year	Acquirer	Target	Deal Value US\$m
2017	Amazon	Whole Foods	14.0
2016	Microsoft	LinkedIn	26.2
2015	Dell	EMC <sup>2</sup>	67.0
2015	Royal Dutch Shell	BG Group	70.0
2015	Heinz	Kraft	100.0
2015	InBev	SABMiller	117.4
2015	Dow Chemical	DuPont	130.0
2014	Facebook	WhatsApp	19.0

# **SMALL BUSINESSES & ENTREPRENEURS**

# The Nature of Entrepreneurship and Small Business 1 of 8

## Entrepreneurship

- Movement is accelerating, and many new, smaller businesses are emerging, including **microentrepreneurs**
- Technology is now easier to obtain by small business
  - Websites, podcasts, online videos, social media, cellular phones, and expedited delivery services
- Growing trend is **social entrepreneurship**

# Table 5-1 Great Entrepreneurs of Innovative Companies

<b>Company</b>	<b>Entrepreneur</b>
Hewlett-Packard	Bill Hewlett, David Packard
Walt Disney Productions	Walt Disney
Starbucks	Howard Schultz
Amazon.com	Jeff Bezos
Dell	Michael Dell
Microsoft	Bill Gates
Apple	Steve Jobs
Walmart	Sam Walton
Google	Larry Page, Sergey Brin
Ben and Jerry's	Ben Cohen, Jerry Greenfield
Ford	Henry Ford
General Electric	Thomas Edison

# The Nature of Entrepreneurship and Small Business 2 of 8

## What Is a Small Business?

- **Small business**
  - Independently owned and operated
  - Not dominant in its competitive area
  - Does not employ more than 500 people
- **Small Business Administration (SBA)**
  - Offers managerial and financial assistance

# Table 5-2 Importance of Small Businesses to Our Economy

- Small firms represent 99.7 percent of all employer firms.
- Small firms have generated 63 percent of net new jobs.
- Small firms hire approximately 37 percent of high-tech workers (such as scientists, engineers, computer programmers, and others).
- Small firms produce 16 times more patents per employee than large patenting firms.
- Small firms employ nearly half of all private-sector employees.
- Small firms pay 42 percent of the total U.S. private payroll.

*Source: Small Business Administration Department of Advocacy, "Frequently Asked Questions," March 2014, [www.sba.gov/sites/default/files/FAQ\\_March\\_2014\\_0.pdf](http://www.sba.gov/sites/default/files/FAQ_March_2014_0.pdf) (accessed April 9, 2017).*



# Table 5-3 Number of Firms by Employment Size

<b>Firm Size</b>	<b>Number of Firms</b>	<b>Percentage of All Firms</b>
0 to 19 employees	4,498,148	66.8 percent
20 to 99 employees	684,076	10.1 percent
100 to 499 employees	356,543	5.3 percent
500 plus employees	1,192,175	17.7 percent

Source: "SUSB Employment Change Data Tables," Statistics of U.S. Businesses, [www.census.gov/data/tables/2014/econ/susb/2014-susb-employment.html](http://www.census.gov/data/tables/2014/econ/susb/2014-susb-employment.html) (accessed April 12, 2017).

# The Nature of Entrepreneurship and Small Business 3 of 8

## **The Role of Small Business in the American Economy**

- Women-owned businesses
  - More than 9 million businesses nationwide
  - Professional services, retail, communication, and administrative service
- Minority-owned businesses
  - Growing faster than other classifiable firms
  - Represents 28.6 percent of all small businesses

# The Nature of Entrepreneurship and Small Business 4 of 8

## **The Role of Small Business in the American Economy** continued

- Job creation
  - About 63 percent of net new jobs created by small businesses
  - 82.2 percent of all businesses employ fewer than 500 people

# The Nature of Entrepreneurship and Small Business 6 of 8

## Industries That Attract Small Business

- Retailing
  - Acquire goods from producers or wholesalers and sell them to consumers
  - Relatively easy to gain experience and exposure
- Wholesaling
  - Provide goods and services to producers and retailers
- Services
  - Businesses that do not actually produce tangible goods
  - 80 percent of U.S. jobs

# The Nature of Entrepreneurship and Small Business 7 of 8

## **Industries That Attract Small Business** continued

- Manufacturing
  - Unique opportunities for small businesses (like customizing products for customers)
- Technology
  - High technology describes businesses that depend heavily on advanced scientific and engineering knowledge

# The Nature of Entrepreneurship and Small Business 8 of 8

## **Industries That Attract Small Business** continued

- **Sharing economy**
  - Example: renting out lodging or vehicles
  - “Gig economy”

# EU Business Structure – By Sector

SMEs



	Total (thousands)	SMEs	Micro	Small (% of total)	Medium-sized	Large
<b>Total business economy; repair of computers, personal and household goods; except financial and insurance activities</b>	133 767	67.0	29.2	20.7	17.2	33.0
Mining and quarrying	614	33.4	6.4	13.0	13.9	66.6
Manufacturing	30 000	59.0	13.7	19.9	25.3	41.0
Electricity, gas, steam and air conditioning supply	1 227	22.6	4.8	5.3	12.5	77.4
Water supply; sewerage, waste management and remediation activities	1 420	55.8	9.1	17.6	29.0	44.2
Construction	12 731	87.6	45.9	27.8	13.9	12.4
Wholesale and retail trade; repair of motor vehicles and motorcycles	32 863	70.8	36.2	21.1	13.5	29.2
Transportation and storage	10 555	52.1	19.2	17.1	15.9	47.9
Accommodation and food service activities	10 425	82.9	41.7	28.8	12.5	17.1
Information and communication	5 961	57.8	22.9	17.3	17.5	42.2
Real estate activities	2 692	87.8	58.7	16.5	12.8	12.2
Professional, scientific and technical activities	11 480	82.2	49.0	20.1	13.3	17.8
Administrative and support service activities	13 387	48.7	16.1	13.4	18.8	51.3
Repair of computers and personal and household goods	386	90.1	68.1	:	:	9.9

Employees

1 - 249

< 10

10 - 49

50 - 249

> 250

# EU Business Structure – by Country

SMEs



	Total	SMEs			Large	
	(thousands)		Micro	Small (% of total)	Medium-sized	
<b>EU-28</b>	133,767	67.0	29.2	20.9	17.2	33.0
Belgium	2,718	70.1	34.1	20.3	15.7	29.9
Bulgaria	1,873	75.5	30.2	23.6	21.7	24.5
Czech Republic	3,522	69.8	32.2	18.3	19.3	30.2
Denmark	1,602	65.0	:	:	:	35.0
Germany	26,401	62.5	19.0	23.1	20.5	37.5
Estonia	394	78.1	29.8	24.6	23.8	21.9
Ireland	1,097	:	26.4	23.3	:	:
Greece	2,199	86.5	58.6	17.0	10.9	13.5
Spain	10,923	73.9	40.8	19.6	13.5	26.1
France	15,496	:	29.1	:	15.3	:
Croatia	1,003	68.3	30.3	19.2	18.8	31.7
Italy	14,715	:	46.4	:	12.5	:
Cyprus	225	:	:	:	21.6	:
Latvia	574	78.8	30.0	25.1	23.7	21.2
Lithuania	836	76.2	25.7	25.7	24.8	23.8
Luxembourg	243	68.3	18.0	25.6	24.7	31.7
Hungary	2,431	:	35.8	18.5	:	:
Malta	119	79.3	32.6	22.9	23.8	20.7
Netherlands	5,359	66.7	28.3	19.6	18.8	33.3
Austria	2,671	68.0	25.0	23.9	19.2	32.0
Poland	8,327	68.9	36.4	13.9	18.6	31.1
Portugal	2,943	:	42.3	20.8	:	:
Romania	3,838	66.4	22.5	22.4	21.4	33.6
Slovenia	574	72.3	33.7	18.6	20.0	27.7
Slovakia	1,417	69.7	38.6	15.4	15.7	30.3
Finland	1,458	63.0	24.5	20.9	17.6	37.0
Sweden	3,025	65.4	25.7	:	:	34.6
United Kingdom	17,785	53.0	17.3	19.4	16.3	47.0
Norway	1,511	67.6	24.5	24.4	18.8	32.4

Employees

1 - 249

< 10

10 - 49

50 - 249

> 250

Source: Eurostat 2012 Data



# Employees by size of company - Italy

Number of employees	Number of Firms	%
0 - 1	2,567,209	
2 - 9	1,527,235	
0 - 9	4,094,444	95,3
10 - 19	127,998	2,9
20 - 49	50,760	1,2
50 - 249	20,897	0,5
250 +	3,383	0,1
	4,297,482	100,0

Source: ISTAT 2013 Data

# Advantages of Small-Business Ownership 1 of 4

## **Advantages**

- Independence
- Costs
- Flexibility
- Focus
- Reputation

# Advantages of Small-Business Ownership 2

of 4

## **Independence**

- To do better for themselves than they could do by remaining with their current employer or by changing jobs
- Choose whom they work with
- Flexibility of where/when to work
- Option to work in family setting

# Advantages of Small-Business Ownership <sup>3</sup>

of 4

## **Costs**

- Spend less money on wages/salaries, rent, utilities, etc.
- Use external firms to handle accounting, advertising, and legal counseling
- Friends and family volunteer time to work on projects

# Advantages of Small-Business Ownership 4

of 4

## **Flexibility**

- Small size allows adaptation to changing market demands
- Usually only one layer of management (the owner) so decisions can be made quickly

## **Focus**

- Focus efforts on precisely defined market niche

## **Reputation**

- Because of capacity to focus on narrow niches, can develop enviable reputations for quality and service

## **Disadvantages**

- High stress level
- High failure rate
- Undercapitalization
- Managerial inexperience or incompetence
- Inability to cope with growth

## High Stress Level

- Likely to provide living for owner, but not much more
- Ongoing worries about competition, employee problems, new equipment, expanding inventory, rent increases, or changing market demand
- Owner is often manager, sales force, shipping and receiving clerk, bookkeeper, and custodian
- Multitasking can result in long hours

## **High Failure Rate** continued

- Managerial inexperience or incompetence
  - Just because an entrepreneur has a brilliant vision, it does not mean he or she has the knowledge or experience to manage
- Inability to cope with growth
  - Growth requires the owner to give up an amount of direct authority



## High Failure Rate

- Half of all small businesses fail within five years
- **Undercapitalization**
  - Too many entrepreneurs think that all they need is the money to get started

## **High Failure Rate** continued

- Managerial inexperience or incompetence
  - Just because an entrepreneur has a brilliant vision, it does not mean he or she has the knowledge or experience to manage
- Inability to cope with growth
  - Growth requires the owner to give up an amount of direct authority

## How to Start a Business

- Start with concept or general idea
- Devise strategy for planning and development
- Make decisions
  - Form of ownership
  - Financing
  - Acquire existing business or start new?
  - Buy franchise?

## The Business Plan

- Acts as guide and reference document
  - Explanation of business
  - Analysis of competition
  - Income/expense estimates
  - Establish strategy for acquiring sufficient funds to keep business going
- Revised periodically to adapt to changes in environment

## **Forms of Business Ownership**

- Sole proprietorship
- Partnership
- Corporation

## Financial Resources

- Often, owner has to put up significant percentage of necessary capital
  - Cash money
  - Obtain capital

Small-business owners often use debt financing from banks or the Small Business Administration to start their own organization.



## Financial Resources continued

- Equity financing
  - Owner uses real personal assets rather than borrowing funds from outside sources to get started
  - Can also obtain by finding investors and selling stock
    - **Venture capitalists** hope to purchase stock at low price and then sell for profit
    - Requires that owner shares profits of business with investors

## **Financial Resources** continued

- Debt financing
  - Sometimes borrow more than half of financial resources
  - Banks are main suppliers
  - Federal level: SBA offers financial assistance to qualifying business
  - Look to family and friends as sources for long-term loans or other assets
    - State agreement clearly in writing before money changes hands



## **Financial Resources** continued

- Debt financing continued
  - Collateral—financial interest in property or fixtures of business
  - Mortgage—personal property as collateral
  - Line of credit—agreement by which financial institution promises to lend business predetermined sum on demand
  - Trade credit—allow business to take possession of needed goods and services and pay at later date/installments
  - Bartering—trading own products for goods and services of other businesses

## **Approaches to Starting a Small Business**

- Starting from scratch versus buying an existing business
  - Existing businesses have advantage of built-in network of customers, suppliers, and distributors
    - Reduces some guesswork
    - Takes on any problems business already has

# FRANCHISING

## **Approaches to Starting a Small Business** continued

- Franchising
  - **Franchise**
    - License to sell another's products or to use another's name in business, or both
  - **Franchiser**
    - Company that sells a franchise
  - **Franchisee**
    - Purchaser of a franchise

## **Approaches to Starting a Small Business** continued

- Franchising continued
  - Advantages:
    - Training and support
    - Brand-name appeal
    - Standardized quality of goods and services
    - National/local advertising
    - Financial assistance
    - Proven products/format
    - Centralized buying power
    - Site selection and territorial protection
    - Greater chance for success

## **Approaches to Starting a Small Business** continued

- Franchising continued
  - Disadvantages:
    - Fees and profit sharing
    - Standardized operations
    - Restrictions on purchasing
    - Limited product line
    - Possible market saturation
    - Less freedom in decisions

## Help for Small-Business Managers

- Entrepreneurial training programs
- National publications such as *Inc.* and *Entrepreneur*
- Small Business Administration (SBA)
  - Small Business Development Centers (SBDCs)
  - Service Corps of Retired Executives (SCORE)
  - Active Corps of Executives (ACEs)
  - Small Business Institutes (SBIs)
- Other small businesses

## Demographic Trends

- Baby Boomers consists of 75 million Americans
  - Wealthy, but many small businesses do not actively pursue it
  - Travel, financial planning, and health care will continue to grow as boomers age
- Millennials/Generation Y number around 83 million
  - Not solely concerned about money
  - Concerned with advancement, recognition, improved capabilities
  - Need direct, timely feedback and recognition

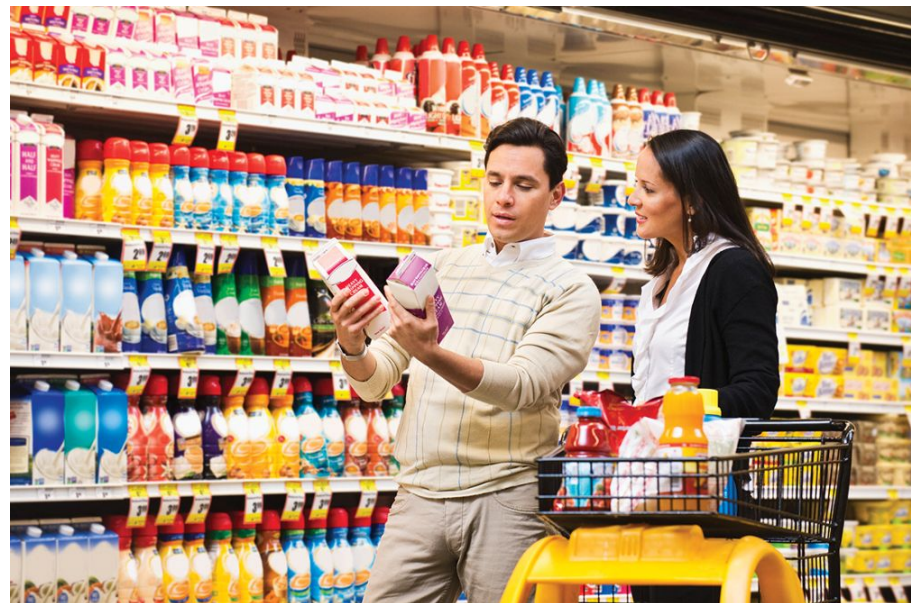


# The Future of Small Business 2 of 3

## Demographic Trends continued

- Another trend is growing number of immigrants
  - Represent over 17 percent of total U.S. workforce
  - Provides another untapped market for small businesses

The Latino population is the biggest and fastest growing minority segment in the United States—and a lucrative market for businesses looking for ways to meet the segment's many needs.



## Technological and Economic Trends

- Internet continues to provide new opportunities
- Increase in service exports
  - Expand operations abroad
- Economic turbulence provides both opportunities and threats
  - React quickly to change and stay close to customers
- Deregulation of energy market and interest in alternative fuels and fuel conservation
  - Worldwide energy markets valued in hundreds of billions of dollars


# Making Big Businesses Act “Small”

Continuing success and competitiveness of small businesses have led large corporations to take closer look at what makes smaller rivals tick

- Large firms emulate smaller ones to improve bottom line
- Downsizing (right-sizing)—reduce management layers, corporate staff, and work tasks
  - Makes firm more flexible, resourceful, and innovative
- **Intrapreneurs**—take responsibility for development of innovations within organization

# BUSINESS EVOLUTION

# Business evolution

- 
- Local  
Corner shop, bar
  - Regional  
Esselunga
  - National  
Poste Italiane
  - International  
Rolex
  - Multilocal/domestic  
Banking
  - Multinational  
McDonalds
  - Global  
Apple
  - Transnational  
Shell, Nestlé

# Differing approaches to Worldwide Strategy

090

EXHIBIT 8-3

## Different Corporate Approaches to Worldwide Strategy

### Fragmented Multilocal Strategies

	BUSINESSES				
Countries	A	B	C	D	E
U.S.A.	■	■	■	■	■
Japan	■	■	■	■	■
Germany	■	■	■	■	■
etc.	■	■	■	■	■

### Integrated Country Strategies

	BUSINESSES				
Countries	A	B	C	D	E
U.S.A.	→				
Japan	→				
Germany	→				
etc.	→				

### Integrated Business Global Strategies

	BUSINESSES				
Countries	A	B	C	D	E
U.S.A.	↓	↓	↓	↓	↓
Japan	↓	↓	↓	↓	↓
Germany	↓	↓	↓	↓	↓
etc.	↓	↓	↓	↓	↓

### Integrated Corporate Global Strategy

	BUSINESSES				
Countries	A	B	C	D	E
U.S.A.	→	→	→	→	→
Japan	→	→	→	→	→
Germany	→	→	→	→	→
etc.	→	→	→	→	→

# **REQUIRED READING AND RESEARCH ASSIGNMENT**

# Required Reading and research assignment

- Reading
  - M Business
    - Chapter 4 Options for organizing business
    - Chapter 5 Small business, entrepreneurship and franchising
- Exercises
  - M Business
    - Test Bank Questions Chapters 4 - 5
- Research assignment 2
  - Prepare an index/table of contents for a Business Plan for a business that you plan to start



# Research Assignment

- Imagine that you are about to start a business but you will need additional financial resources in order to do this
- Prepare an outline for a Business Plan that you will use to present to potential investors or financiers (lenders)

# **SESSION SUMMARY AND VALIDATION, OVERVIEW SESSION 3**

# Session summary

- Organizational options
- Public companies
- Small businesses and entrepreneurs
- Franchising
- Business evolution
- Reading, research and assignment for next session

# Overview Session 3

- The nature and history of management
- Organization, teamwork and communications
- Strategic and business planning
- Corporate governance

# Session Validation

- What are the different ways in which a business can be conducted?
- What are the pros and cons of each of these?
- What is a franchise?
- What is the difference between an international company, a multinational company and a transnational or global company?