Ch.2

# How Businesses Function

# 2.1- Comparing Types of Business Organization

- Consider these potential business situations:

*(1) Ryan wants to take advantage of the trend for custom wedding and birthday cakes, working part time to produce supplemental income for his family.*

*(2) Clare and Judy are experienced and successful builders who have a long track record in building luxury homes. They want to capitalize on the aging baby boomer market and build a series of luxury condominiums across the province.*

# 2.1- Comparing Types of Business Organization

(3) *Susan is an exceptional photographer who wants to use her artistic abilities and become a professional photographer. She lacks capital (money) and business knowledge.*

*(4) A group of five young engineers have developed a new technology enabling the creation of low cost motorcycles. They want to mass produce this product to meet the growing demand for low cost travel that is emerging in Africa.*

# 2.1- Comparing Types of Business Organization

- There are many different ways to set up businesses in terms of how they are owned.
- In Ch. 1 we introduced the main types of business ownership. Now we will look at each one more closely because it's important to understand how each one is different.

# 2.1- Comparing Types of Business Organization

**(1) Sole Proprietorships**

- This is a business owned by 1 person, referred to as a **proprietor**.
- In this setup, the **owner takes care of all the day-to-day operations** (sales, purchasing, accounting, maintenance, etc.) and owns all the equipment, perhaps even the building used.

# 2.1- Comparing Types of Business Organization

- Money to operate comes from the owner's **savings** or from loans from different sources.
- **MAJOR ADVANTAGE:** If the business does well, the owner enjoys all the profits.
- **MAJOR DISADVANTAGE:** If the business does poorly, the owner is responsible for all the losses. This is called **unlimited liability.**

# 2.1- Comparing Types of Business Organization

- A good thing about setting up a business this way is that it **doesn't need to be registered with the government**. All income can be recorded on your personal income tax instead of a separate business tax form.

# 2.1- Comparing Types of Business Organization

## (2) Partnerships

- In general, this is **operated by 2 or more people** who share duties and costs of running the business. (See p.42 for famous examples)
- Partners will create a written **partnership agreement** that outlines everybody's responsibilities in the business in all situations.

# 2.1- Comparing Types of Business Organization

- There are different types of partnerships:

(i) **General Partnership** (most common)

  - All partners have **unlimited liability** (one partner could be responsible for the other's losses).

(ii) **Limited Partnership**

  - Partners have **limited liability**…each partner is only responsible for their share of the losses.

# 2.1- Comparing Types of Business Organization

- Major advantage of a partnership…the **working relationship**.
  - Each partner could have different business skills that help make the business stronger.
  - Good working relationships also allow for shared decision-making.

# 2.1- Comparing Types of Business Organization

**(3) Corporations**

- Can be small (one owner) or as large as a **multinational** (example: Microsoft)
- This is a business that has an ownership made up of **shareholders**, who each own a piece of the business.

# 2.1- Comparing Types of Business Organization

**(i) Public Corporations**:

- The owners sell **shares** (or **stock**) in the corporation through a **stock exchange.** Once shares sell, the corporation becomes **publicly traded**.
- The more shares someone owns, the more control over the corporation they have.
- When corporations grow large, a **board of directors** is put in place to run it.

# 2.1- Comparing Types of Business Organization

- Shareholders have **limited liability**, so they can only lose the amount they paid for the shares.

- If the corporation earns a profit, some of that money is often paid to shareholders as a **dividend**. The more shares someone owns, the greater the dividend.

# 2.1- Comparing Types of Business Organization

**(ii) Private corporations:**

- Controlled by a small number of people…shares are not sold publicly.

**(iii) Crown corporations:**

- Owned by some level of **government** (federal, provincial, municipal).
  - Examples: CBC (TV, radio)
  - City of St. John's (run by a board of directors….the City Council)

# 2.1- Comparing Types of Business Organization

**(4) Co-operatives**

- **Owned by the workers or by members** who buy the products/services offered by the business.
- Members are like shareholders. But unlike a corporation, each member only has the power of one vote, no matter how many shares they own.

# 2.1- Comparing Types of Business Organization

- Co-ops also share profits differently. The more a member spends at the co-op, the bigger their dividend compared to someone who spends less.

# 2.1- Comparing Types of Business Organization

## (5) Franchises

- One business (the **franchiser**) licenses its name, products, designs and expertise to another business (the **franchisee**) for a fee.
  - Examples: Tim Horton's, McDonald's, Subway
- The franchisee really enters into a partnership with the franchiser, who provides a ready-made business.

# 2.1- Comparing Types of Business Organization

- Franchise fees might range from thousands to millions of dollars.
- Also, the franchisee pays a monthly sales fee as well as an advertising fee.
- The franchisee also buys its supplies from the franchiser. This makes sure all franchises offer the same products (think of Tim's).

# 2.2- Going Into Business

- No matter the type of business *ownership*, there are some main **types** of businesses. Each one provides people with different needs and wants.
  - Service
  - Retail
  - Not-for-Profit
  - Manufacturing

# 2.2- Going Into Business

1) **Service Businesses**

- Make money by doing things for other businesses or consumers.
- Examples: Cleaning companies, restaurants

# 2.2- Going Into Business

**2) Retail Businesses**

- Make money by selling things.
- Buy **merchandise** from a producer and sells them to a consumer
- Retailers are also called **distributors**
- Example: Department stores

# 2.2- Going Into Business

**3) Not-for-Profit (NFP) Organizations**

- The purpose of an NFP is to meet some specific need in the community.
- Examples: Charities like the Lions Club.

# 2.2- Going Into Business

**4) Manufacturing Businesses**

- Makes money by producing products from raw materials or component parts.
- These get sold either to distributors or directly to consumers.
- Example: Car manufacturers.