ACTIVITIES FOR ...

INFORMATION	CONNECTION	EXTENSION
1. a) Why do people go into business?	**b)** Interview local business owners to find out why they went into business. Are the reasons they give similar to the ones mentioned in the text, or do they identify other reasons? Has owning their own business lived up to their expectations? Why or why not?	**c)** Working with a "business partner," list the skills and knowledge that you each possess that would contribute to a successful business operation. Then, identify any skills or knowledge that you still need. How could you acquire these skills and knowledge?
2. a) What are business risks?	**b)** Return to the list of potential risks involved in the lawn-care and snow-clearing business (page 48). Work with a partner to discuss how you would respond to each situation.	**c)** Interview a businessperson about business risks. Find out how he or she has handled problems similar to the ones identified on page 48. Summarize your findings and report back to the class.
3. a) Define "debt financing" and "equity financing."	**b)** Make a list of all the financial institutions in your community where you could borrow money if you were to start a business.	**c)** Work in groups of three. Two people role-play partners applying for a business loan. The third person role-plays the loans officer of a financial institution. Obtain and complete a loan application form from a financial institution to help with your role-play.

Types of Businesses

Once you decide to go into business, you have to decide what type of business you want to own. Do you want to produce something? sell something? offer a service? A **manufacturing business**, like General Motors of Canada, produces a product from materials and provides this product to retailers who then sell it to consumers. A **retail business** buys goods and resells them to consumers to satisfy consumer needs and wants. Club Monaco is one example. A **service business** tries to satisfy the needs and wants of consumers by providing a service. Magicuts, a hair salon, is an example of a service business. A retail business is also a service business.

A General Motors employee, working in the final assembly department, checks the trim on a truck.

You must also decide if you want to start a new business, buy an existing business, or buy into a franchise. You should research each alternative and assess your chances of succeeding with each option. Will you be able to raise enough money to establish a new business? If you're considering taking over a business, is the business located in a good area? If you decide to buy a franchise, do you understand the details of the agreement you will be signing with the franchiser?

BUSINESS —FACT—

Canada has more franchise units per capita than any other country. The franchise sector employs at least 1 million people and chalks up sales of $100 billion a year. There are 1300 franchisers in Canada and nearly 64 000 franchise outlets.

FRANCHISES

In a franchise operation, one business, the **franchiser**, licenses the rights to its name, operating procedure, designs, and business expertise to another business, the **franchisee**. In this way, a franchisee buys a licence to operate a ready-made business and is often provided with a fully operational facility. The franchiser and the franchisee are independent businesses affiliated for this agreement only.

Franchise businesses are very popular in the business community. They offer brand recognition that consumers find more and more appealing. Hotels, motels, fast-food restaurants, and automobile dealerships are a few examples of franchise operations.

Before a franchise is awarded, the franchisee must meet many requirements. The most basic of these is the franchise fee, which is paid to the franchiser. These fees can range from thousands to millions of dollars. The more successful the franchise, the higher the franchise fee. Imagine having to pay $350 000 for a well-known coffee franchise before you even sold your first cup of coffee!

Hungry customers wait in line at a Harvey's/Swiss Chalet franchise.

In addition to the initial franchise fee, the franchisee pays a monthly fee for being part of the franchise family. This franchise fee might be 5% of total monthly sales. The franchisee also has to pay the franchiser for national and local advertising (roughly 1% of monthly sales). Moreover, all supplies have to be purchased centrally through the franchiser. This type of quantity buying should work to the benefit of the franchisee by reducing the cost of supplies and providing uniform quality.

Some franchisers require the franchisee to go through a training period to learn how to do business according to their standards. In this way, the quality of brand recognition is guaranteed. For example, a visit to Tim Hortons anywhere in Canada means fresh coffee and friendly service. Despite high franchise fees and monthly costs, it is not uncommon for franchise operations to be very successful. (See Chapter 16 for more information on franchises.)

Types of Business Ownership

Another way to classify businesses is by type of ownership. There are four main types of ownership: sole proprietorships, partnerships, corporations, and cooperatives. Each type of ownership has its own advantages and disadvantages.

BUSINESS —FACT—

A business could begin as a sole proprietorship, then reorganize as a partnership, and eventually evolve into a corporation. It might go through several organizational changes over a period of time.

Sole Proprietorships

A **sole proprietorship** is a business owned by one person, normally referred to as a "proprietor." The proprietor has many different responsibilities within the business. For example, the owner of a bicycle store usually buys the merchandise, sells to customers, does the accounting, arranges displays, and cleans the store. The owner owns all the equipment in the store, and might own the building. Money to open and run the business usually comes from the owner's savings or from a loan. If the business does well, the owner enjoys all the profits. If the business does poorly, the owner is responsible for all the losses. The owner may even lose his or her home and other personal belongings. This is called **unlimited liability**.

example, lawyers who specialize in different areas of law, such as civil, divorce, real estate, corporate, family, and wills and power of attorney, will form partnerships so that they can serve a wider client base. The terms of their partnership are recorded in a **partnership agreement**.

There are different kinds of partnerships. A **general partnership** is the most common form. In a general partnership, all partners have unlimited liability for the firm's debts. Unlimited liability means that each partner could be held responsible for the other partner's debts. In a **limited partnership**, on the other hand, partners have **limited liability**. They are only responsible for paying back the amount that they invested in the partnership. Even if the business fails, their personal savings and other assets cannot be used to pay the partnership's debts.

These new partners shake hands after signing a partnership agreement. The agreement includes details about how much each person invested in the partnership and the degree to which each partner will share in the profits or losses.

Corporations

A **corporation** is a type of business whose ownership is divided into many small parts, called **shares** or **stock**. Individuals who buy shares become owners of the company and are called **shareholders** or **stockholders**. The more shares a shareholder owns, the greater the control he or she has. Because there are so many owners, a **board of directors** is put into place to run the corporation.

Shareholders have limited liability. If the business fails, they lose only the amount that they've invested in shares. If the business earns a profit, some of it may be used to expand the company. The rest is paid out to shareholders in the form of a **dividend**. The amount of the dividend paid for each share is calculated by dividing the total profit paid out by the total number of shares owned by shareholders.

Types of Corporations

There are different types of corporations. In a **private corporation**, only a few people control all the shares and, therefore, the business. Stocks in the company are not listed for sale on a **stock exchange**, a trading market where stocks are bought and sold. On the other hand, a **public corporation** raises money by making shares available to thousands of people through selling stocks on the stock exchange. These individuals become the owners of the business.

BUSINESS
— FACT —

Incorporating can be done on a provincial or federal basis. If your business activity will be confined to one province, you can incorporate as a provincial company. But if you want to have the option of dealing with companies outside your province, incorporate your business as a federal company.

People with only a few shares of a stock have little influence on a company's policies. Major shareholders, on the other hand, can have a considerable impact because each share gives them one vote. A **Crown corporation** is a business operated by the provincial or federal government. Some examples of Crown corporations are the Business Development Bank of Canada, Via Rail, Atomic Energy of Canada Limited, Canada Post, and the Canadian Broadcasting Corporation. Towns and cities can also be incorporated. They are organized as businesses, or **municipal corporations**, to provide services to the local citizens.

Cooperatives

A **cooperative** is a business owned by the people, or members, who buy the products or use the services that the business offers. The motive for operating a cooperative is service, not profit.

Like a corporation, a cooperative is run by a board of directors, and the members of the cooperative own shares. Unlike a corporation, however, each member has only one vote, regardless of the number of shares owned. Another major difference is that the profits of a cooperative are distributed according to how much each member spends at the cooperative. For example, a member who buys $5000 worth of goods or services will receive a dividend five times as large as someone who buys $1000 worth of goods or services.

The cooperative model has been adapted to almost every form of business in Canada. Consumer cooperatives, retail cooperatives, and

Members of Mountain Equipment Co-op, which sells outdoor equipment such as backpacks, camping gear, and outdoor clothing, wait in line to pay for their purchases.

E-ACTIVITY

What other Canadian examples of cooperatives can you find? How could you become a member? Visit www.business.nelson.com and follow the links to find out.

worker cooperatives are three such adaptations. A local credit union where members pool their savings so that they can provide themselves with financial services at a reasonable cost is an example of a consumer cooperative. Retail cooperatives, like IGA (Independent Grocers' Association) and IDA (Independent Druggist Association), act as buying organizations for members. A worker cooperative is created to provide work for its members. The Sleepless Goat (a coffee shop in Kingston, Ontario) is an example of a worker cooperative. In Canada, most cooperatives in the healthcare, childcare, and housing sectors are not-for-profit cooperatives.

Advantages and Disadvantages of Different Types of Business Ownership

Table 3.1 summarizes the advantages and disadvantages of different types of business ownership. Which type of business ownership would you prefer, and why?

Table 3.1 Types of Business Ownership

	Sole Proprietorship	Partnership	Corporation	Cooperative
Features	• one owner	• two or more owners • written partnership agreement	• many shareholders • one vote per share • board of directors	• owned by members • each member has only one vote regardless of number of shares • board of directors
Advantages	• be your own boss • easy to start and end • profits to owner	• more capital and financing • shared responsibilities	• limited liability • transfer of ownership is simple	• less expensive goods/services • easily set up
Disadvantages	• unlimited liability • financing may be difficult • owner may not be familiar with all aspects of business	• unlimited liability in general partnerships • partner disagreements	• timely and costly startup • people who own only a few shares don't have a lot of influence on how the company is run	• decision-making process could be difficult