



Small Business Enterprise

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Key Topics

- Small business and its importance in the economy
- Sole proprietorships, partnerships, and corporations
- Creating and managing corporations
- Corporate trends and issues
- Starting and funding a small business
- Pros and cons of franchising

Introduction

- A business is always **owned** by someone.
- A business can have a number of different types of ownership depending on the aims and objectives of the owners.
- Most businesses aim to make profit for their owners
- Some organisations are 'not-for-profit'.

Measuring Size of A Business

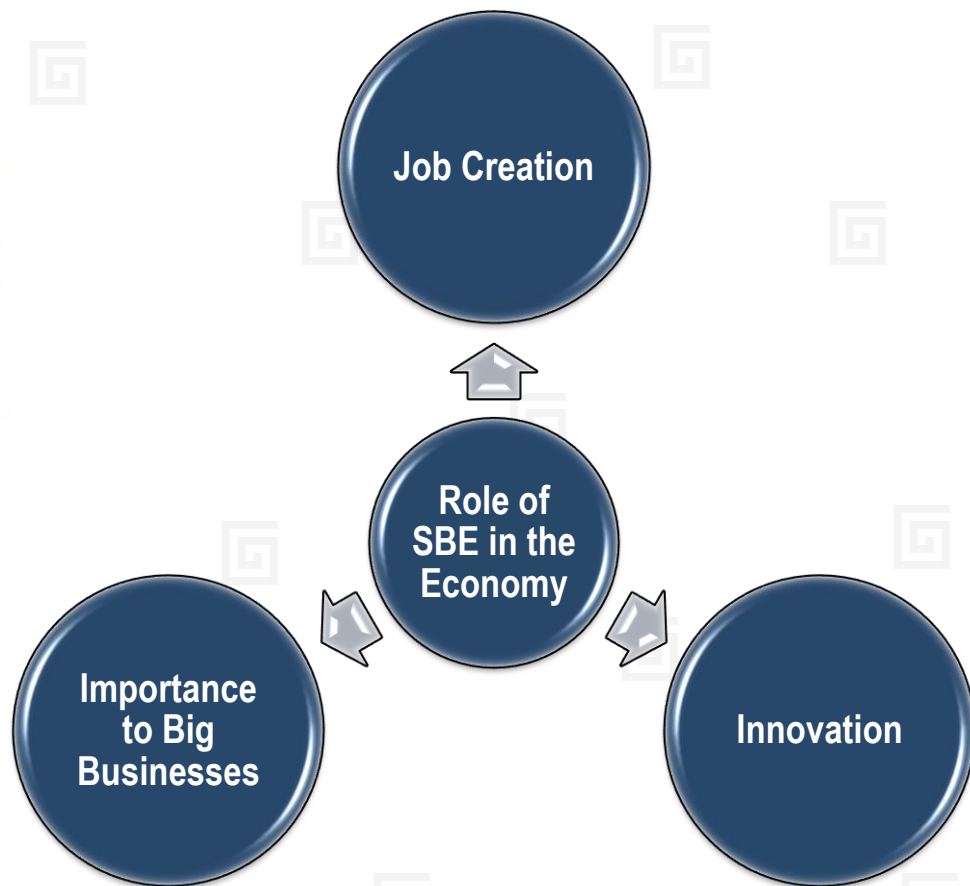
- No one measure of the size of the business
- Options
 - Number of employees
 - Number of outlets (e.g. shops)
 - Total revenues (or “sales” per year)
 - Profit
 - Capital employed – amount invested in business
 - Market value
- Often need to consider several measures together
- Business size is “relative” – e.g. how large is a business compared with its main competitors?

Small Business Defined



- Independently owned and managed business that does not dominate its market.

Small business plays a critical role in the economy.



Popular Areas of Small Business Enterprise

- **Services**
- **Retailing**
- **Construction**
- **Financial**
- **Insurance**
- **Wholesaling**
- **Transportation**
- **Manufacturing**

Types of Business Organizations

- **Sole Proprietorship**

- Consists of one individual doing business.
- The most numerous form of business organization
- They account for little in the way of aggregate business receipts.

Sole Proprietorships

Advantages:

- Ease of formation and dissolution.
- Low start-up costs and low operational overhead.
- Ownership of all profits.
- Subject to fewer regulations.
- No corporate income taxes.

Disadvantages:

- Unlimited liability.
- Limited life.
- It may be difficult for an individual to raise capital.



Types of Business Organizations

- **Partnership**

- Consists of two or more individuals in business together.
- May be as small as mom and pop type operations, or as large as some of the big legal or accounting firms that may have dozens of partners.
- There are different types of partnerships—the basic differences stemming around the degree of personal liability and management control.
 - general partnership
 - limited partnership
 - limited liability partnership

Partnerships

Advantages:

- Synergy.
- Relatively easy to form.
- May be subject to fewer regulations than corporations.
- There is stronger potential of access to greater amounts of capital.
- No corporate income taxes.

Disadvantages:

- Unlimited liability.
- Limited life.
- There is a real possibility of disputes or conflicts between partners.



Types of Business Organizations

- **Corporation**

- Probably the dominant form of business organization
- Although fewer in number, corporations account for the lion's share of aggregate business receipts.
- A legal entity doing business, and is distinct from the individuals within the entity.
- Public corporations are owned by shareholders who elect a board of directors to oversee primary responsibilities.
- Along with standard, for-profit corporations, there are charitable, not-for-profit corporations.

Corporation



“An artificial being, invisible, intangible, and existing only in contemplation of the law.”

Types of Corporations

- Closely Held (Private) Corporation
- Publicly Held (Public) Corporation
- S Corporation
- Limited Liability Corporation (LLC)
- Professional Corporation
- Multinational or Transnational Corporation

Corporation

Advantages:

- Unlimited commercial life.
- Greater flexibility in raising capital through the sale of stock.
- Ease of transferring ownership by selling stock.
- Limited liability.

Disadvantages:

- Regulatory restrictions.
- Higher organizational and operational costs.
- Double taxation.

Comparative Summary: Three Forms of Business

Business Form	Liability	Continuity	Management	Investment Sources
Proprietorship	Personal, limited	Ends with death or decision of owner	Personal, unrestricted	Personal
General Partnership	Personal, unlimited	Ends with death or decision of any partner	Unrestricted or depends on partnership agreement	Personal by partner(s)
Corporation	Capital invested	As stated in charter, perpetual or for specified period of years	Under control of board of directors, which is selected by stockholders	Purchase of stock

Stockholders

Owners of Corporations

Stock: Share of ownership in a corporation

- Common Stock
- Preferred Stock

Trends in Small Business Start-ups

Emergence of E-Commerce

- **E-Commerce Continues to grow rapidly**

Cross-overs from big business

Opportunities for Minorities & Women

Global

Opportunities

Increased Survival Rates

Reasons for Success and Failure

Reasons for Failure

- Poor management
- Neglect
- Weak control systems
- Insufficient capital

Reasons for Success

- Hard work, drive, dedication
- Market demand
- Strong management
- Luck!!!

FRANCHISING

An Ownership Opportunity

- **The franchisor** is the business who sells the right to another business (franchisee) to operate a franchise
 - Franchisor may run a number of their own businesses, but also may want to let others run the business in other parts of the country/world
- A franchise is bought by the **franchisee**
 - Franchisee required to invest in acquiring the franchise licence and setting up the business
 - Once they have purchased the franchise they have to pay a proportion of their profits to the franchisor on a regular basis
 - Depending on the business involved, the franchiser may provide training, management expertise and national marketing campaigns
 - May also supply the raw materials and equipment

FRANCHISING

An Ownership Opportunity

Advantages

- Proven business opportunity
- Access to management expertise

Disadvantages

- Start-up costs
- On-going payments
- Management rules and restrictions



FRANCHISING

An Ownership Opportunity



Advantages

- Tried and tested market place
- Easier to raise money from bank to buy a franchise
- Given right and appropriate equipment to do job well
- Normally receive training
- National advertising paid for by franchisor
- Tried and tested business model

Disadvantages

- Start-up costs
 - Cost to buy franchise
- On-going payments
 - Have to pay a percentage of your revenue to business you have bought franchisor
 - Management rules and restrictions
 - Have to follow franchise model, so less flexible

Financing the Small Business

- Personal resources
- Loans
- Venture capital companies
- Small-business investment companies
- Small Business Association (SBA)
 - *Financial aid and management advice*



Reasons Franchising has become more popular

- Large companies have seen it as a means of rapid expansion
- Franchisee provides most of finance –reduces investment in expansion
- Local entrepreneur with inherited or redundancy money sees opportunity to set up business with reduced risk
- Banks like combination of large company and small local business as a reduced lending risk.

Review Questions

- Define small business and explain its importance to the Jamaican economy.
- Describe sole proprietorships, partnerships, and corporations, and explain the advantages and disadvantages of each.
- Identify the different types of corporations.
- Describe the start-up decisions made by small businesses and the potential sources of financial aid and management advice.
- Identify the advantages and disadvantages of franchising.

