

Entrepreneurship, New Ventures, and Business Ownership

chapter # 3

Introduction

- In this chapter, we examine
 - converting a great business idea into a profitable enterprise
 - assessing the market potential for new and up-and-coming businesses
 - the business plan, reasons for success and failure
 - advantages and disadvantages of different kinds of ownership

learning objectives

- 1. **Define** small business, discuss its importance to the U.S. economy, and explain popular areas of small business.*
- 2. **Explain** entrepreneurship and describe some key characteristics of entrepreneurial personalities and activities.*
- 3. **Describe** distinctive competence, the business plan, and the start-up decisions made by small businesses and identify sources of financial aid available to such enterprises.*

learning objectives

- 4. Discuss the trends in small business start-ups and identify the main reasons for success and failure among small businesses.*
- 5. Explain sole proprietorships, partnerships, and cooperatives and discuss the advantages and disadvantages of each.*
- 6. Describe corporations, discuss their advantages and disadvantages, and identify different kinds of corporations; explain the basic issues involved in managing a corporation and discuss special issues related to corporate ownership.*

What Is a “Small” Business?

- **Small business**
 - one that is independent (not part of a larger business) and that has relatively little influence in its market
- **Small Business Administration (SBA)**
 - government agency charged with assisting small businesses

The Importance of Small Business in the United States

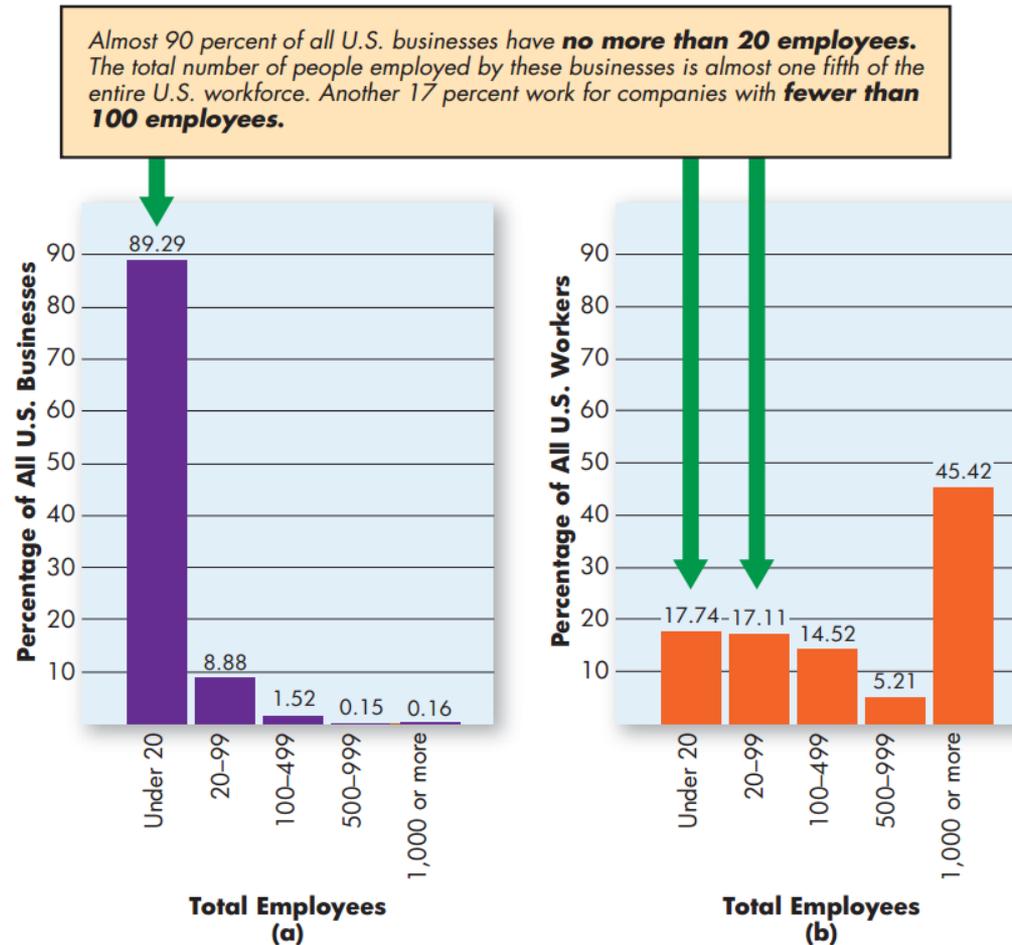


FIGURE 3.1 The Pervasiveness of Small Business in the United States

The Importance of Small Business in the U.S. Economy (cont.)

Job creation

Innovation

**Contributions to big
business**

Job Creation

- Small businesses have accounted for about 40 percent of all new jobs in high-technology sectors of the economy
- Small businesses are generally the first to hire in times of economic recovery

Popular Areas of Small-Business Enterprise

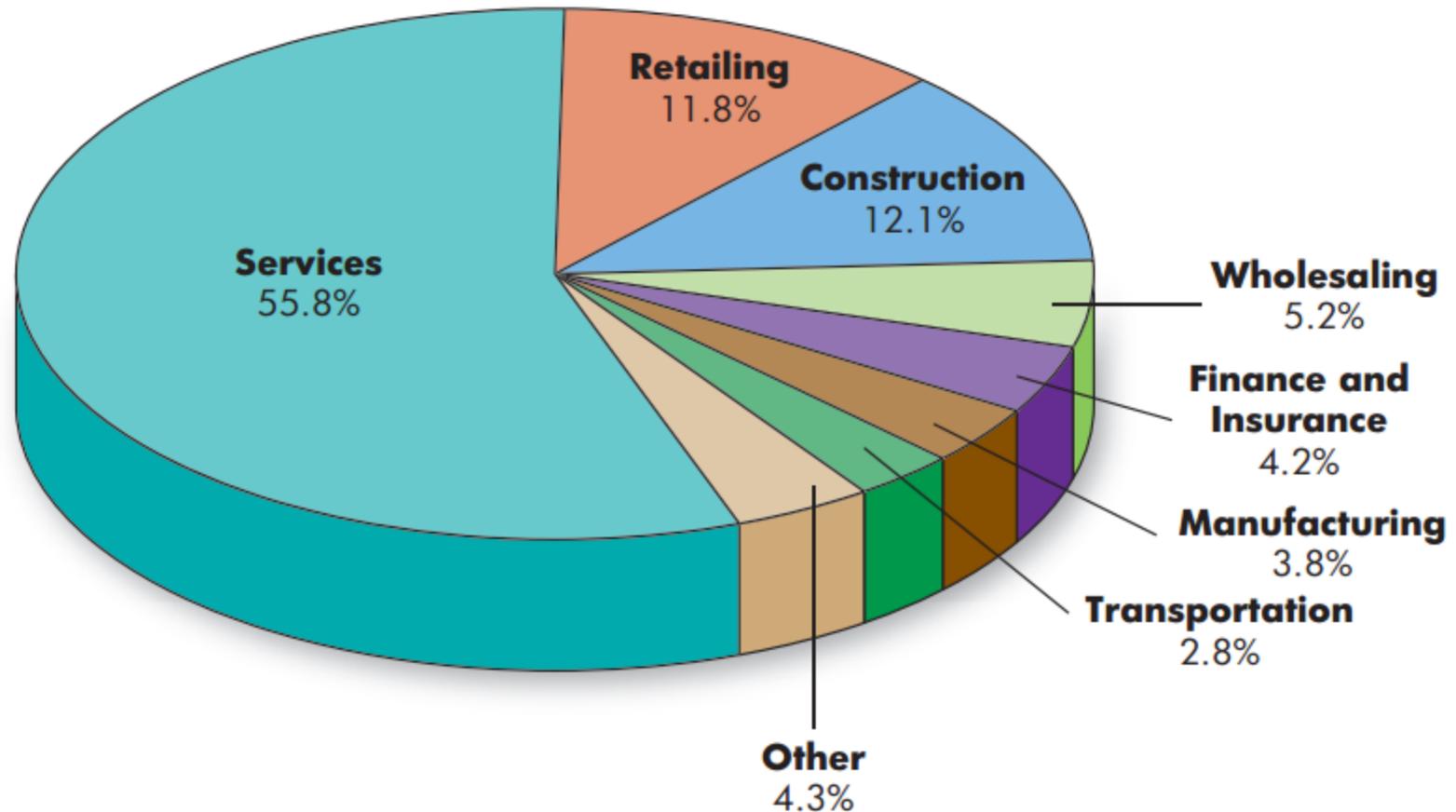


FIGURE 3.2 Small Business by Industry

Entrepreneurship

- **Entrepreneur**
 - businessperson who accepts both the risks and the opportunities involved in creating and operating a new business venture
- **Entrepreneurship**
 - the process of seeking business opportunities under conditions of risk

Entrepreneurial Characteristics

- Resourcefulness
- Concern for good, personal customer relations
- Strong desire to be their own bosses
- Deal with uncertainty and risk

Understanding Distinctive Competencies

- **Established Market**
 - one in which many firms compete according to relatively well-defined criteria
- **Niche**
 - a segment of a market that is not currently being exploited

First-Mover Advantages

- **First-mover advantage**
 - is any advantage that comes to a firm because it exploits an opportunity before any other firm does

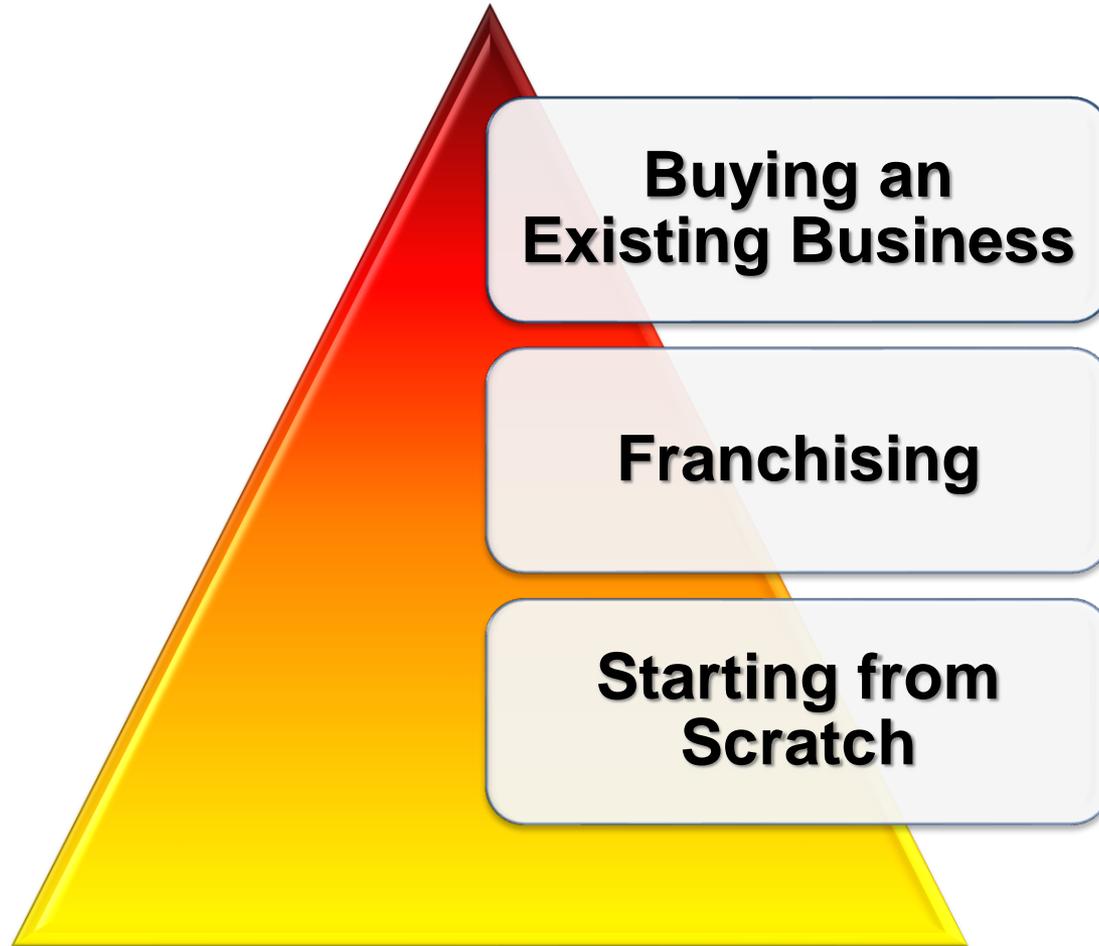
Starting and Operating a New Business

- **Business plan**
 - Document in which the entrepreneur describes her or his business strategy for the new venture and demonstrates how it will be implemented

Crafting a Business Plan

- Setting Goals and Objectives
- Sales Forecasting
- Financial Planning

Starting the Small Business



Starting a Small Business

- **Franchise**

- arrangement in which a buyer (franchisee) purchases the right to sell the good or service of the seller (franchiser)

Franchising

- **Advantages**

- Proven business opportunity
- Access to management expertise

- **Disadvantages**

- Start-up costs
- Ongoing payments
- Management rules and restrictions

Starting from Scratch

- Who and where are my customers?
- How much will those customers pay for my product?
- How much of my product can I expect to sell?
- Who are my competitors?
- Why will customers buy my product rather than the product of my competitors?

Financing a Small Business

- Personal resources
- Loans from family and friends
- Bank loans
- Venture capital companies
- Small-Business Investment Companies (SBICs)
- Minority Enterprise Small-Business Investment Companies (MESBICs)
- SBA financial programs

Financing a Small Business (cont.)

- **Venture Capital Company**
 - group of small investors who invest money in companies with rapid growth potential
- **Small-Business Investment Company (SBIC)**
 - government-regulated investment company that borrows money from the SBA to invest in or lend to a small business

Trends in Small-Business Start-Ups

- **Emergence of E-Commerce**
 - The Internet provides fundamentally new ways of doing business
- **Crossovers from Big Business**
 - More businesses are being started by people who have opted to leave big corporations and put their experience to work for themselves
- **Opportunities for Minorities and Women**
 - More small businesses are also being started by minorities and women.

Emergence of E-commerce

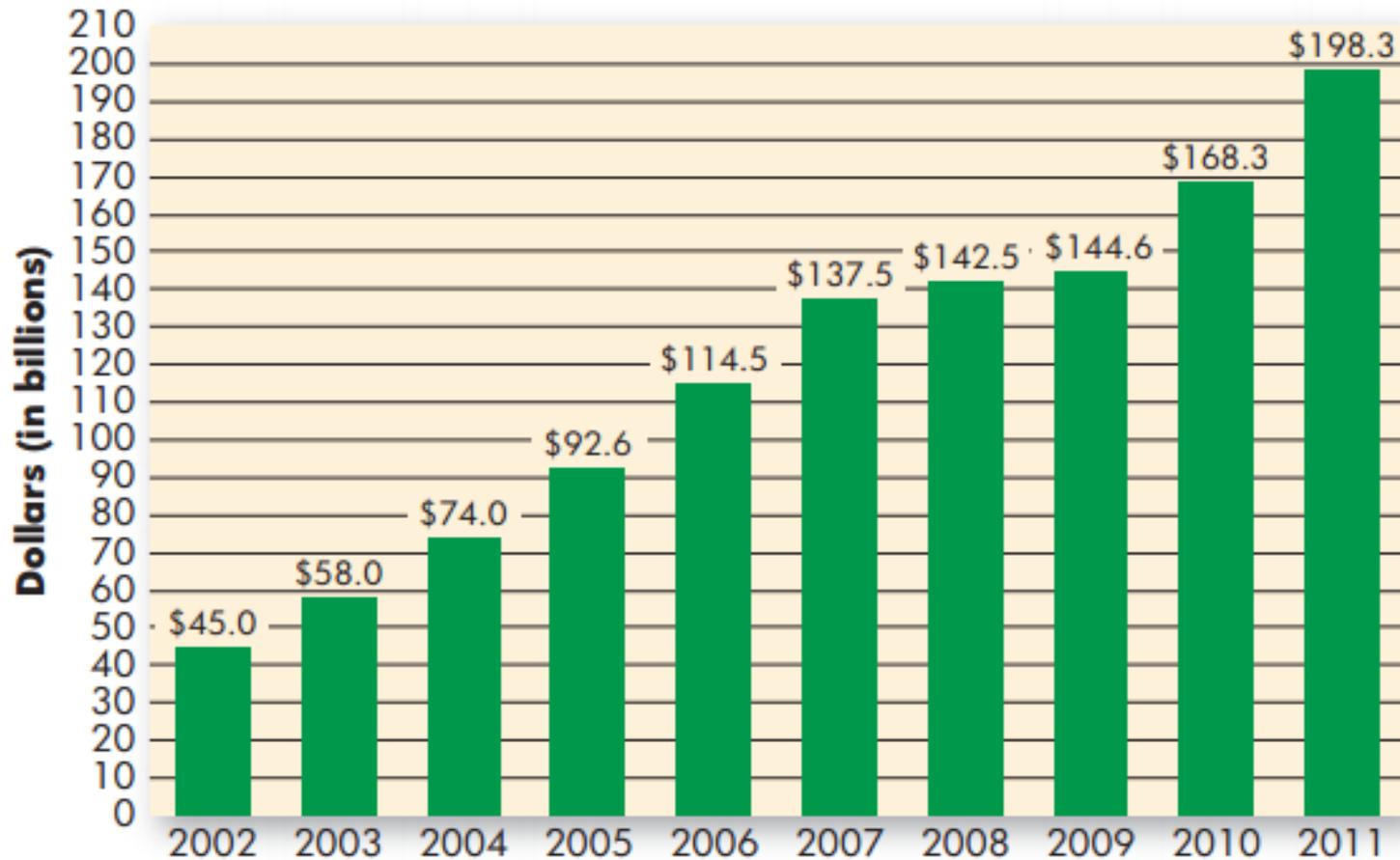


FIGURE 3.3 Growth of Online Retail Spending

Reasons Women Give for Starting Businesses

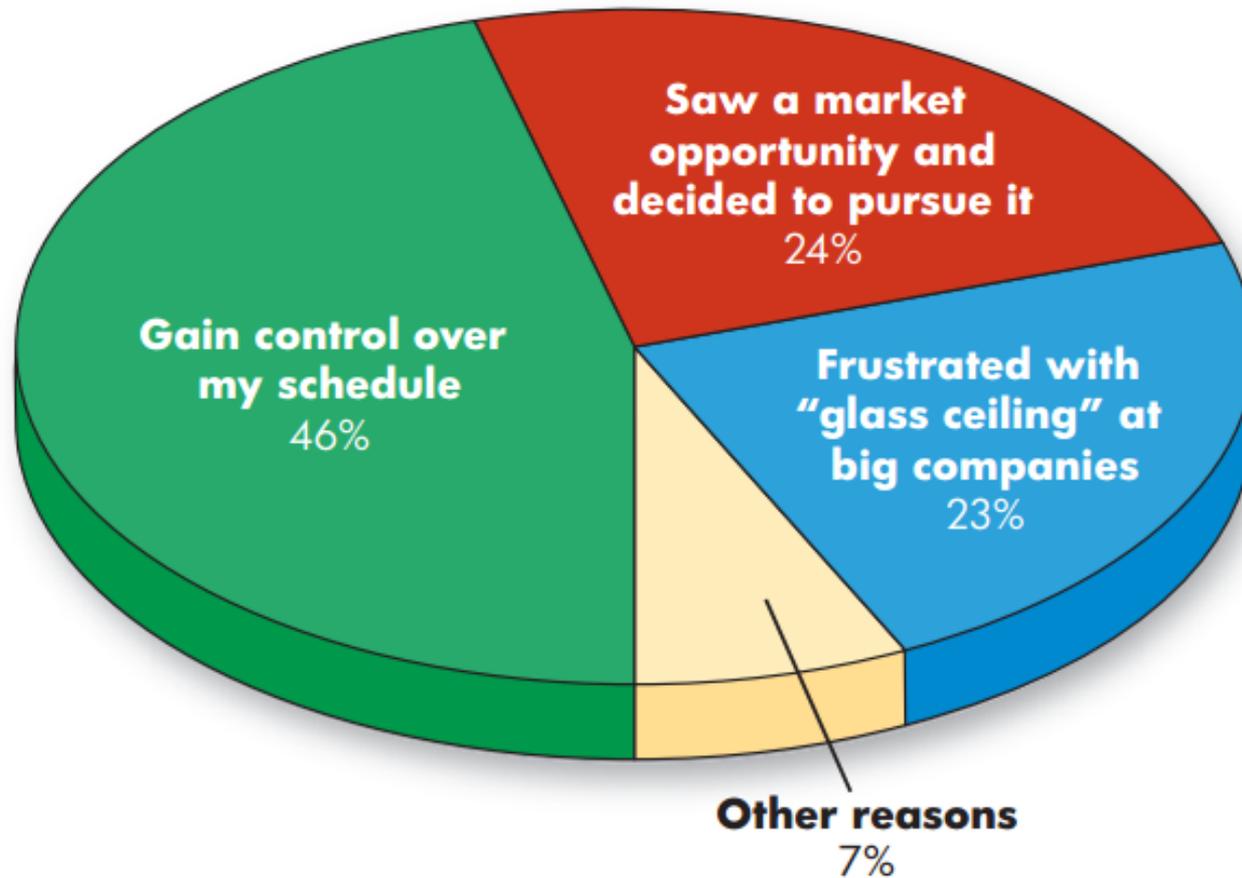


FIGURE 3.4 Reasons Women Give for Starting Businesses

Trends in Small-Business Start-Ups

- **Global Opportunities**

- Many entrepreneurs are also finding new opportunities in foreign markets

- **Better Survival Rates**

- Today, 44 percent of new start-ups can expect to survive for at least four years

Reasons for Failure

1. Managerial incompetence or inexperience
2. Neglect
3. Weak control systems
4. Insufficient capital

Reasons for Success

1. Hard work, drive, and dedication
2. Market demand for the products or services being provided
3. Managerial competence
4. Luck

Noncorporate Business Ownership

- **Sole Proprietorship**
 - business owned and usually operated by one person who is responsible for all of its debts
- **General Partnership**
 - business with two or more owners who share in both the operation of the firm and the financial responsibility for its debts

Sole Proprietorship

- **Advantages**

- Freedom
- Simple to form
- Low start-up costs
- Tax benefits

- **Disadvantage**

- Unlimited liability
- Limited resources
- Limited fundraising capability
- Lack of continuity

Partnerships

- **Advantages**

- More talent and money
- More fundraising capability
- Relatively easy to form
- Limited liability for limited partners
- Tax benefits

- **Disadvantages**

- Unlimited liability for general partners
- Disagreements among partners
- Lack of continuity

Comparative Summary: Three Forms of Business

table 3.1 Comparative Summary: Three Forms of Business Ownership

Business Form	Liability	Continuity	Management	Sources of Investment
Proprietorship	Personal, unlimited	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

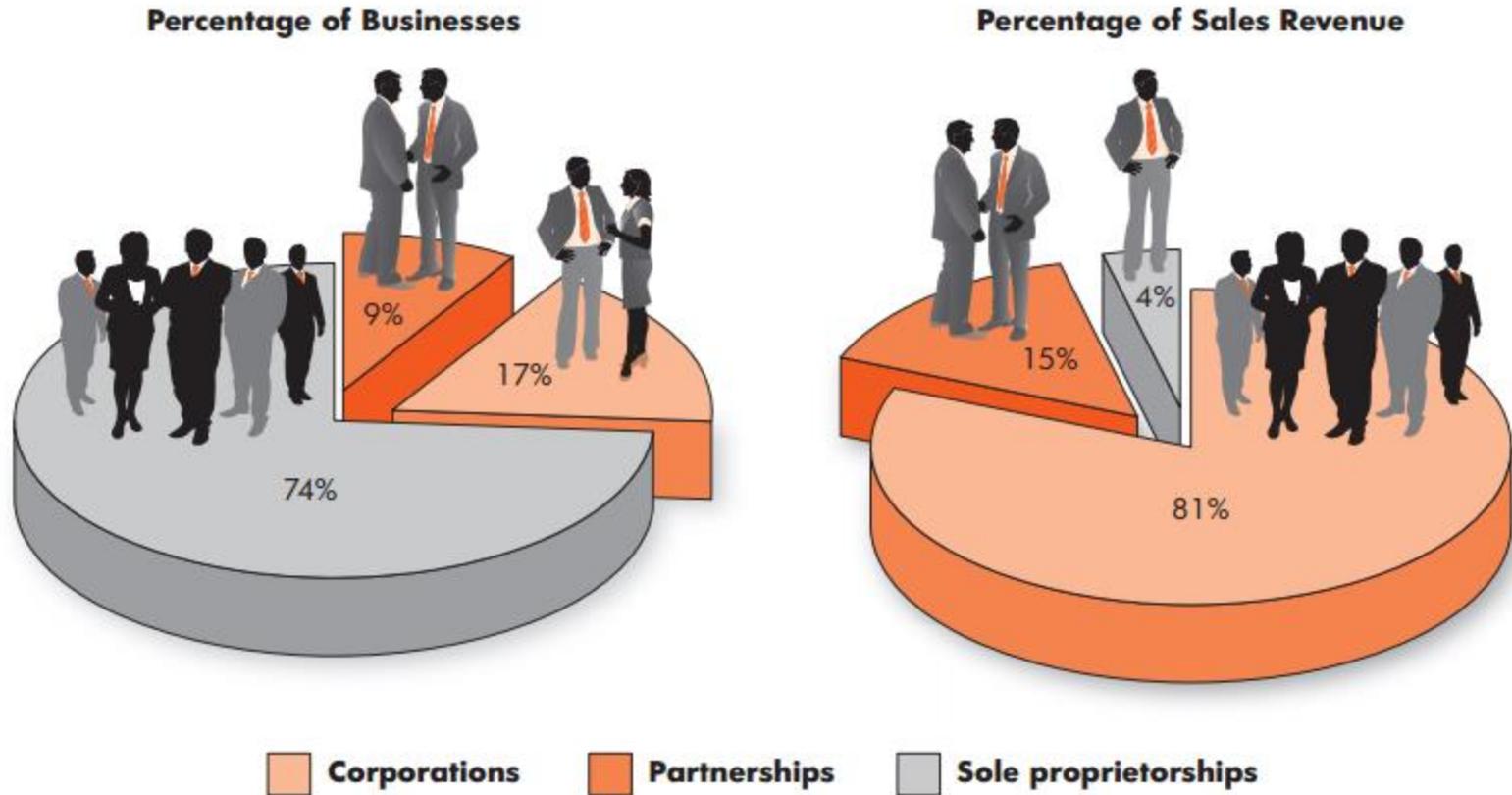
Alternatives to General Partnerships

- **Limited Partnership**
 - Allows for limited partners who invest money but are liable for debts only to the extent of their investments
 - General (or active) partners run the business
- **Master Limited Partnership**
 - Master partner has majority ownership and runs the business; minority partners have no management voice

Cooperatives

- Combine the freedom of sole proprietorships with the financial power of corporations
- Groups of sole proprietorships or partnerships agree to work together for their common benefit

Proportions of U.S. Firms in Terms of Organization Type and Sales Revenue



The Corporate Entity

- **Corporation**
 - business that is legally considered an entity separate from its owners and is liable for its own debts; owners' liability extends to the limits of their investments

Corporations

- **Advantages**

- Limited liability
- Continuity
- Stronger fundraising capability

- **Disadvantages**

- Can be taken over against the will of its management
- Double taxation of profits
- Complicated and expensive to form

Types of Corporations

table 3.2 Types of Corporations

Type	Distinguishing Features	Examples
Closely Held	Stock held by only a few people Subject to corporate taxation	Blue Cross/Blue Shield MasterCard Primestar
Publicly Held	Stock widely held among many investors Subject to corporate taxation	Apple Starbucks Texas Instruments
Subchapter S	Organized much like a closely held corporation Subject to additional regulation Subject to partnership taxation	Minglewood Associates Entech Pest Systems Frontier Bank
Limited Liability	Organized much like a publicly held corporation Subject to additional regulation Subject to partnership taxation	Pacific Northwest Associates Global Ground Support Ritz Carlton
Professional	Subject to partnership taxation Limited business liability Unlimited professional liability	Norman Hui, DDS & Associates B & H Engineering Anderson, McCoy & Oria
Multinational	Spans national boundaries Subject to regulation in multiple countries	Toyota Nestlé General Electric

Types of Corporations (cont.)

- **Closely Held (or Private) Corporation**
 - a corporation whose stock is held by only a few people and is not available for sale to the general public
- **Publicly Held (or Public) Corporation**
 - A corporation whose stock is widely held and available for sale to the general public
- **S Corporation**
 - a hybrid of a closely held corporation and a partnership, organized and operated like a corporation but treated as a partnership for tax purposes

Types of Corporations (cont.)

- **Limited Liability Corporation (LLC)**
 - hybrid of a publicly held corporation and a partnership in which owners are taxed as partners but enjoy the benefits of limited liability
- **Professional Corporation**
 - form of ownership allowing professionals to take advantage of corporate benefits while granting them limited business liability and unlimited professional liability

Types of Corporations (cont.)

- **Multinational (or Transnational) Corporation**
 - form of corporation spanning national boundaries

Managing a Corporation

- **Corporate Governance**
 - roles of shareholders, directors, and other managers in corporate decision making and accountability

Corporate Governance

- **Stockholder (or Shareholder)**
 - owner of shares of stock in a corporation
- **Board of Directors**
 - governing body of a corporation that reports to its shareholders and delegates power to run its day-to-day operations while remaining responsible for sustaining its assets
- **Officers**
 - top management team of a corporation

Special Issues in Corporate Ownership

Joint Ventures and Strategic Alliances

Employee Stock Ownership Plans

Institutional Ownership

Mergers, Acquisitions, Divestitures, and Spin-Offs

Applying What You've Learned

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Applying What You've Learned (cont.)

- 4. Discuss** the trends in small business start-ups and identify the main reasons for success and failure among small businesses.
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