

DEPARTMENT:
COURSE NAME:
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CREDITS:

General Education
Entrepreneurial Skills
ENT 211
03

Module 4: Forms of Ownership and Franchising

1. Sole Proprietorship

A sole proprietorship is a business owned and managed by one individual and is the most popular form of ownership.

Advantages:

- They are simple to create
- They are the least costly form to begin
- The owner has total decision-making authority
- There are no special legal restrictions
- They are easy to discontinue

Disadvantages:

- Unlimited personal liability of owner
- Limited managerial skills and capabilities
- Limited access to capital
- Lack of continuity

2. Partnership

A partnership is an association of two or more people who co-own a business for the purpose of making a profit.

Advantages:

- Ease of establishing
- Complementary skills of partners
- Division of profits
- Larger pool of capital available
- Ability to attract limited partners
- Little government regulation flexibility
- Tax advantages

Disadvantages:

- Unlimited liability of at least one partner
- Difficulty in disposing of partnership
- Interest lack of continuity
- Potential for personality and authority conflicts
- Partners bound by the law of agency

3. Corporation

A corporation, the most complex of the three basic forms of ownership, is a separate legal entity. To form a corporation, an entrepreneur must file the articles of incorporation with the state in which the company will incorporate.

Advantages:

- Limited liability of stockholders
- Ability to attract capital
- Ability to continue indefinitely
- Transferable ownership

Disadvantages:

- Cost and time involved in incorporating
- Double taxation
- Potential for diminished managerial incentives
- Legal requirements and regulatory red tape
- Potential loss of control by the founder(s)

4. Franchising

Franchise – an authorization granted by a government/company to an individual/group enabling them to carry out specified activities; providing a broadcasting service or acting as an agent for a company's products.

Franchisee – an entrepreneur whose power is limited by a contractual agreement with a franchisor

Franchisor – the party in the franchise contract that specifies the methods to be followed and the terms to be met by the other party

5. Types of Franchising

- Trade-name franchising involves a franchisee purchasing the right to become affiliated with a franchisor's trade name without distributing its products exclusively.
- Product distribution franchising involves licensing a franchisee to sell products or services under the franchisor's brand name through a selective, limited distribution network. However, not only distribution at times, but little manufacturing is involved as well
- Pure franchising involves selling a franchisee a complete business format.

Benefits:

- Management training and support
- Brand-name appeal
- Standardized quality of goods and services
- National advertising programs
- Financial assistance
- Proven products and business formats
- Centralized buying power
- Territorial protection
- Greater chance of success

Drawbacks:

- Franchise fees and profit sharing
- Strict adherence to standardized operations
- Restrictions on purchasing
- Limited product lines
- Unsatisfactory training programs
- Market saturation
- Less freedom

The laws covering franchise purchase

The FTC (Federal Trade Commission) requires all franchisors to disclose detailed information on their operations in a UFDD at the first personal meeting or at least 14 days before a franchise contract is signed or before any money is paid. The FTC rule covers all franchisors. The UFDD requires franchisors to provide information on 23 topics in their disclosure statements. The UFDD is an extremely helpful tool for prospective franchisees.

The right way to buy a franchise

- Evaluate yourself
- Research your market
- Consider your franchise options
- Get a copy of the franchisor's UFOC (Uniform Franchise Offering Circular)
- Talk to existing franchisees
- Ask the franchisor some tough questions
- Make your choice

Major trends shaping franchising

Key trends shaping franchising today include:

- The changing face of franchisees
- International franchise opportunities; smaller, nontraditional locations;
- Conversion franchising
- Multiple-unit franchising
- Master franchising
- Cobranding (or combination franchising)