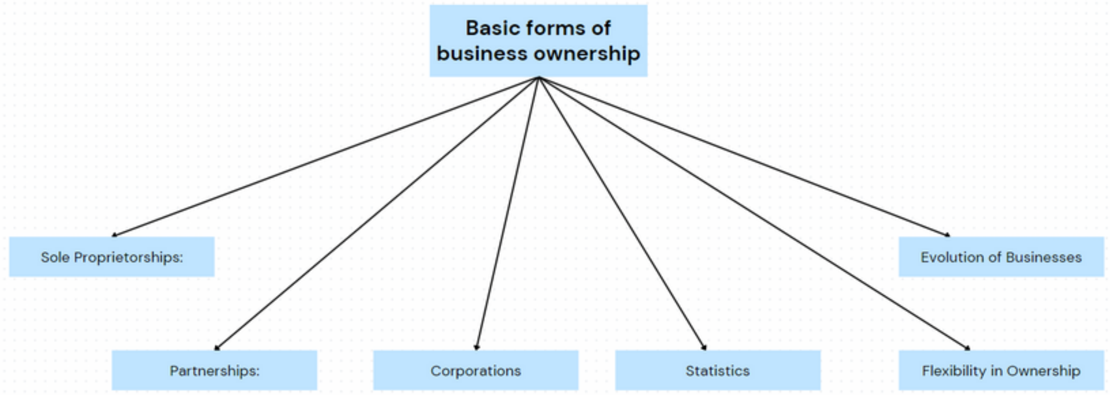
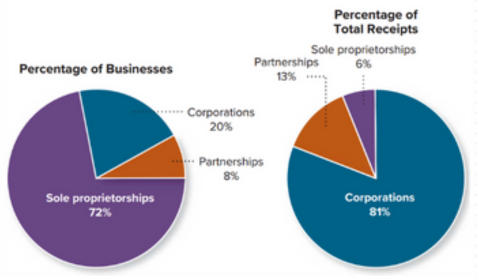
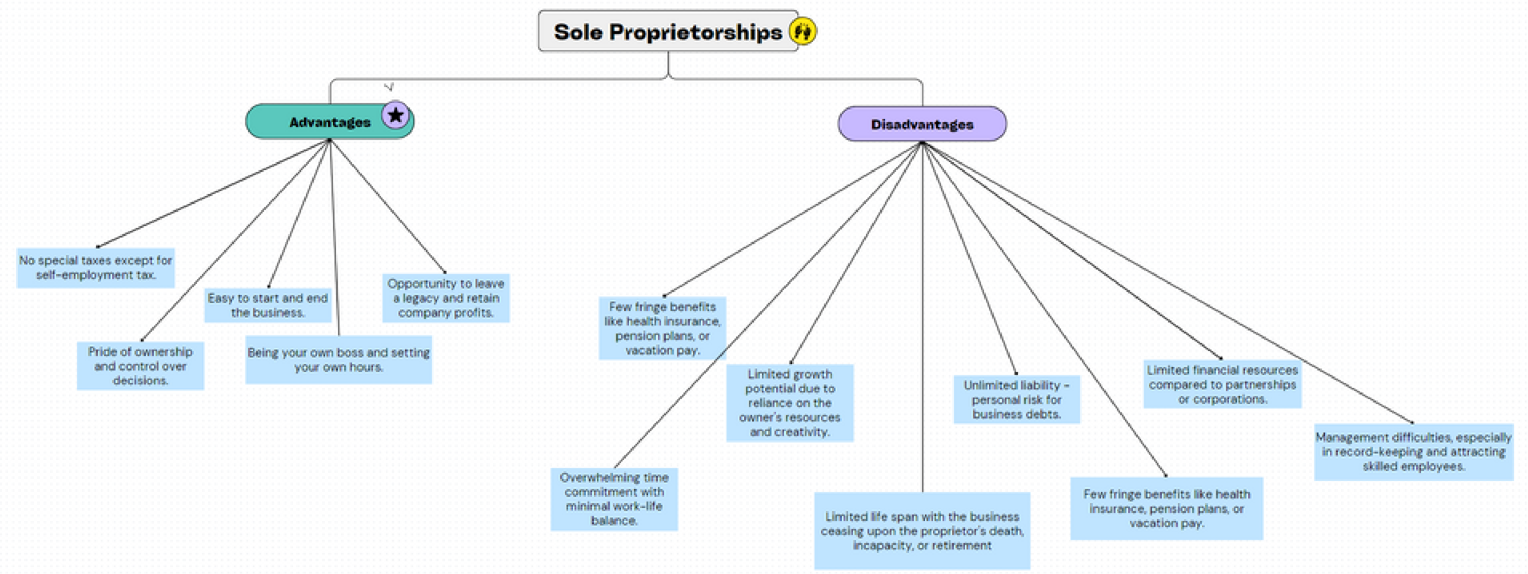
HOW TO FORM A BUSINESS







Sole Proprietorships
Advantages
Disadvantages
No special taxes except for self-employment tax.
Pride of ownership and control over decisions.
Easy to start and end the business.
Being your own boss and setting your own hours.
Opportunity to leave a legacy and retain company profits.
Few fringe benefits like health insurance, pension plans, or vacation pay.
Overwhelming time commitment with minimal work-life balance.
Limited growth potential due to reliance on the owner's resources and creativity.
Limited life span with the business ceasing upon the proprietor's death, incapacity, or retirement
Unlimited liability - personal risk for business debts.
Few fringe benefits like health insurance, pension plans, or vacation pay.
Limited financial resources compared to partnerships or corporations.
Management difficulties, especially in record-keeping and attracting skilled employees.

TYPES OF PARTNERSHIPS

1. General partnerships:

   All owners share in operating the business and assuming liability.

2. Limited partnerships:

   Have general partners with unlimited liability and limited partners with liability limited to their investment.

3. Master limited partnerships (MLPs):

   Traded on stock exchanges but taxed like partnerships, common in oil, real estate, and gas industries.

4. Limited liability partnerships (LLPs):

   Limit partners' risk to their own actions and those under their supervision, similar to LLCs.

PARTNERSHIP

Advantages	Disadvantage
More financial resources from pooled money and credit.	Unlimited liability for general partners.
Shared management and complementary skills.	Potential conflicts over profit division and decision-making.
Longer survival rates compared to sole proprietorships.	Difficulty in terminating partnerships.
No special taxes; profits taxed as personal income.	Risk of losing personal assets due to business debts or lawsuits.

CORPORATIONS

TYPES OF CORPORATIONS

Conventional (C) Corporation

State-chartered legal entity with limited liability for owners (stockholders).

S Corporation

Taxed like partnerships, limited liability for shareholders, with specific eligibility requirements.

Limited Liability Company (LLC)

Hybrid of partnership and corporation, offering limited liability without special eligibility requirements.

ADVANTAGES OF CORPORATIONS

- **Limited Liability**:
Owners not personally liable for business debts beyond their investment.

- **Ability to Raise Capital**:
Can sell stock to raise funds, borrow money through loans or bonds.

- **Size**:
Ability to invest in large-scale operations, hire experts, diversify risks, and expand globally.

- **Perpetual Life**:
Business continues despite changes in ownership or management.

- **Ease of Ownership Change**:
Ownership transfer through sale of stock.

- **Attracting Talented Employees**:
Ability to offer stock options and benefits.

- **Separation of Ownership from Management**:
Shareholders separate from managers; board of directors oversee major decisions.

DISADVANTAGES OF COPROATIONS

- **Initial Cost**:
Incorporation process can be expensive, requiring legal and accounting services.

- **Extensive Paperwork**:
Detailed financial records, minutes of meetings, and more.

- **Double Taxation**:
Corporate income taxed at corporate level and again at individual level on dividends.

- **Two Tax Returns:**
Corporate tax return and individual tax return for owners.

- **Size**:
Large corporations may become inflexible and tied down by bureaucracy.

- **Difficulty of Termination**:
Ending a corporation is relatively complex.

- **Conflict with Shareholders and Board of Directors**:
Disagreements over management decisions.

Corporate Expansion: Mergers and Acquisitions

Mergers vs. Acquisitions:

- **Mergers**: Joining of two firms to form one company.
- **Acquisitions**: One company purchasing the property and obligations of another company.

Types of Mergers:

- **Vertical Merger**: Joins firms in different stages of related businesses.
- Horizontal Merger: Joins firms in the same industry, allowing diversification or product expansion.
- **Conglomerate Merger**: Unites firms in completely unrelated industries to diversify business operations and investments.

Regulation and Impact

- Mergers between large competitors scrutinized by the Federal Trade Commission (FTC) to ensure fair competition.
- Examples of mergers blocked or abandoned due to antitrust concerns.

Alternatives to Mergers

- **Taking Private**: Corporations maintain or regain control internally by buying back all stock from other stockholders
- **Leveraged Buyout (LBO)**: Attempt by employees, management, or investors to buy out stockholders by borrowing necessary funds.

Global Impact

- Business acquisitions not limited to U.S. buyers; foreign companies acquiring established operations for growth.
- Examples of foreign acquisitions in the beverage and pharmaceutical industries.

Franchises

Definition and overview	Advantages	Disadvantages
• **Franchise agreement**: A contract where the franchisor grants the franchisee the rights to use their business name and sell their products/services. • Popular franchises include McDonald's, Jiffy Lube, and 7-Eleven. • Franchises account for 1 in every 10 businesses in the US.	• **Management and marketing assistance**: Franchisees receive support in choosing locations, promotion, and operation, along with training. • **Personal ownership**: Franchisees enjoy incentives and profits while being their own boss. • **Nationally recognized name**: Franchises offer instant recognition and support from established customer bases. • **Financial advice and assistance**: Assistance with financing and record-keeping. • **Lower failure rate**: Historically, franchises have a lower failure rate compared to other business ventures.	• **Large start-up costs**: Franchise fees can be substantial, varying by franchise. • **Shared profit**: Franchisors often demand a share of profits or royalties based on sales. • **Management regulation**: Franchisees may feel burdened by rules and regulations imposed by the franchisor. • **Coattail effects**: Actions of other franchisees can impact future growth and profitability. • **Restrictions on selling**: Franchisees may face limitations on reselling their franchises. • **Fraudulent franchisors**: Some franchisors may not deliver as promised, leading to financial loss for franchisees.

Cooporatives

Definition

- A cooperative (co-op) is owned and controlled by the people who use it—producers, consumers, or workers with similar needs—who pool their resources for mutual gain.
- Cooperatives are formed to meet various needs such as electricity, child care, housing, health care, food, and financial services.

Types of cooperatives

- **Electric Cooperatives:** Examples include rural electric cooperatives that purchase wholesale power from the government at discounted rates and serve millions of consumer-members.
- **Food Cooperatives**: There are approximately 4,000 food co-ops in the US where members pool resources to provide access to fresh and affordable food.
- **Farm Cooperatives**: Originally formed to negotiate better prices for farmers' products, farm cooperatives now engage in buying and selling agricultural inputs and products.
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Global Perspective

- Worldwide, more than 1 billion people are members of cooperatives.
- Cooperatives empower members economically and provide a platform for collective action.

Tax Advantage and Major Players

- Cooperatives often have tax advantages over corporations.
- Major cooperative players in various industries include Land O'Lakes, Sunkist Growers, Ocean Spray, and Ace Hardware.