

Business Ownership Simulation

Objective - You produce and sell paper airplanes.

- Each person starts every round with \$15
- Prices paid by customers:
 - \$10 - if the design is unique, attractive, and functional
 - \$7 - if the design is attractive and functional, but not unique
 - \$5 - if the design is functional and unique, but not attractive
 - \$2 - if the design is attractive, but not unique or functional
 - \$0 - if the design is not functional, not unique, and not attractive

Supplies cost (Variable Expenses):

- Coloured paper = \$2 per sheet
- White Paper = \$1 per sheet
- Markers or pencil crayons = \$1 for 2
- Ruler = \$1
- Internet = \$5
- Scissors = Auctioned - Minimum Supply of 2 pairs

Fixed Expenses:

- Indicated on slides

Round 1 - SOLE PROPRIETORSHIP

*You will have 10 minutes for this round

Costs to pay

*At the end of the round - \$5 for rent

*You are not allowed any help from anyone else

*You may get a loan in order to purchase additional supplies. For every \$10 of the loan, you must pay back \$11 at the end of the round.

*If you can not pay your rent or your loan back, you lose your personal property (in this case your chair, your phone, or one of your shoes)

Characteristics

- One owner
- Tend to be small with no or few employees
- Simplest form of ownership
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Two Advantages

- You get to make all the decisions
- You get all the profits
- Easy to set up

Sole Proprietorship

Two Disadvantages

- Limited start-up money
- All the risk
- Limited to your knowledge
- Responsible for all debts and personal property can be taken to pay them

Examples

*Come up with a local Example

Round 2 - PARTNERSHIP

*You will have 15 minutes for this round

*Costs to pay:

- Start of the round = \$2 lawyer fee to file the partnership agreement
- End of the round = \$7 Rent (there's two of you, you need more space)

*Each partner gets \$15 to bring to the business

*Before you start making anything, you must write out a formal partnership agreement.

The agreement will include:

- a) How the business will be operated (ex. What will be the design of your airplanes)
 - i) The airplanes must look similar within your partnership
- b) Who will be responsible for what jobs
- c) How you will divide up the profits
- d) Who loses what if you can't repay debt

*You may get a loan in order to purchase additional supplies. For every \$10 of the loan, you must pay back \$11 at the end of the round.

*If you can not pay your rent or your loan back, you AND your partner must lose personal property (in this case your chair or phone or one shoe)

Characteristics

- Two or more owners
- Tend to be small, local, with few employees
- Requires a formal partnership agreement

Two Advantages

- Access to more knowledge
- Access to more money
- Can divide the work and the stress

Partnership

Two Disadvantages

- Not your own ideas
- Must divide Profits
- Conflict can occur

Examples

*Use Local Examples

Round 3 - CORPORATION

*You will have 20 minutes for this round

*Costs to pay:

- Start of the Round = \$7 Lawyer Fees
- End of the Round = \$10 Rent (You need more space with all of your employees so the rent is higher)

Each person starts with \$5 invested in the company. Each person has the OPTION to invest another \$10 plus any salaries in the company. Profits at the end are divided based on your percentage of ownership. (ex. If you invested an additional \$5, and the total Investment was \$100, then you would get 5% of the profits).

If the corporation can not pay back the loan, the corporation closes down and the investors do not get their money back or any future profits.

*The class is split into TWO groups.

*Each group must vote for a THREE member Board of Directors. You can not vote for yourself. The board of directors is responsible for coming up with all business ideas, but everyone in the group must vote on the ideas. (Additional option would be to have a manager - board communicates to manager who then must train and oversee employees)

The board must meet separately from the group to come up with ideas for:

Design

Visual Appearance

Characteristics

- A separate legal entity
 - meaning it is treated like it is a person
- Can be big or small
- Requires legal registration as a corporation
- Different tax laws then for people

Advantages

- *Separation of Liability
- *Tax Incentives
- *Can be easier to get start-up and expansion financing

Corporation

Disadvantages

- *Most costly and time consuming form of ownership organize
- *Different laws and regulations that you must be aware of
- *Can be more difficult/time consuming to get things done due to organizational structure.

Examples

- *Use Local Examples

Why Learn About Forms of Business Ownership?

- You might own your own business someday, and you need to know which ownership options best suit your needs and meet your goals.
 - *There is a good chance your ownership structure will change as your business grows*
- Employment with businesses with different ownership structure can be different