

# Business Ownership & Registration



# Objectives

1. To examine the steps to the process of becoming a business owner.
2. To differentiate the various types of business ownership.
3. To illustrate the financial and registration procedures of being a business owner.

# Main Menu

- ◆ Types of Business Ownership
- ◆ Funding a Business
- ◆ Protecting a Business

# Types of Business Ownership

# Business Ownership

- Is the individual or groups which own a business and its legal entities
- Includes:
  - determining which type of business fits the needs of the owner
  - securing financing
  - naming the company
  - protecting business ideas
  - licenses and permits
  - location

***Legal Entity:*** law which allows a group of people to conduct business as a single unit – for example: a group ownership



# Ways to Becoming a Business Owner

- Include:
  - starting a new business
  - purchasing a franchise
  - purchasing an existing business (non-franchise)
  - taking over family business



# Types of Business Ownership

- Sole proprietorship
- Partnership
- Corporation
- Franchise



# Sole Proprietorship

- Is owned and operated by one individual
- Is the most common form of business ownership
- Requires the owner to be able to provide the funds, resources and managerial responsibilities to start and run a business



# Advantages

- Include:
  - relatively simple with less taxes and government regulations
  - entitlement to all profits of the business
  - relatively easy to start
  - easy to maintain business confidentiality

# Disadvantages

- Include:
  - harder to raise money to expand the business since the company's shares are not sold
  - unlimited liability
    - complete personal responsibility for all business debts and losses
    - if sued the proprietor can lose a portion of personal assets
  - higher start-up cost
  - owner may have limited skills

# Partnership

- Is a legal agreement between two or more people to be responsible for a business
- Is the least common form of business organization
- Can have two forms
  - general partnership
  - limited partnership



# Partnership

- General partnership
  - partners share equal liability in the profits and losses of the business
- Limited partnership
  - partners have an unequal share and liability in the business; they are responsible only for the amount they invested

# Advantages

- Include:
  - easy start-up
  - combines the skills of two or more people
  - more money could be available to operate or expand the business
  - each partner has a voice in the business operation
  - taxed and monitored less heavily than a corporation

# Disadvantages

- Include:
  - disagreements about business decisions can arise between partners
  - actions of one partner are legally binding for the other partners
  - if one partner dies, the partnership is dissolved and must be reorganized as a new partnership which can consume time
  - partners must contend with the fact that they are working under unlimited liability



# Corporation

- Is the most complicated form of business
- Is a separate legal entity
- Forms boards to act as governing bodies; hires directors and officers to manage the business affairs
- Ownerships of the corporation can be shares of stock, which are bought on the stock market by stockholders
- Is subject to many governmental regulations

*Separate legal entity: a business which is granted a charter establishing its own rights, privileges and liabilities distinct from those of its members*

# Advantages

- Include:
  - easier to raise wealth and assets for company expansion than other forms of business
  - easier for people to enter or leave; can usually simply buy or sell company stocks
  - limited liability for each owner
    - responsible for amount of liability equal to amount of money invested in company
  - each department can easily be managed by a professional in the area

# Disadvantages

- Include:
  - is difficult to build
  - process of incorporation requires more time and money than other forms of organization
  - can be very complex, especially accounting and record keeping
  - has more analyzed governmental regulations
  - can increase taxes on corporate profits and on its shareholders



# Franchise

- Is the right or license to sell a company's product or service at a designated location
- Involves:
  - franchisor: a business which leases its trade name and operating system to another person
  - franchisee: person or persons who pay fees to a company to operate a business under the franchisor's trade name

# Advantages

- Include:
  - assistance from parent company
    - parent company shares experiences and proven techniques
  - name recognition
    - McDonalds®
    - Sherwin Williams®
  - shared advertising expenses

# Disadvantages

- Include:
  - high purchase fees
  - percentage of sales or yearly fee paid to parent company
  - must follow parent company business structure



# Choosing a Business Operation

- Is the most important decision made in structuring a company
- Has factors which will help influence the decision, such as:
  - legal restrictions
  - liabilities assumed
  - earnings distribution
  - capital needs
  - number of employees
- Can be easier if these factors are also weighed with the advantages and disadvantages of each type of ownership

*Capital: wealth in the form of money or property, used in a business by a person, partnership or corporation*



# Funding a Business

# Starting a Business

- Is a challenging task
- Requires a great amount of work and time
- Involves numerous steps, which include\*:
  - write a business plan
  - obtain business assistance and training
  - choose a business location
  - finance business
  - determine legal structure
  - register business name
  - obtain tax identification number
  - register for state and local taxes
  - obtain business licenses and permits
  - understand employer responsibilities

\*adapted from the U.S. Small Business Administration, [www.sba.gov](http://www.sba.gov)

# Buying a Business

- Can be a quicker, easier and safer alternative than starting your own
- Advantages:
  - drastic decline in start-up costs of time, money and energy
  - cash flow may start immediately
  - pre-existing customers
- Disadvantages:
  - initial purchasing cost
  - could have hidden problems with business

# Securing Financing

- Should be calculated before start-up
  - amounts may vary depending on type of business
- Should be estimated for start-up and continual operating costs
  - to start a business, costs can be too large to pay straight out of pocket
- Can be gained from:
  - the government's Small Business Administration or other government grants
  - investors or partners
  - loans

*Finance: the money or other resources needed to pay for a part or parts of the company and to furnish with the necessary funds to operate*

# Small Business Administration (SBA)

- Is an independent agency of the executive branch of the federal government
- Aids in financing small businesses by programs, such as:
  - business loan programs
  - small business investment companies
- <http://www.sba.gov>



# Government Business Loan Programs

- Are loans made by SBA's partners
  - lenders
  - community development organizations
  - microlending institutions
- Requirements and practices change as the government funding alters to meet economic conditions
  - past policies cannot always be relied upon for assistance
- Provide a guarantee to the independent lenders to pay the loan back if the small business fails

*Microlending: issuing loans in small amounts*

# Small Business Investment Companies (SBIC)

- Are privately owned and operated investment firms
  - licensed by the SBA
- Entitle small businesses to receive capital through SBIC funds borrowed from the government
- Are profit-based businesses which invest and become part owner

# Investors

- Are groups of individuals who invest money in various types of companies in search of making a profit
- Have a primary objective of achieving a profit through investments
- Can invest either debt capital or equity capital

# Debt Capital

- Is money borrowed from a business or investor which must be repaid over time with interest
- Is short-term or long-term
  - under or over a year
- Does not allow the lender any ownership in the company
- Is secured by possessions of the company

*Secured: guaranteed by collateral; items pledged to ensure debt is repaid*

# Equity Capital

- Is money raised by a business or investor in exchange for a share of ownership of the company
- Allows a business to obtain money without having to repay debt
- Includes funds raised from:
  - angel investors
  - venture capital firms



# Angel Investors

- Are wealthy individuals who seek high returns through private investments
- Are usually former entrepreneurs or executives
- Seek companies with:
  - high growth potential
  - strong management
  - solid business plans
  - familiar or similar interests
- Often co-invest with trusted friends and business associates



# Venture Capital Firms

- Provide businesses with a financial cushion
  - lenders require some financial cushion before lending money
- May gain ownership of the borrower's assets if the business fails
- Require a higher rate of return than lenders would receive
- Aid in successful long-term growth due to availability of capital

*Financial Cushion: money in savings which can pay expenses when income may not be accumulating*

# Loans

- Are amounts of money borrowed which will accumulate interest
- Are usually made by banks
- Are granted when the loan request is properly prepared by:
  - presenting the benefits of the business
  - showing how much funding will be needed
  - illustrating why the company needs funding
  - revealing the re-payment terms

# Types of Loans

- Include:
  - short-term
    - has a maturity of up to one year
    - capital loans or start-up money
  - long-term
    - has a maturity greater than one year
    - purchasing real estate, construction, equipment

*Loan Maturity: the date when a loan is due and must be paid; it can be paid out in monthly increments or in full*

# Tips for Writing a Loan Proposal

- Incorporate information from the business plan including:
  - general information
    - business name, address and tax identification number if available
  - purpose of the loan
    - exactly what the loan will be used for and why
  - exact amount required
  - business description
    - history and nature of the business
  - ownership structure

# Tips for Writing a Loan Proposal

- Also include:
  - management profile
    - principles of the business
  - market information
    - describe products, markets and customers
    - classify competition
  - financial information
    - statements of income and projected balance sheets
    - personal financial statements
    - personal items which could be used for collateral



# Protecting a Business

# Naming Your Business

- Involves more than just thinking of a catchy name
- Can require registration and approval from the government
- May require research or help from a marketing firm

# Tips for Naming a Business

- Try to make the name short or indicate a short version
  - for example: Rosa's Café® is just known as Rosa's
- Make it easy to remember
- Make the name descriptive of the business
- The name should be capable of drawing attention



# Registration of Trade Name

- Can be made through your state's Secretary of State offices and the U.S. Patent and Trademark Office (USPTO)
- Should first be made through USPTO's online system to see if the proposed name is being used in any state and federal registers
- Can also be registered with county clerk's office

# Domain Names

- Are unique names which identify Internet sites and businesses
- Are bought and registered through online businesses
- Can also be the actual name of the business

# Protecting Your Ideas

- Is very important to make sure your inventions or ideas are not sold by others as their own
- Includes:
  - patents
  - trademarks
  - copyrights



# Patents

- Are the grants of intellectual property rights to the inventor
- Are issued by the United States Patent and Trademark Office
- Prohibit others from making, using, offering for sale, selling or importing your invention
- Last for 20 years

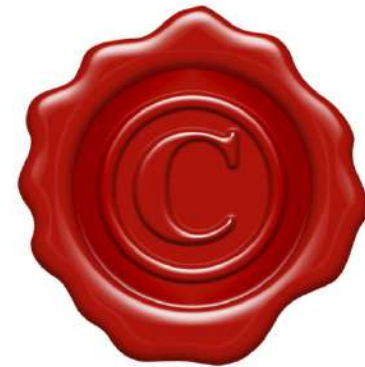
# Trademarks

- Are words, symbols, names or devices used to specify goods and differentiate one good from others
- Prevent others from using a similar mark on products, but does not prevent others from making and selling the same products under a different mark
- Are also known as service marks



# Copyrights

- Are protections provided to authors of original work such as:
  - literary
  - dramatic
  - musical
- Protect the form of expression rather than the subject matter
- Are registered at the Copyright Office of the Library of Congress



# Licenses & Permits

- Vary depending on your business
- May require complying with both state and federal regulations
- Need to be approved and verified at a licensing authority

# State Requirements for Licenses & Permits

- Vary from state to state and business to business, but should include:
  - business license
  - occupation and profession of the applicant
  - license based on products sold
  - tax registration and obtaining tax identification number
  - employer registration and employer identification number



# Federal Requirements

- Include:
  - employer identification number
    - except for sole proprietors
  - licenses for:
    - investment advising
    - drug manufacturing
    - preparation of meat products
    - broadcasting
    - ground transportation
    - selling alcohol, tobacco or firearms
    - fertilizer and insecticide applicator
  - copyrights, trademarks and patents

# Location

- Plays a major factor in a business' success or failure
- Should be researched to find zoning restrictions, strong customer location and leasing or buying options
- Should allow for business growth

# Business Ownership Reminders

- Make sure you have enough capital to start a new business
- Ensure there is a need for your company
- Confirm all necessary licenses are obtained and requirements are met

# Service Businesses

- Sell or provide a service directly to a consumer or other business
- May be a division of a company
  - customer support division of a telecommunications company
- Have no boundaries in terms of who can sell a service or what the service could be
- Are a common avenue for entrepreneurs

# The Service Sector

- Comprises the largest portion of the economies of high and middle income countries
- Is a good indicator of the change of the economy in a country
- Increases as a country becomes more industrialized and developed

# Service Business Examples

- Include:
  - lawn care
  - income tax preparation
  - web design
  - wedding planning
  - carpet cleaning



# Assessment



# Assessment

1. Name the four types of business ownership.
2. A \_\_\_\_\_ forms a board to act as the governing body; is the most complicated form of business.
3. A \_\_\_\_\_ is owned and operated by one individual; an example would be a plumber.
4. A \_\_\_\_\_ is the right or license to sell a company's product or service at a designated location; an example would be McDonalds®.



# Assessment

5. A \_\_\_\_\_ is a legal agreement between two or more people and is the least common form of business.
6. Name two ways to receive financial backing.
7. Angel investors, who are former entrepreneurs, are wealthy individuals who seek high returns through private investments.
  - A. True
  - B. False

# Assessment

8. \_\_\_\_\_ are words, symbols, names or devices which are used to specify the source of the goods and to differentiate them from others.
9. What is a business mentor?
10. Capital is the wealth in form of money or property.
  - A. True
  - B. False

# Resources

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