



PATHWAY POSSIBILITIES

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Attached: Statement of Academic Integrity

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Executive Summary

To: Amanda Elliott

From: Skyline Consultants

Subject: Pathway Possibility

Date: Monday, October 6th, 2014

Critical Assumptions:

- As an internal program auditor, Amanda has no management experience
- Amanda possesses a range of skills and relevant knowledge that will be of aid in starting her business and she is aware of the risks involved and possible problems she can face in management
- Amanda will not require a large staff in the initial stages of starting this business

Problem:

- Amanda's primary concern in regards to starting her bicycle store is the formation of her business, and which form of business ownership to pursue

Alternatives:

- As consultants, we have offered her the options of starting her business as a sole proprietor, beginning a partnership with a peer with expertise in the areas which she lacks (such as marketing or finance), or creating a corporation.

Facts Considered:

- After reading through Amanda's case, the following facts can be taken regarding her life and preparation to begin her business:
 - Since her "passion is cycling", she has extensive knowledge about bicycles, their brands, and repairing potential damage they may face
 - With a "healthy amount of savings" and the fact that she "owns her own home", she is not carrying any debt and will need a minimal bank loan
 - She is unsure how to best form her business

Recommendations:

- With the information above considered it has been recommended that Amanda should form a sole proprietorship and hire a manager to assist her with day-to-day responsibilities regarding finances or management. As a sole proprietor, she will be able to easily form her business (or dissolve it in future if necessary), keep total control of managerial tasks, as well as retain flexibility in terms of business decision-making to expand her business as she pleases. With her savings, as well as a potential bank loan, she could form her retail bicycle shop in such a way that meets her expectations to work in the field of her passion.

Critical Assumptions

1. Amanda does not have experience in managing people.
 - As an internal program auditor, Amanda assessed businesses governance systems, risk management and control. (Auditors, 2014). However, she does not have any entrepreneurial or managerial experience. For example: She has no experience in managing inventory and sales.
2. Amanda possesses a range of skills that will be of aid in starting her business.
 - Because of her experience as an internal program auditor, she is aware of the risks involved and possible problems she can face in management or control. Her understanding of the business environment, thus, proves her skills of business analysis. She also has extensive knowledge of the bicycle industry and maintenance.
3. Amanda will need to hire minimal staff in the initial stages of her business.
 - This is due to the simple fact that she has knowledge of a broad range of business operations. She also has extensive knowledge about the bicycle industry and bicycle maintenance, eliminating the need for a specialist in the field.

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Problem Analysis

Primary Problem:

- Amanda's primary concern is to form her business successfully. As an internal program auditor, she has seen many businesses fail due to their lack of consideration of the pros and cons of their options and she aspires to avoid doing the same.

Satellite Problem:

- The satellite problem is to decide which form of business is best suitable for Amanda to start her business. This means Amanda should take the following information into consideration:
 - Start-up costs
 - Pursuing a specific management style
 - The concern that the amount of work associated with starting the business will be too much of a commitment.

Implications:

On Organization

- Poor management can cause higher costs
- Waste of resources and time
- Tarnished reputation in the industry
- Loss in revenue
- Inefficient productivity

On Personnel

- Employees (if any) would lose jobs
- Amanda faces loss because of her capital investment
- Amanda will be unemployed as she would have already resigned from her position in the government.

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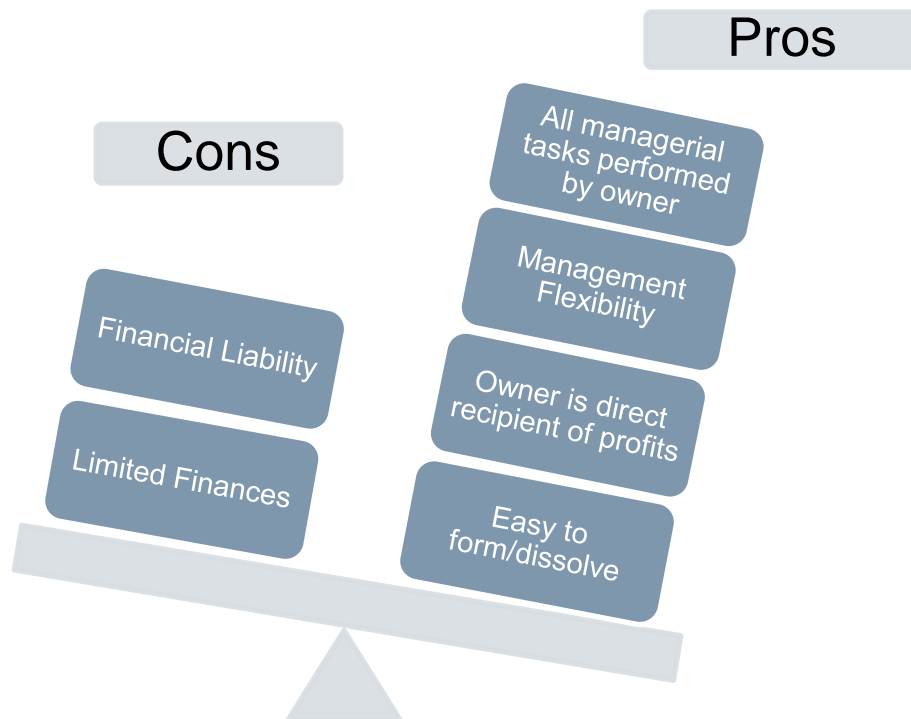
Alternatives

Forms of Business Ownership:

When starting a small business there are three possible forms of ownership that one could adopt. The pros and cons of adopting each of these forms are different for every emerging business. Following are the pros and cons of these forms of ownership for Amanda's case.

1. Sole Proprietorship

Below is a model of the pros and cons of starting a business with sole proprietorship for Amanda. The model is an arrangement of the basic features of this form to depict Amanda's particular case. (Canzer, 2013, pp. 143,144) Further explanation is provided after this.



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Further Expansion on Points Above:

- **Pros:**

- Easy to form/dissolve: This form of business is relatively simpler to form. There are fewer legal requirements. Because of the seasonal nature of the bicycle business, this is a pro.
- All managerial tasks formed by owner: In a usual case this is a disadvantage of this form of business. However, because of Amanda's experience as an internal program auditor along with her extensive knowledge of the bicycle industry and maintenance, handling the business will be relatively easier for her.
- Management flexibility: Every owner has a separate management style and with this form of business Amanda can operate the business on her terms.
- Owner is direct recipient of profits: All profits will be a direct earning for Amanda which will help her pay off the loan she will be taking, along with her savings, to build capital.

- **Cons:**

- Financial Liability: All the investments made by Amanda will be a liability. In case of failure, she will lose the capital invested and be in debt because of the loan she is planning to take.
- Limited Finances: Because Amanda is the only investor for her business, the capital is small. Small capital can be a major reason for the failure of a business. It also limits the capacity for growth in the future because of the small scale start up. Finally, the start-up cost of bicycle store is fairly high because of

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the equipment that needs to be bought and the large space required for storage.

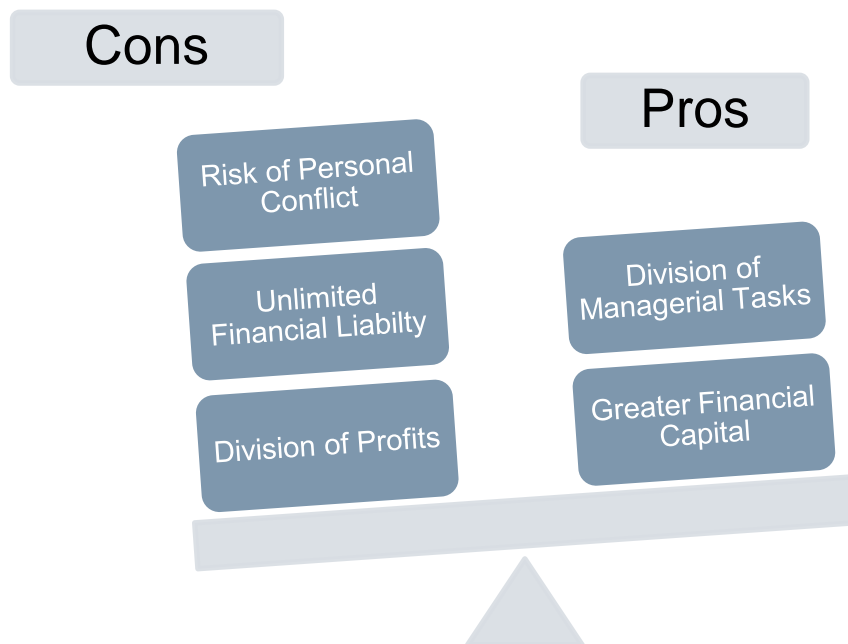
- **Analysis:**

- Although there are some cons, it is clear that it is advantageous for Amanda to adopt a sole proprietorship. This is a viable option for Amanda as she can make all the decisions for her business, giving her complete control of the firm. This would mean that she has complete managerial control of the outcome of her business. Given her skills, this form of business has the potential to be successful, hence, solving the primary problem.

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2. Partnership

Below is a model of the pros and cons of starting a business in a partnership for Amanda. The model is an arrangement of the basic features of this form to depict Amanda's particular case. (Canzer, 2013, pp. 144,145) Further explanation is provided after this.



Further Expansion on Points Above:

- **Pros:**
 - **Division of Managerial Tasks:** Having a partner would allow Amanda to specialize in what she loves doing – building, fixing, and tuning bicycles. If Amanda found a partner who specialized in finance, or marketing, it would

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reduce the stress of potentially failing and create a strong structure for the business.

- Greater Financial Capital: The biggest pro of this form of business is the increased capital. A higher start-up cost opens up many doors for the future. Better quality of maintenance equipment, a good location for the store and better marketing are some of the areas of the business that can benefit from this. Additionally, Amanda would not have to take a loan from the bank to meet the start-up costs.

- **Cons:**

- Division of Profits: This means that all the profits would be split rather than Amanda receiving them all.
- Unlimited financial liability: This is a big con in a partnership. If the business were to fail for whatever reason, Amanda and her partner would have to pay off the debts along with the liabilities of the business.
- Risk of Personal Conflict: This is a basic disadvantage of any partnership. In case of a conflict with the partner, the partnership will dissolve. It is highly likely that most parties would end up with losses.

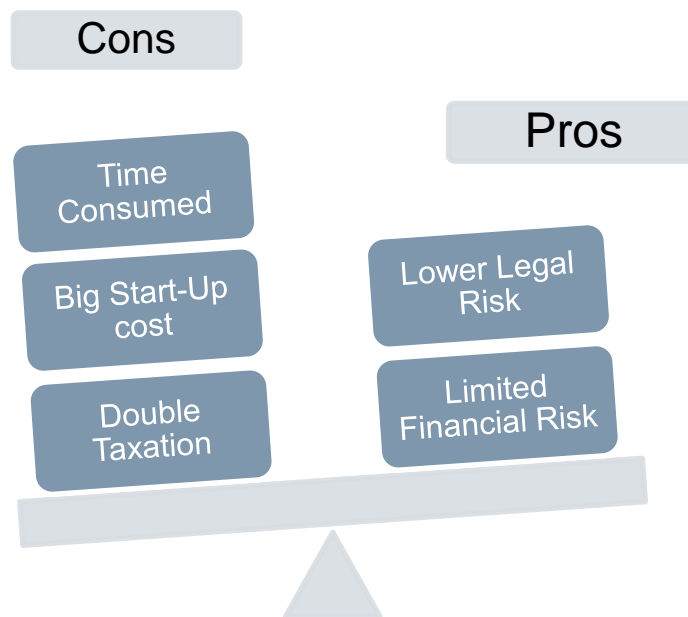
- **Analysis**

- Although there are pros to forming a partnership, the cons outweigh them. The capital that would be generated with a partnership can be a very big asset. However, the risk of failure of the business is high in this form of ownership, which means that it does not solve the primary problem, of creating a business that will be successful.

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2. Corporation

- Below is a model of the pros and cons of starting a business in the form of a Corporation for Amanda. The model is an arrangement of the basic features of this form to depict Amanda's particular case. (Canzer, 2013, p. 145) Further explanation is provided after this.



Further Expansion on Points Above:

- **Pros:**
 - Low Legal Risk: Because of the legal nature of a corporation, any suits filed against the corporation are not against the owners. This protects Amanda, as an owner, against legal action.

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- Limited Financial Risk: Because the company is owned by shareholders, a loss would result in the loss of Amanda's share. Although, this is a weak pro, because Amanda would still face great losses in case of failure.
- **Cons:**
 - Time Consumed: Developing a Corporation can be very time-consuming. This would drive Amanda away from her initial goal of doing something she loves. Additionally, this is a potential long term goal but as a start-up, it is impractical for Amanda. This is because she would have spent all her savings and taken a loan along with that. That factor combined with her quitting her job would result in no income for a while which puts her in a bad financial position.
 - Big Start-Up Cost: The start-up cost for a corporation is bigger than that of other forms of business. Considering Amanda's financial situation, this becomes a big con.
 - Double Taxation: Because a corporation is considered a legal corporation with assets and liabilities, it has to pay federal and provincial taxes on its income. Additionally, the shareholders pay taxes on their dividends.
- **Analysis**
 - The corporation form of business is high risk, time consuming, involving a large capital. These factors prove that it does not solve the primary problem. It is the furthest away from the small business model Amanda is looking for. The cons outweigh the pros making this form of business a non-viable option.

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Recommendations

- The most viable option in this case is to form a sole proprietorship and hire a manager to help with the responsibilities. It is important to note that a small business generally fails because of poor/overburdened management, financing trouble or failure to keep up with government regulations. Our client, Amanda is in a position to acquire adequate financing and to anticipate and meet government regulations as a program auditor for the Government of Canada.
- This strategy works to reduce the risk associated with forming a small business by dividing the overwhelming amount of responsibility, which is one of the main reasons a business fails. A manager would be able to provide expertise in areas such as marketing, finance, regulations, inventory, etc. leaving the entrepreneur to better incorporate their vision and passion into their business. In this sole proprietorship, the owner would be able to achieve their goals and dreams of running a small business, without needing to worry about all the responsibilities that could overwhelm them and cause the business to fail.
- The sole proprietorship mainly has its benefit by providing profit, existing as a small and therefore cheaper business, and remaining in the owner's control. Incorporation would require large start-up costs that would increase debt reliance which increases risk. This opposes the idea of risk adverse small business which is the goal. Finally, in a partnership there is the risk of sharing decisions, capital and profits. This can lead to unproductive and risky conflict that can end the partnership. This role could be performed more safely by a hired manager under the owner's control and financing will

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not be difficult to obtain and pay off. In a sole proprietorship this business can be run to its full potential, within risk adverse management.

- In the end, this business will be safe to start up and run, free from financing and management trouble that are the leading causes of business failure

Implementations

- **Immediate-Term: (0-6 Months)**
 - Developing a business plan is the first step for any business. Hence, she should start with that.
 - In the immediate term, it should be her goal to register her company name so that someone else is not able to start a company with the same name.
 - She needs to find a suitable location for the store and lease a space for it.
 - Amanda will need to buy insurance and any kind of permits required.
- **Short-Term: (6-12 Months)**
 - Amanda should consider hiring a manager for inventory and sales once her business is set up. The reason behind this is that she doesn't have first-hand experience with this area of retail and while she is handling the rest of the tasks, this might be too stressful to handle along with it.
 - Advertising is the next step in starting a business. Once Amanda's business is set up, she can start marketing for better sales.

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- **Long-Term: (12 Months+)**
 - Planning is key to the growth of a company. Therefore, Amanda should make a five year plan describing her goals and ways to achieve them.
 - An alternative mentioned earlier was the corporate form of business ownership. If Amanda is looking to expand her business, it is worth considering to convert into this form of business ownership. The cons of this form were mostly because of the new nature of the business. Once the business is set up, this form is a viable option.

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