

Session

2

Forms of Ownership

Session



- Ownership alternatives
- Read Case – Van City
- Analyze

How important are small businesses to Canada's economy?



"Of course it's only one dollar...
It's a small business loan."

J. K. H.

What is a Small Business?

- Industry Canada defines a small business as an “independent business with fewer than 100 employees and revenues less than \$2 million”
- Small businesses account for approximately **two-thirds** of the employment in five Canadian industries: non-institutional health care, construction, accommodation and food, forestry, and other services.



Most Businesses are Small Businesses

- Approx. 97% of Canadian firms have fewer than 100 employees on staff.
- Canada has approx. 2.7 million self-employed individuals.
- Small businesses are a launching pad for entrepreneurs.



Distribution of Businesses

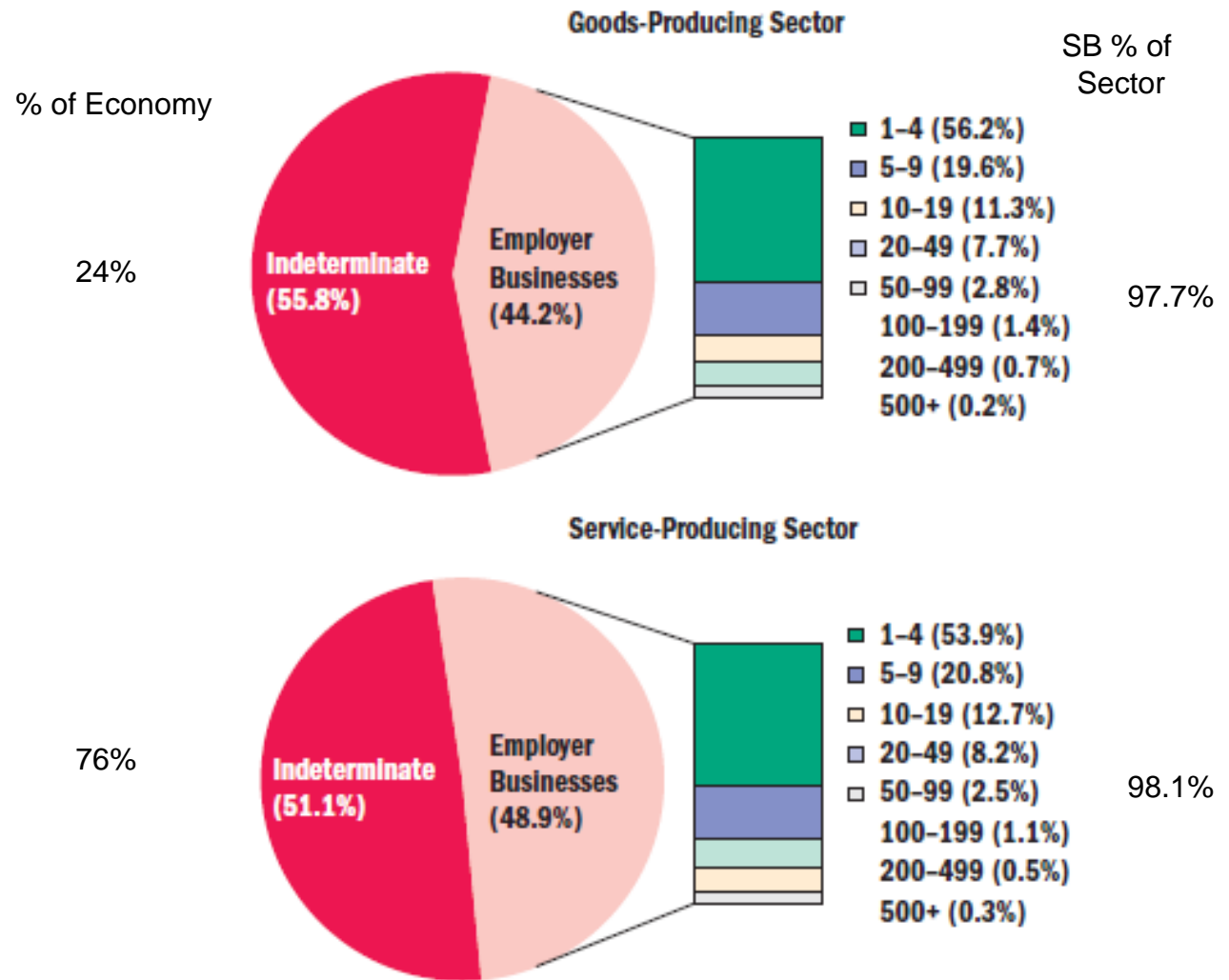


FIGURE 5.1

Distribution of Business Establishments in the Goods-Producing and Service-Producing Sectors by Firm Size (Number of Employees), December 2009

Source: Statistics Canada, Business Register, December 2009, <http://www.ic.gc.ca/eic/site/sbrp-rppe.nsi/eng/rd02493.html#table2>, accessed March 21, 2012.

Indeterminate have no payroll

Contributions of Small Business to the Economy

- Account for more than 29% of the GDP
- Creates new jobs (accounts for 2 thirds of jobs)
- Offer customized unique services & products
- Creates new industries
- Encourages innovation

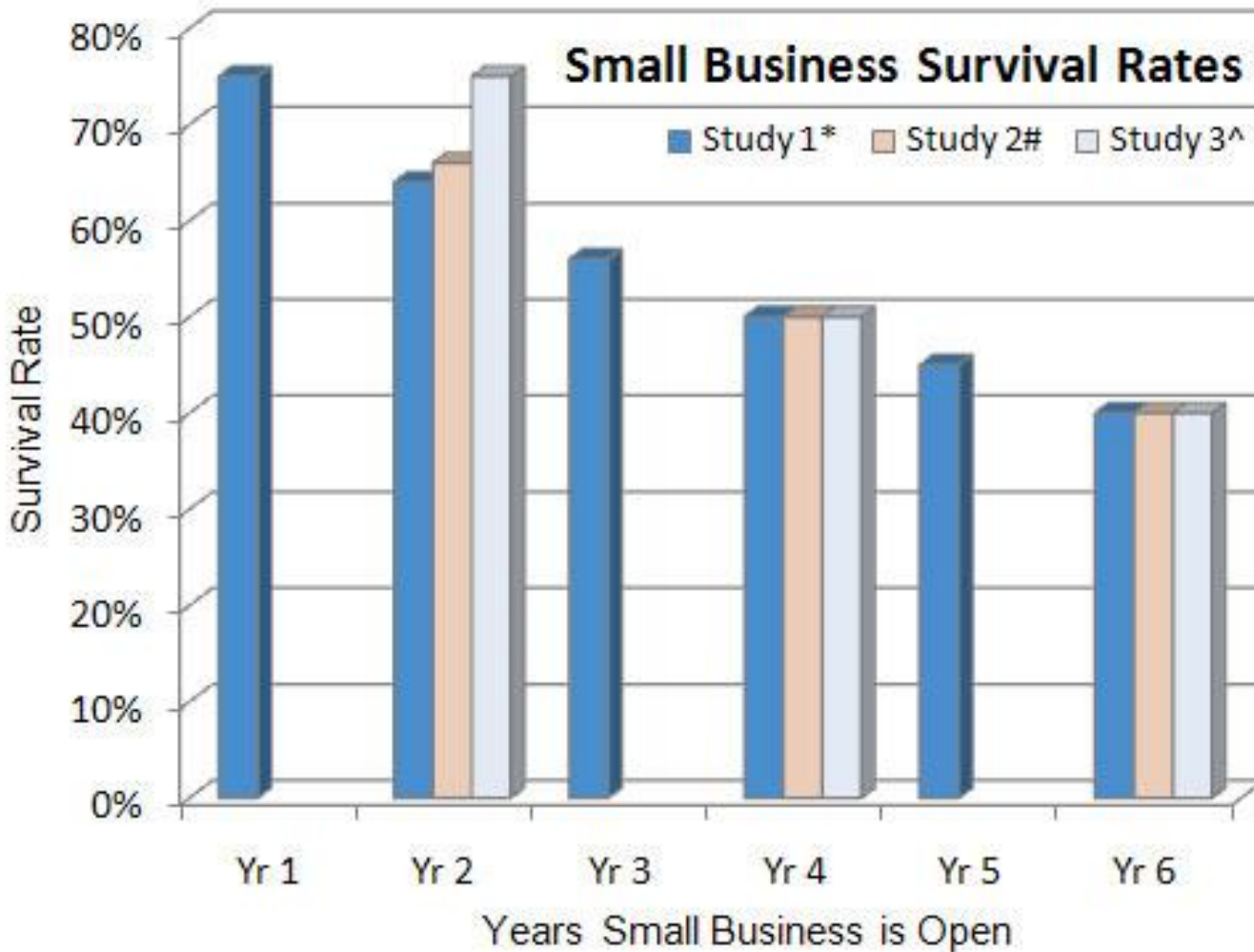


Small Businesses Failure Rate

- Approx. 4 % of small businesses close after one year.
- Approx. 15% of small businesses close permanently within three years.
- Approx. 30% of small businesses fail within five years.



Small Business Failure



Why Small Business Fail

- Management Inexperience
- Inadequate Financing
- Meeting Government Regulations

Forms of Private Business Ownership

- **Sole Proprietorships**

A business ownership in which the sole proprietor's status as an individual is not legally separate from his or her status as a business owner

- **Partnerships**

An association of two or more persons who operate a business as co-owners by voluntary legal agreement

- **Corporations**

A legal organization with assets and liabilities separate from the assets and liabilities of its owners

- **Not-for-Profit Corporations**

Organizations whose goals do not include pursuing a profit

Sole Proprietorship

- Owner has complete control
- Owner is legally liable for business transactions.
- Business is taxed at owners personal tax rate.
- Very easy to form and dissolve.

General Partner

- Two or more owners have complete control
- Owners responsible for managing business
- Owners have unlimited personal liability to business transactions
- Partners share profits and losses
- Taxed at personal tax rate
- Relatively easy to setup for multiparty ownership

Limited Partner

(must be a general partner)

- ❑ Owner does not control or manage business
- ❑ Owner is shares in profits and losses of business
- ❑ Taxed at personal tax rate
- ❑ Legally liable for the amount invested in business
- ❑ Provides an ability to attract investment to a partnership

Corporation

- Legal ownership with a legal charter
- Ownership and management are separated.
- Many owners can be invested in corporation
- Profits taxed twice. Once at corporate rate and once at personal rate
- Legal liable is for only amount invested.

Forms of Private Business Ownership

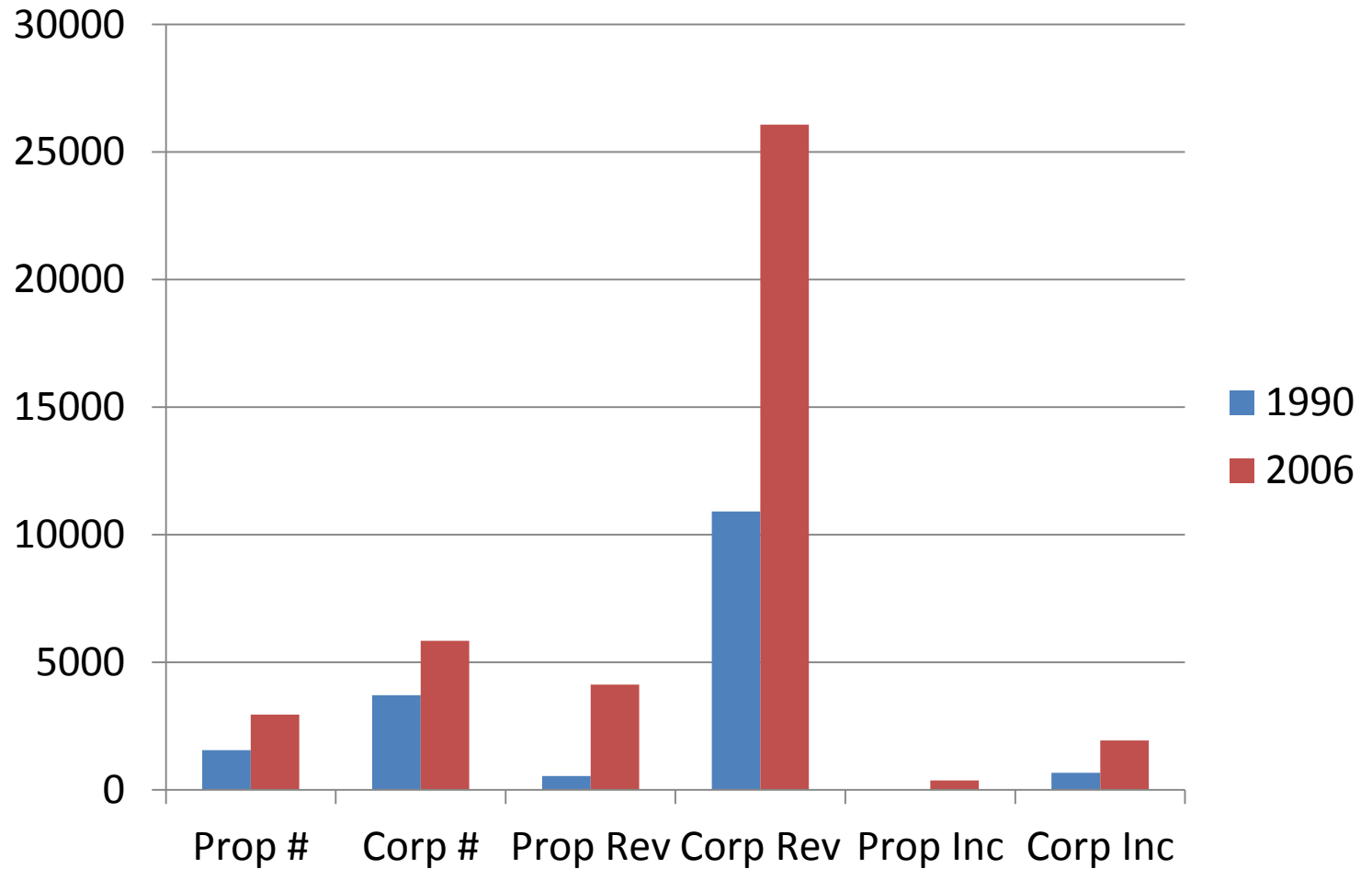
STRUCTURE	OWNERSHIP RULES AND CONTROL	TAX CONSIDERATIONS	LIABILITY EXPOSURE	BASE OF ESTABLISHMENT AND TERMINATION
Sole proprietorship	One owner has complete control.	Profits and losses flow directly to the owner and are taxed at individual rates.	Owner has unlimited personal liability for business debts.	Easy to set up but leaves owner's personal finances at risk. Owner must generally sell the business to get his or her investment out.
General partnership	Two or more owners; each partner is entitled to equal control unless agreement specifies otherwise.	Profits and losses flow directly to the partners and are taxed at individual rates. Partners share income and losses equally unless the partnership agreement specifies otherwise.	Personal assets of any operating partner are at risk from business creditors.	Easy to set up. Partnership agreement recommended but not required. Partners must generally sell their share in the business to recoup their investment.
Limited partnership	Two or more owners; the general partner controls the business; limited partners don't participate in the management.	Same as for general partnership.	Limited partners are liable only for the amount of their investment.	Same as for general partnership.
Corporation	Unlimited number of shareholders; no limits on stock classes or voting arrangements. Ownership and management of the business are separate. Shareholders in public corporations are not involved in daily management decisions; in private or closely held corporations, owners are more likely to participate in managing the business.	Profits and losses are taxed at corporate rates. Profits are taxed again at individual rates when they are distributed to the investors as dividends.	Investor's liability is limited to the amount of his or her investment.	Expense and complexity of incorporation vary from state to state; can be costly from a tax perspective. In a public corporation, shareholders may trade their shares on the open market; in a private corporation shareholders must find a buyer for their shares to recoup their investment.

Forms of Ownership

Table Legend: NF = Nonfarm Proprietorships, P = Partnerships, C = Corporations

	Number of Firms (000s)			Revenue (\$USD, Billions)			Net income (\$USD, Billions)		
	NF	P	C	NF	P	C	NF	P	C
1990	14,783	1,554	3,717	731	541	10,914	141	17	371
1991	15,181	1,515	3,803	713	539	10,963	142	21	345
1992	15,495	1,485	3,869	737	571	11,272	154	43	402
1993	15,848	1,468	3,965	757	627	11,814	156	67	498
1994	16,154	1,494	4,324	791	732	12,858	167	82	577
1995	16,424	1,581	4,747	807	854	13,969	169	107	714
1996	16,955	1,654	4,631	843	1,042	14,890	177	145	806
1997	17,176	1,759	4,710	870	1,297	15,890	187	168	915
1998	17,409	1,855	4,849	918	1,534	16,543	202	187	838
1999	17,576	1,937	4,936	969	1,829	18,009	208	228	929
2000	17,905	2,058	5,045	1,021	2,316	19,593	215	269	928
2001	18,338	2,132	5,136	1,017	2,569	19,308	217	276	604
2002	18,926	2,242	5,267	1,030	2,669	18,849	221	271	564
2003	19,710	2,375	5,401	1,050	2,818	19,755	230	301	780
2004	20,591	2,547	5,558	1,140	3,142	21,717	248	385	1,112
2005	21,468	2,764	5,671	1,221	3,719	24,060	270	546	1,949
2006	22,075	2,947	5,841	1,278	4,131	26,070	278	667	1,933

Change in Ownership Characteristics



Not-for-Profit Corporation

- No profits allowed & no shares.
- Ownership has limited liability
- Except from paying income tax (but no profits)
- A lot of funds can come from non-owners and often non-customers (donators)
- Often clients don't fully fund operations.

Public & Collective Ownership

- Government
 - Owned by government
 - Profits are re-invested in firm
 - Government liable for losses
- Co-operative
 - An association of persons or firms who voluntarily cooperate for their mutual social, economic, or cultural benefit
 - Can be formal or informal

Franchising

- A contract-based business arrangement between a supplier of products or services(franchisor), and a dealer (franchisee), to produce and market the supplier's good or service.

Benefits and Problems of Franchising

ADVANTAGES

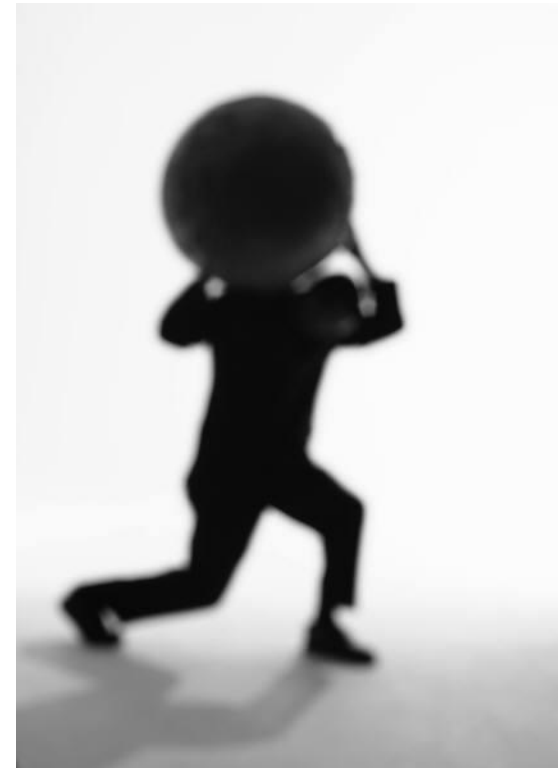
- Prior Performance Record
- Recognizable Company Name (Brand)
- Proven Business Model
- Tested Management Program
- Savings through Volume Purchases

DISADVANTAGES

- Franchise Fees
- Future Payments (Royalties)
- Linked to Reputation and Management
- Franchise Agreement Restrictions
- Tight Control

The Franchising Sector

- *Franchising agreements exist between franchisee and franchisor.*
- Canada has 76,000 individual franchise businesses operating under 900 different brand names.
- These franchises employ more than one million Canadians.
- More than \$100 billion in sales each year
- Franchising overseas is a growing trend



Franchising Success

