

chapter 8

Business Organizations

The BIG Idea

The profit motive acts as an incentive for people to produce and sell goods and services.

Why It Matters

Imagine that you want to start a business. You will need to decide what your business will do, how you would like it to be structured, and whether you would like to work alone or with a partner. In this chapter, read to learn about the different ways that businesses are organized and what it takes to start a business.

Economics ONLINE

Chapter Overview Visit the *Economics Today and Tomorrow* Web site at glencoe.com and click on **Chapter 8—Chapter Overviews** to preview chapter information.





section 1

Starting a Business

GUIDE TO READING

Section Preview

In this section, you will learn about what a person needs to do to start his or her own business, as well as various forms of help available for business owners.

Content Vocabulary

- entrepreneur (p. 208)
- startup (p. 209)
- small-business incubator (p. 209)
- inventory (p. 210)
- receipts (p. 211)

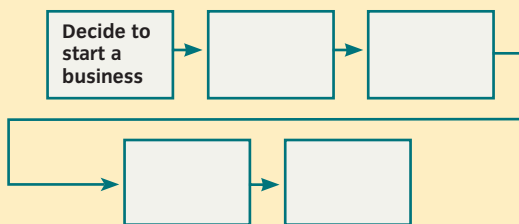
Academic Vocabulary

- relevant (p. 208)
- generate (p. 209)
- document (p. 212)

Reading Strategy

Sequencing Information

Complete a diagram like the one below by listing the steps a person must go through to start his or her own business.



PRODUCTS In The NEWS

—from *Time*

A NEW TAKE ON FLAVOR Looking for a way to add taste while cutting calories? Chef David Burke, known for his Willy Wonka-like creations at New York City restaurant davidburke & donatella, has created a line of flavor sprays that mimic the taste of high-cal foods but have no fat, calories, or carbs. Available in 18 varieties—such as Memphis BBQ, pesto and chocolate fudge—the sprays are concoctions of natural and artificial flavors. A shot of bacon can make scrambled eggs seem like a full breakfast feast, while root-beer-float or marshmallow spray may make you crave rice cakes.



How many times have you seen a product for sale and said, “That was *my* idea”? Or you see an item, nod your head, and think, “That’s a good idea. I wonder how they thought of that”? Many new products and services arise from personal inspiration—as in the case of David Burke’s flavor sprays. In this section, you’ll learn how to take your idea and start a business.



Getting Started

Ull Wallin/Getty Images

Main Idea Businesses are started by entrepreneurs who are willing to take risks.

Economics & You What are your talents? Can you think of a way to turn these skills into a marketable business? Read on to learn about how to start your own business.

Careers Handbook

See pages R76–R80 to learn about becoming an **electrician**.

Imagine that you have been tinkering with electronic equipment since you were a child. By now you can take apart and reassemble CD and DVD players, most computers, and other electronic equipment without difficulty. You are so good at repairing this kind of equipment that you have been doing it for friends and relatives for some time. Then an idea occurs to you: Why not charge people for your services? Why not go into business for yourself?

A person who starts his or her own business is an **entrepreneur**—a person willing to take a risk. People usually decide to start a business to gain profits, to “do something on their own,” or to be their own boss.

After making the decision to start a business, entrepreneurs must gather the **relevant** factors of production to produce their good or service and decide on the form of business organization

that best suits their purposes. (You’ll learn about the different types of business organizations in Sections 2 and 3.)

Anyone hoping to become an entrepreneur must also learn as much as possible about the business he or she plans to start. This process includes learning about the laws, regulations, and tax codes that will apply to the business. An entrepreneur should also investigate potential competition.



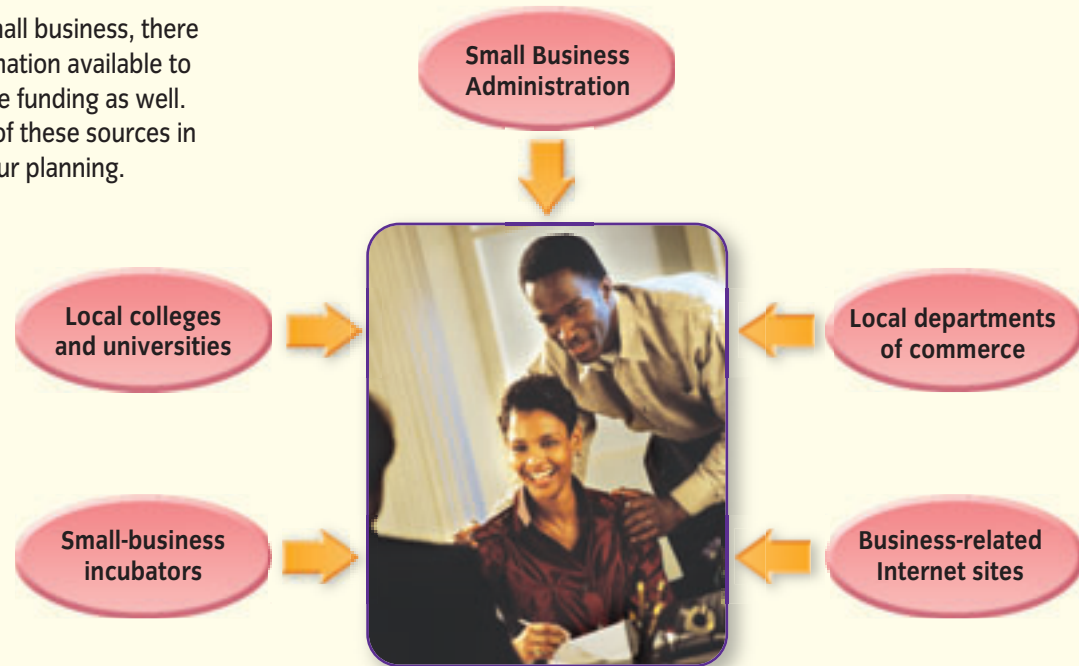
Entrepreneurship

Entrepreneurs are willing to take risks to gain a profit and be their own bosses.



Figure 8.1 Sources of Help for Business Startups

■ If you want to start a small business, there are many sources of information available to you, and some may provide funding as well. You should investigate all of these sources in the beginning stages of your planning.



Economic Analysis

Explaining What type of help might an entrepreneur get from a small-business incubator?

Help From Government For a person who wants to start a small business, help is available. (See **Figure 8.1** above.) The federal government’s Small Business Administration often helps finance **startups**, or new small businesses. State departments of commerce and community affairs also offer assistance. Many community college and university campuses have small-business development centers that are federally funded to help small businesses get started.

A **small-business incubator** might also aid businesses in your area. Just as incubators help hatch chicks, there are business incubators that help “hatch” small businesses. They are often operated with state and federal funds. A small-business incubator might provide a low-rent building, management advice, and computers. The incubator’s goal is to **generate** job creation and economic growth, particularly in economically depressed areas.

Help From the Internet Although new entrepreneurs can get help from government agencies, the Internet also provides a huge amount of information on how to start a business. By using search engines, you can find Web sites that explain everything from putting together a business plan to learning the “secrets to success.”

Reading Check Analyzing Why do entrepreneurs make the decision to start a business?

startup: a beginning business enterprise

small-business incubator: private- or government-funded agency that assists new businesses by providing advice or low-rent buildings and supplies

Economics ONLINE

Student Web Activity
Visit the *Economics Today and Tomorrow* Web site at glencoe.com and click on **Chapter 8—Student Web Activities** to learn more about the Small Business Administration.



Elements of Business Operation

(l) BaransiStock/Alamy Images, (r) Marucci Studios

Main Idea There are four basic elements of business operation: expenses, advertising, record keeping, and risk.

Economics & You What stops you from starting your own business every time you have a good idea for a product or service? Read on to learn about the risks and expenses involved in business operation.

Personal Finance Handbook

See pages R24–R27 and R32–R33 for more information on **taxes and insurance**.

inventory: extra supply of the items used in a business, such as raw materials or goods for sale

Every business must consider four basic elements: expenses, advertising, record keeping, and risk. (See **Figure 8.2** below.)

Expenses You’ve probably heard the saying, “You have to spend money to make money.” This is true when considering business expenses: new equipment, wages, insurance, taxes, electricity, telephone service, and so on. And depending on the kind of job you do, you may need replacement parts. At first, you might buy parts only as you need them for a particular job. In time, you will find it easier to have an **inventory**, or supply of items that are used in your business.

Figure 8.2 Elements of Business Operation

■ Every small business presents its owner with unique issues and challenges, but they all have some elements in common as well. These common elements include expenses, advertising, record keeping, and risk.

▼ **B. Advertising** The cost of advertising can cut into profits, especially in the startup phase of a business.



▲ **A. Expenses** Expenses include the supplies you need to do your job. If you start a painting business, for example, your expenses will include brushes, paint, and ladders. As your business grows, you might buy more expensive equipment, like paint sprayers and sanders.





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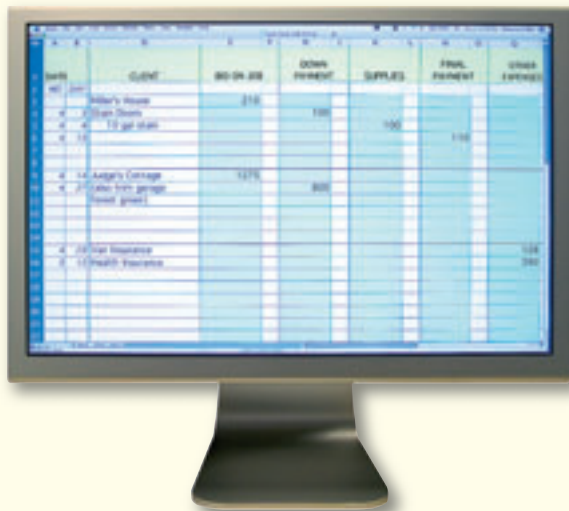
Wages are an expense. Because you could be working for someone else and earning an income, you should pay yourself a wage equal to what you could earn elsewhere. It's important not to forget this *opportunity cost* when you figure out the true profits and losses that your new business is making.

Will your business make a profit? Add your wages to your other expenses, including taxes. Then subtract your total expenses from your **receipts**, or the money income you've received from customers, and you will have your profit. Keep records of how much you owe and to whom, and of how much your business is taking in. You will need this information to do your taxes.

receipts: income received from the sale of goods and/or services; also, slips of paper documenting a purchase

Advertising When you start a business, you must make potential customers aware that your goods or services are available for a price. You could have flyers printed and distributed to advertise your business. You could also buy advertising space in newspapers, in community newsletters, or on various Web sites.

D. Risk Many startups fail. If you work for a boss, your overall risks are usually small. As your own boss, your risks are greater, but so are your potential rewards.



C. Record Keeping
Maintaining accurate records of your expenses and receipts is vital, especially when you're doing your taxes.



Economic Analysis

Examining What expenses other than supplies might a small-business owner have?



Record Keeping No matter how small your business, having a system to track your expenses and income is key to your success. Probably one of the first things you'll need is a computer. You should also purchase or download from the Internet the programs that will allow you to track your expenses and receipts. These programs write checks, calculate your monthly profits and losses, tell you the difference between what you own and what you owe (called *net worth*), and so on.

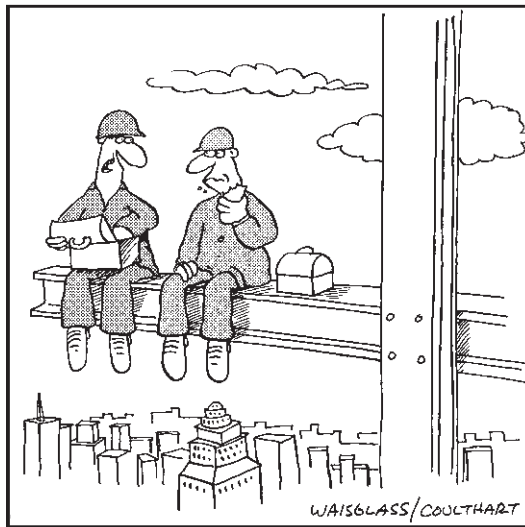
The slips of paper that **document** your purchases of supplies—also known as *receipts*—must be filed in a safe place. All legitimate business expenses can be deducted from business receipts before taxes owed are calculated. Taxes are assessed only on *net business income*. Here is where you see how important record keeping is.

Risk Every business involves risks. You must balance the risks against the advantages of being in business for yourself. For example, if you spend part of your savings to pay for advertising and equipment, you are taking a risk. You may not get enough business to cover these costs.

Reading Check Predicting Consequences
What are the risks of starting your own business? What are the advantages?

Farcus

by David Waisglass
Gordon Coulthart



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“Sure, I’d like to start my own business ... but, frankly, I think it’s too risky.”

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section 1

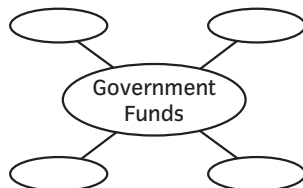
Review

Vocabulary

- 1. Explain** the significance of: entrepreneur, startup, small-business incubator, inventory, receipts.

Main Ideas

- 2. Identifying** Copy the diagram below, and list four ways the government provides funds for businesses.



Critical Thinking

- 3. The BIG Idea** Explain why some people would rather risk taking a loss in a business of their own rather than work for a wage.
- 4. Determining Cause and Effect** Why is the government willing to provide start-up funds to entrepreneurs?

Applying Economics

- 5. Entrepreneurship** Find a business in your area owned by an entrepreneur. Invite the person to speak to your class, or interview the person and read the interview aloud to the class.

Sole Proprietorships and Partnerships

GUIDE TO READING

Section Preview

In this section, you will learn about common ways to organize a business.

Content Vocabulary

- sole proprietorship (p. 214)
- proprietor (p. 214)
- unlimited liability (p. 214)
- assets (p. 214)
- partnership (p. 215)
- limited partnership (p. 216)
- limited liability company (p. 216)
- joint venture (p. 216)

Academic Vocabulary

- potential (p. 215)
- temporary (p. 216)

Reading Strategy

Comparing As you read, complete a table like the one below by listing the advantages and disadvantages of three common types of business organizations.

Business Type	Advantage(s)	Disadvantage(s)
Sole Proprietorship		
Partnership		
Limited Partnership		

Businesses can be organized in a number of ways. As the story above shows, many young people dream of starting their own business and being their own boss. Single-owner businesses, however, are only one option available to people who want to work for themselves. In this section, you'll learn that the two most common ways of organizing businesses in the United States are sole proprietorships and partnerships.

PEOPLE In The News

—from the *Fresno Bee*

YOUNG ENTREPRENEURS Travis Pierce hasn't graduated from high school yet, and he's already thinking about how many businesses he would like to own. The Clovis High School student wants to open an entertainment club for young people, become an accountant, and dabble in real estate investment.



▲ Young entrepreneurs' meeting

Although the 17-year-old student's ideas may seem lofty, Travis joins a growing number of American teenagers interested in becoming their own bosses.

... Hoping to fuel young people's interest in business, Junior Achievement and the U.S. Small Business Administration have created a Web site—www.mindyourownbiz.org—aimed at providing the tools and resources they need for becoming an entrepreneur. The SBA also has its own Web site, www.sba.gov/teens.



Sole Proprietorships

Main Idea A sole proprietorship is a business owned and operated by one person.

Economics & You If you were to start a business, would you rather work alone or with a partner? Read on to learn about businesses owned and operated by one person.

sole proprietorship: business owned and operated by one person

proprietor: owner of a business

unlimited liability: requirement that an owner is personally and fully responsible for all losses and debts of a business

assets: all items to which a business or household holds legal claim

The most common form of business organization is the **sole proprietorship**, a business owned by one person. A **proprietor** is the owner of a business. The United States has about 18 million sole proprietorships. You probably have contact with many sole proprietorships without realizing it.

There are advantages and disadvantages to being a sole proprietor. A proprietor may get satisfaction from being the boss and creatively making the business into whatever he or she wants it to be. Running a business alone is demanding and time-consuming, however.

The financial risk also has advantages and disadvantages. If the business does well, the proprietor receives all the profits. Also, taxes on a sole proprietorship are usually low because a business owner pays income taxes only on profits. At the same time, the owner also has **unlimited liability**—complete legal responsibility for all debts and damages arising from doing business. Personal **assets**, or items of value such as houses, cars, jewelry, and so on, may be seized to pay off business debts.

Reading Check **Explaining** What is meant by unlimited liability? What effect does this have on a sole proprietor?

Figure 8.3 Two Types of Businesses

■ Sole proprietorships and partnerships are two common ways that businesses are organized.

A. Sole Proprietorships

People who run their own businesses enjoy having creative control and being their own boss. Operating a sole proprietorship, though, is also a huge responsibility. The proprietor must handle all the decision making, even when the problem is unfamiliar.





Partnerships

Main Idea A partnership is a business owned and operated by two or more individuals.

Economics & You Have you ever worked with a partner on a school project? What were some of the advantages and disadvantages of this arrangement? Read on to learn about partnerships in business.

Earlier in this chapter, we imagined that you had started an electronics repair business. Suppose your business is doing so well that your workload becomes overwhelming, leaving you little time to do anything else. You could expand your business by hiring an employee. You also need financial capital to buy new equipment, but you would rather not take out a loan. So, you decide to take on a partner.

In a **partnership**, two or more individuals own and operate a business. Partners sign an agreement that is legally binding. It describes the duties of each partner, the division of profits, and the distribution of assets should the partners end the agreement.

Partnerships are usually more efficient than proprietorships because each partner can work in his or her area of expertise. As with sole proprietorships, taxes tend to be low because partners pay income tax only on their share of the profits. Because the partners have to work together, however, decision making is often slower, and disagreements can lead to problems.

A partnership's borrowing **potential** is generally very good. Because the combined value of the partners' personal and business assets is usually greater than that of a sole proprietor, creditors are willing to lend more because these same assets can be taken over if the partnership fails to repay the loan.

partnership: business that two or more individuals own and operate

B. Partnerships Like sole proprietorships, partnerships offer the pride of having ownership of a business. In partnerships, however, the responsibility of running the business rests on two or more people. The partners need to be able to compromise and work together.

Economic Analysis

Explaining Why do partners often have an easier time obtaining funding than sole proprietors do?



limited partnership: special form of partnership in which one or more partners have limited liability but no voice in management

limited liability company: type of business enterprise that protects members against losing all of their personal wealth; members are taxed as if they were in a partnership

joint venture: partnership set up for a specific purpose for a short period of time

Some partnerships are specialized. In a **limited partnership**, not all of the partners are equal. One partner is called the *general partner*. This person (or persons) assumes all of the management duties and has full responsibility for the debts of the partnership. The other partners are *limited* because they only contribute funds or property to the business. They have no say in the management of the business, but they also have no liability for business losses other than their initial investment.

Another type of business structure that creates benefits for businesspersons is called a **limited liability company**. In this type of business enterprise, so-called members often do not have to worry about losing their personal wealth if the business fails with a lot of debts. Limited liability companies are similar to corporations (which you will read about in the next section), but they are taxed as if they were partnerships.

Finally, a **joint venture** is a **temporary** partnership created to accomplish a specific task for a short period of time. Once the task is completed, the joint venture is ended. A common example is when investors purchase real estate and then resell the property for a profit.



Determining Cause and Effect Why would an entrepreneur want to take on a partner when starting a business?

section 2

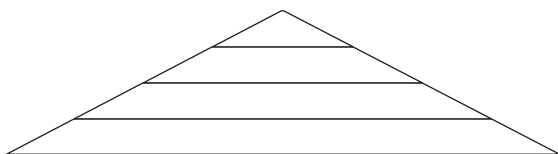
Review

Vocabulary

- 1. Explain** the significance of: sole proprietorship, proprietor, unlimited liability, assets, partnership, limited partnership, limited liability company, joint venture.

Main Ideas

- 2. Synthesizing** In a pyramid like the one below, rank the following four types of businesses in order of risk to you, with the highest risk at the top: partnership, limited partnership, limited liability company, sole proprietorship.



- 3. Comparing** What is one advantage of a joint venture?

Critical Thinking

- 4. The BIG Idea** Explain the advantages and disadvantages of being a sole proprietor.
- 5. Comparing** Why do sole proprietorships and partnerships pay relatively lower taxes than other types of business organizations?

Applying Economics

- 6. Local Business** Using the Internet or your own knowledge or research, list one sole proprietorship and one partnership that is owned and operated in your community or city.



Indra K. Nooyi

● President and Chief Financial Officer of PepsiCo, Inc.

- Board member of Motorola, the International Rescue Committee, the Lincoln Center for the Performing Arts, and the Asia Society
- Serves on the Advisory Boards of the Yale School of Management and the Greenwich Breast Cancer Alliance

Handout/pepa/Corbis

At one time the lead guitarist in an all-female rock band in India, Indra Nooyi is now president and chief financial officer of PepsiCo, Inc. How does a young woman from Chennai, India, become a top executive at the giant corporation that owns Pepsi-Cola, Frito-Lay, Gatorade, Tropicana, Quaker Oats, and hundreds of other brands around the globe?

“To the extent that I have succeeded in finding happiness as a sister, a wife, a mom, an Indian daughter and daughter-in-law (both have their own challenges!), and as a business leader, I found that five simple principles have guided me over the years.

The 1st Principle that helped guide my life, is: *Whatever you choose to do, aim high . . . and put your heart into it.*

The 2nd Principle . . . is: *Never stop learning.* Some people think learning ends when you leave school. They are terribly misguided.

The 3rd Principle . . . is: *Keep an open mind.* Treat others with the same respect and dignity that you want others to treat you.

The 4th Principle . . . is: It’s important to remember that we’re all individuals. . . . [N]ever hide what makes you, you. *Always be yourself.*

“**The 5th Principle that helped guide my life is the most important of all: Remember the three things that are most important in life . . . family . . . friends . . . and faith.**”

Nooyi remains true to her Indian identity. She often wears a sari, and in her home in Connecticut there is a *puja*, or Hindu prayer room. And she still plays her electric guitar.

Checking for Understanding

1. **Discussing** Of the many roles Nooyi plays, which seem to be the most important to her? How can you tell?
2. **Defending** Which of Nooyi’s five principles is the most important to you? Why?

The Corporate World and Franchises

GUIDE TO READING

Section Preview

In this section, you will learn about the characteristics and structure of corporations and franchises.

Content Vocabulary

- corporation (p. 219)
- stock (p. 219)
- limited liability (p. 220)
- articles of incorporation (p. 220)
- corporate charter (p. 220)
- common stock (p. 221)
- dividend (p. 221)
- preferred stock (p. 221)
- bylaws (p. 221)
- franchise (p. 222)

Academic Vocabulary

- visible (p. 219)
- distinct (p. 219)
- annual (p. 221)

Reading Strategy

Sequencing As you read, complete a flowchart like the one below by filling in the steps necessary to form a corporation.



PEOPLE In The News

—from *Entrepreneur.com*

YOUNG FRANCHISORS While practically everyone has heard of Subway, not many people know that its founder, Fred DeLuca, started the sandwich juggernaut as a 17-year-old college student in 1965. Nearly 40 years later, he's inspiring other young people to choose their own destinies. Working at the local Subway has become almost a rite of passage for teenagers, as it was for Devin Smith back in 1994. He, like DeLuca, was 17 when he began his relationship with Subway—Smith worked there part time during high school and college before graduating to the next level at Subway: ownership.



▲ Fred DeLuca, Subway founder, with employees

Smith isn't the only early achiever looking beyond the corporate path. Brandon Gough, president of Juice It Up! Franchise Corporation, notes a recent increase in younger applicants interested in the smoothie franchise.

Profits are a good thing. As a sole proprietor, you keep all the profits. In a partnership, you share the profits with one or several partners. In a corporation, however, the profits are dispersed among thousands of shareholders. So why do entrepreneurs incorporate, or form corporations? In this section, read to learn why and how corporations are formed.



Corporations and Their Structure

Main Idea Stock represents ownership rights to a certain portion of a corporation's profits and assets.

Economics & You What do you think of when you picture a corporation? Profit? A complicated structure? Read on to learn about the characteristics of corporations.

Suppose your electronics repair business that we discussed at the beginning of this chapter has grown. You now have several partners and have turned your garage into a shop. You would like to expand and rent a store so that your business is more **visible**. You would also like to buy the latest equipment, charge a little less than your competitors, and capture a larger share of the market. You need financial capital, however.

You have decided that you do not want any more partners. You no longer want to consult with them about every detail of the business. What you want are financial backers who will let you use their funds while letting you run the business. You are proposing a corporation.

What Is a Corporation? A **corporation** is an organization owned by many people but treated by law as though it were a person. A corporation can own property, pay taxes, make contracts, sue and be sued, and so on. It has a separate and **distinct** existence from the stockholders who own the corporation's stock. **Stock** represents ownership rights to a certain portion of the future profits and assets of the company that issues the stock.

Skills Handbook

See page R48 to learn about **Problems and Solutions**.

corporation: type of business organization owned by many people but treated by law as though it were a person; it can own property, pay taxes, make contracts, and so on

stock: share of ownership in a corporation that entitles the buyer to a certain part of the future profits and assets of the corporation



The Biggest of Them All

In the early 2000s, Wal-Mart became the biggest corporation in the United States. In 2005, \$8.90 out of every \$100 spent in U.S. retail stores was spent at Wal-Mart. Although Wal-Mart offers low prices to consumers and employs a large number of people, some critics maintain that small businesses suffer from the intense competition.



limited liability: requirement in which an owner's responsibility for a company's debts is limited to the size of the owner's investment in the firm

articles of incorporation: document listing basic information about a corporation that is filed with the state where the corporation will be headquartered

corporate charter: license to operate granted to a corporation by the state where it is established

In terms of the amount of business done (measured in dollars), the corporation is the most significant type of business organization in the United States today. See **Figure 8.4** below to compare corporations with other forms of businesses.

One of the major advantages of a corporation is **limited liability**. If a corporation goes bankrupt or is sued, the stockholders' losses are limited to their investment in the firm. A major disadvantage of corporations is that they are taxed more heavily than other forms of business organizations. In order to form a corporation, its founders must do three things. First, they must register their company with the government of the state in which it will be headquartered. Second, they must sell stock. Third, along with the other shareholders, they must elect a board of directors.

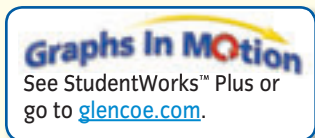
Registering the Corporation Every state has laws governing the formation of corporations, but most state laws are similar. Suppose that you and your partners decide to form a corporation. You will have to file the **articles of incorporation** with the state in which you will run your corporation. In general, these articles include four items:

- (1) Name, address, and purpose of the corporation;
- (2) Names and addresses of the initial board of directors;
- (3) Number of shares of stock to be issued;
- (4) Amount of money capital to be raised through issuing stock.

If the articles are in agreement with state law, the state will grant you a **corporate charter**—a license to operate from that state.

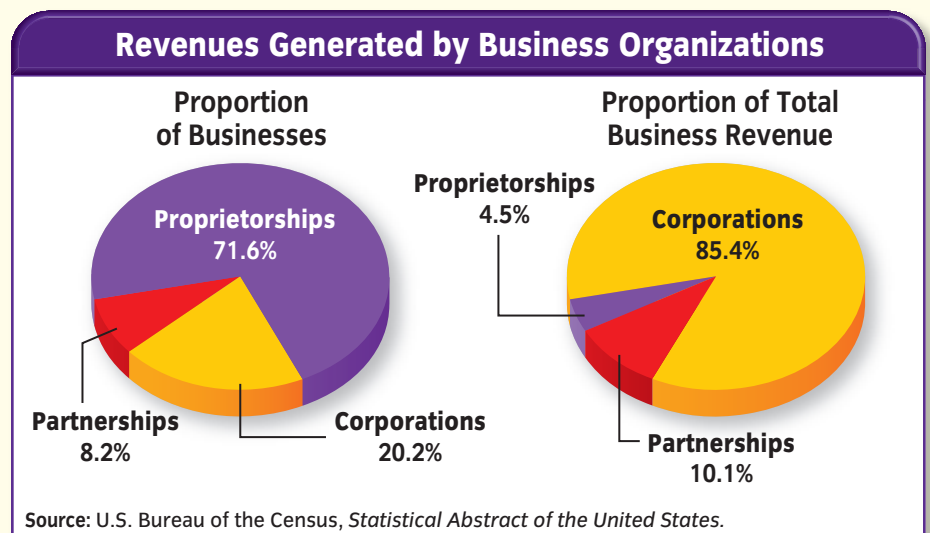
Figure 8.4 Comparing Corporations, Partnerships, and Proprietorships

■ As you can see, although corporations make up only about 20 percent of all businesses in the United States, they earn about 85 percent of all business revenues.



Economic Analysis

Using Graphs What percent of business revenues do nonincorporated businesses generate?





Board of Directors' Meeting

Members of a corporation's board of directors are elected by the stockholders. The board will often meet to discuss corporate strategy, but it does not get involved in the day-to-day operations of a business.



Selling Stock To raise funds for the expansion of your electronics repair business, you could sell shares of stock in your new corporation. **Common stock** gives the investor part ownership in the corporation, a right to a percentage of the company's future profits, and voting rights at the **annual** stockholders' meeting. It does not, however, guarantee a **dividend**—a money return on the money invested in a company's stock. Holders of **preferred stock** do not have voting rights in the corporation, but they are guaranteed a certain amount of dividend each year. Plus, if the corporation goes out of business, holders of preferred stock have first claim on whatever value is left after creditors have been paid.

Naming a Board of Directors To become incorporated, a company must have a board of directors. You and your partners, as founders of your corporation, would select the first board. After that, stockholders would elect the board. The bylaws of the corporation govern this election. **Bylaws** are a set of rules describing how stock will be sold and dividends paid, with a list of the duties of the company's officers. They are written after the corporate charter has been granted.

The board is responsible for supervising and controlling the corporation. It does not run business operations on a day-to-day basis. Instead, it hires officers for the company—president, vice president(s), secretary, and treasurer—to run the business and hire other employees.

Reading Check **Examining** What are a major advantage and a major disadvantage of incorporating?

common stock: shares of ownership in a corporation that give stockholders voting rights and a portion of future profits (after holders of preferred stock are paid)

dividend: portion of a corporation's profits paid to its stockholders

preferred stock: shares of ownership in a corporation that give stockholders a portion of future profits (before any profits go to holders of common stock), but no voting rights

bylaws: a set of rules describing how stock will be sold and dividends paid



Franchises

Main Idea A franchise is an arrangement in which a person or group obtains the right to use the name and sell the products of another business.

Economics & You Can you find your favorite fast-food restaurant when you travel? If so, then the restaurant is probably a franchise. Read on to learn about franchising a business.

franchise: contract in which one business (the franchisor) sells to another business (the franchisee) the right to use the franchisor’s name and sell its products

Many hotel, motel, gas station, and fast-food chains are franchises. A **franchise** is a contract in which a firm—usually a corporation—sells to a person or group of people the right to use its name and sell its products. In return, the person or group makes certain payments and meets certain requirements. The corporation, or parent company, is called the *franchisor*, and the person or group buying these rights is called the *franchisee*.

The franchisee pays a fee to the franchisor that may include a percentage of all revenues taken in. If a person buys a motel franchise, for example, that person agrees to pay the motel chain a certain initial fee plus a portion of the profits for as long as his or her motel stays in business. In return, the chain will help the franchisee set up the motel. Often, the chain will have a training program to teach the franchisee about the business and set the standards of business operations.



Wave of the Future?

Franchises exploded onto the retail scene in the 1950s with the development of fast-food chains. Their numbers have continued to increase over the years. Today, Subway sandwich shops are one of the most common and popular franchises in the United States.

Franchise Rules


Franchise agreements usually require the franchisee to meet certain quality standards decided on by the franchisor. For example, all Subway franchises are required to use freshly baked bread and fresh ingredients, and employees must assemble sandwiches in front of the customers.





Advantages of Franchising The main reasons people choose to open franchises rather than start their own businesses are name recognition and a proven way of doing business. If the parent company is already successful, it has figured out a way to market its products or services effectively. The franchisee can follow this method rather than coming up with an original plan that may or may not work. In addition, parent companies generally spend a great deal on advertising. Think of how often you see ads for popular franchises like McDonald's, Burger King, Wendy's, and Pizza Hut. The franchisee benefits from this advertising without having to pay for it. Because of these advantages, the success rate of franchises is much higher than that of independently owned businesses.

Disadvantages of Franchising For franchisees, the main disadvantage is a loss of control. While they gain the use of a business plan, training, and marketing, they give up the freedom to run their business as they'd like. Also, franchise arrangements sometimes run into legal trouble if one of the parties fails to hold up its side of the agreement.

 **Reading Check** **Analyzing** Why might someone purchase a franchise rather than start his or her own business?

section 3

Review

Vocabulary

- 1. Explain** the significance of: corporation, stock, limited liability, articles of incorporation, corporate charter, common stock, dividend, preferred stock, bylaws, franchise.

Main Ideas

- 2. Comparing and Contrasting** Copy the diagram below, and list the advantages and disadvantages of incorporating a business.

Incorporating	
Advantages	Disadvantages

- 3. The BIG Idea** The goal of business is to make a profit. Who gets the profits in a proprietorship? A partnership? A corporation?

Critical Thinking

- 4. Evaluating** Imagine you have \$1,000 to invest. Would you buy preferred stock or common stock? Why?

Applying Economics

- 5. Franchising** Successful entrepreneurship can be profitable but carries risk. Write a paragraph explaining why franchising is less risky than being a sole proprietor. Use at least four examples from the text.

PANERA BREAD

Giving Fast Food a Run for Its Money

Check It Out! In this chapter you learned about franchises and corporations. In the following article, read to learn how one franchise is “rolling in the dough.”

Back in the 1980s, fast-food chains had turned into “self-serve gasoline stations for the body,” says Ronald M. Shaich, CEO of Panera Bread Co. In 1993, he acquired Panera and began preaching its virtues as he opened branches across the country. “It’s food you crave, food you trust.” Actually, people are gobbling it up.

Panera attracts its crowds by focusing on freshness. Breads and pastries are baked at each site from dough that contains no unhealthy trans fats. Shaich revitalizes Panera’s menu every two months with a new sandwich or salad. To cover the increased cost, it had to hike sandwich prices by 7%, to \$4.99-plus. But the customers who frequent the chain didn’t balk. Fans don’t mind



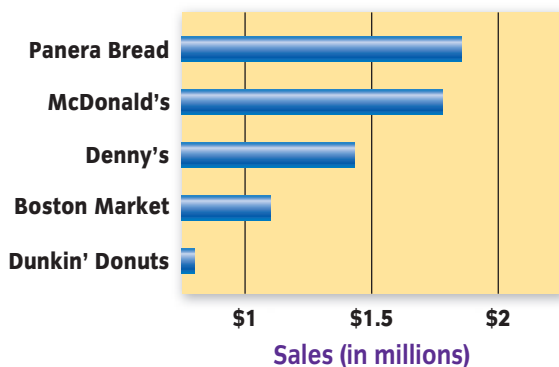
▲ A Panera franchise in Orlando, Florida

paying a premium for its healthy alternatives. The average Panera patron spends \$8.51 on lunch, vs. an industry average of \$4.55. Panera has trounced many fast-food competitors in average sales per store.

Panera’s expansion—and Shaich’s eye for spotting trends early—has helped the chain withstand lean times. In 2003, Americans went on a low-carbohydrate kick. With “bread” in its name, Panera suddenly landed on the do-not-eat list of many Atkins Diet followers. So Shaich acted fast to boost the salad lineup and low-carb, whole-grain breads. High marks from customers are projected to push Panera’s revenues to \$1 billion in 2007.

—Reprinted from *BusinessWeek*

Annual Per-Store Sales of Some Major U.S. Chain Restaurants



Source: Nation’s Restaurant News.

Think About It

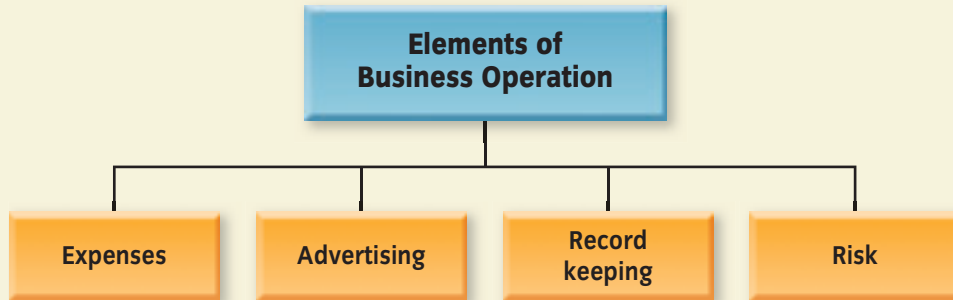
- Contrasting** How does Panera Bread differ from other fast-food franchises?
- Explaining** Owning a business means constantly tracking trends. How did Shaich avert disaster when low-carb diets emerged?

chapter 8 Visual Summary



Study anywhere, anytime! Download quizzes and flash cards to your PDA from glencoe.com.

- There are four main **elements of business operation**: expenses, advertising, record keeping, and risk.

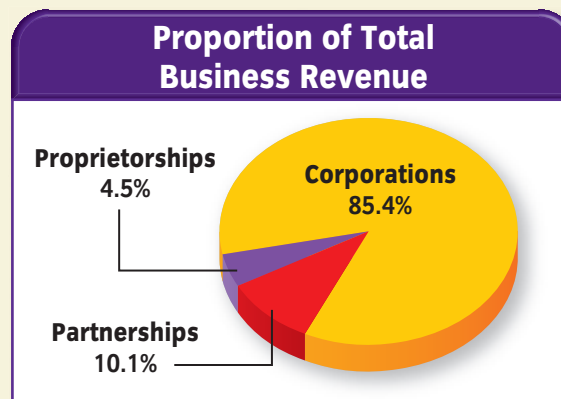


- **Sole proprietorships** and **partnerships** are two common ways that businesses are organized.

Two Types of Businesses

- ◆ A **sole proprietorship** is a business owned and operated by one person.
- ◆ A **partnership** is a business owned and operated by two or more people.

- The majority of business revenues in the United States are brought in by **corporations**, which are owned by many people but treated by law as if they were individuals.



Review Content Vocabulary

1. Imagine that you are starting a business, such as a pet grooming business or a clothing store. Write a paragraph or two explaining the choices you will have to make about how your new business will be structured and run. Use all of the following terms.

entrepreneur	corporation
startup	stock
sole proprietorship	articles of incorporation
unlimited liability	limited liability
partnership	franchise
limited partnership	
joint venture	

Review Academic Vocabulary

Choose the letter of the term that best completes each sentence.

- | | |
|--------------|--------------|
| a. relevant | e. temporary |
| b. generate | f. visible |
| c. document | g. distinct |
| d. potential | h. annual |
- Some partnerships are _____ because they are meant to end after a specific goal is met.
 - Retailers try to make their stores as _____ as possible so that more customers will see them.
 - Business owners strive to increase _____ revenue.
 - It is important for business owners to _____ their expenses for their tax records.
 - Stockholders must be informed about _____ and important business decisions.
 - Stockholders can attend a(n) _____ meeting each year to vote on company business.
 - A company's profits will _____ dividends for its stockholders.
 - It is helpful for a new business to be _____, or different in some way, from its competitors.

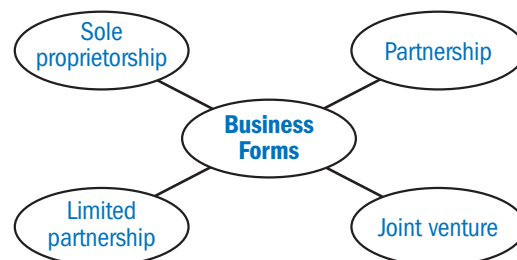
Review the Main Ideas

Section 1 (pp. 207–212)

- Every business involves expenses, receipts, and record keeping. What are two other elements? Why are they important?
- When you calculate your profits, it is especially important for you to include the value of your time. What is this called?
- If you start a small business, you have to consider many things. Where can you look for help?

Section 2 (pp. 213–216)

- What is the most common form of business organization?
- Describe the characteristics of sole proprietorships, partnerships, limited partnerships, and joint ventures by filling in a diagram like the one below.



Section 3 (pp. 218–223)

- What makes a corporation different from other forms of businesses such as sole proprietorships and partnerships?
- Who grants corporate charters?
- Which group within a corporation chooses the board of directors? What does the board of directors do?
- How does a franchise operate?

Self-Check Quiz Visit the *Economics Today and Tomorrow* Web site at glencoe.com and click on **Chapter 8—Self-Check Quizzes** to assess your knowledge of chapter content.

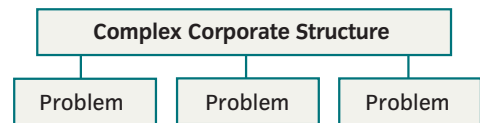
Thinking Like an Economist

19. Use a chart like the one below to help you analyze and classify five or more businesses in your community. Write down a variety of businesses—retailers, service providers, “mom-and-pop” operations, businesses that serve other businesses, franchises, manufacturers, and so on. Conduct research or make educated guesses about each company’s business form (sole proprietorship, partnership, corporation, franchise, etc.) and explain why you think the owner or owners chose each form.

Community Businesses		
Business name	Business form	Why owner(s) probably chose this form

Critical Thinking

20. **The BIG Idea** What is the main reason entrepreneurs are willing to take huge financial risks to start new businesses?
21. **Analyzing** Why might a person decide in favor of a partnership rather than a sole proprietorship?
22. **Determining Cause and Effect** Create a diagram like the one below, and identify three problems in a corporation that might be caused by its complex organizational structure.



Analyzing Visuals

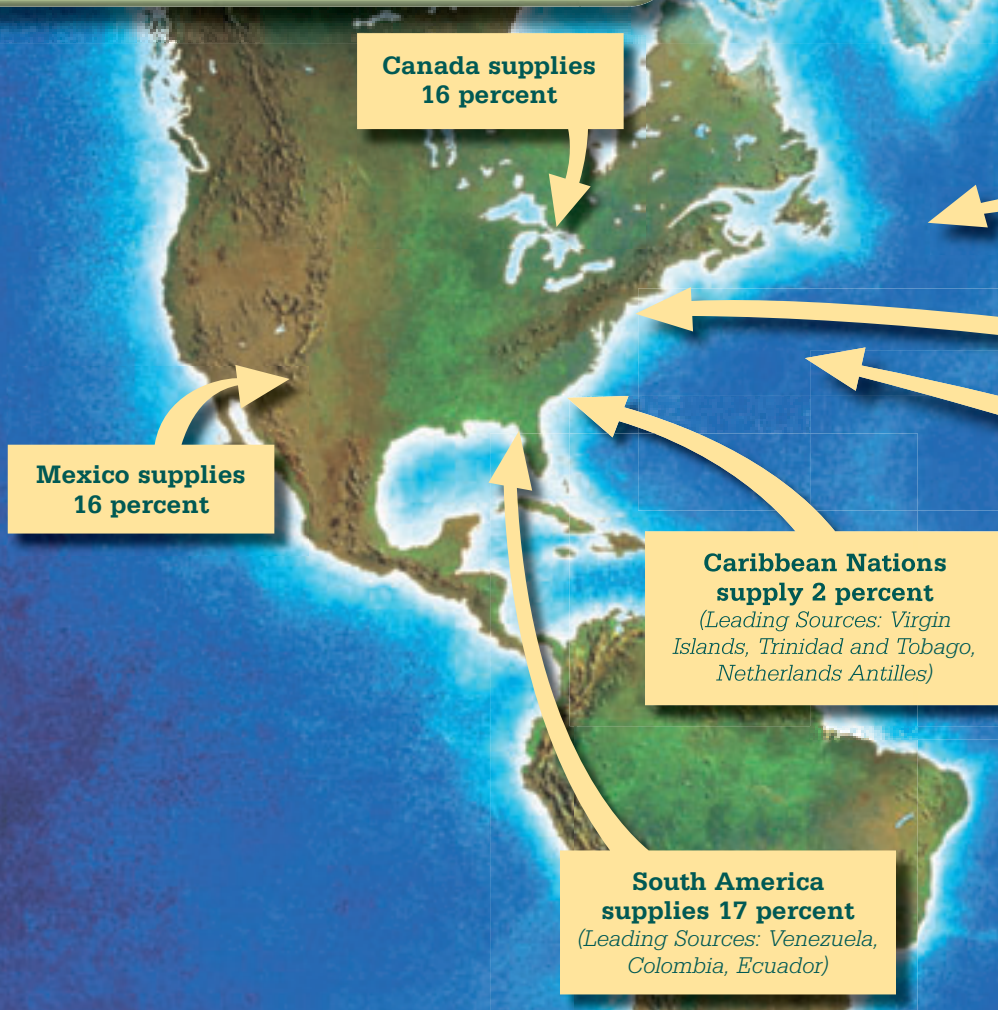
23. Study the cartoon below, and then answer the following questions.
- What type of business organization does Globo Tort represent?
 - What kind of business is the Mom and Pop tortilla shop?
 - What is the double meaning of the word *dough* in this cartoon?



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Global Economy

Demand for Oil Americans demand oil for many purposes, but mostly as a fuel for their automobiles. According to the Department of Energy, the average American drives a vehicle more than 12,000 miles and uses around 500 gallons of gasoline every year. The United States provides about 35 percent of its own oil. The remaining amount comes from various international sources, as shown in the map below.



On average, a barrel holding 42 gallons of crude oil produces 21 gallons of gasoline.

**Europe supplies
4 percent**

(Leading Sources: Great Britain, Norway, Belgium)

**Persian Gulf Region
supplies 24 percent**

(Leading Sources: Saudi Arabia, Iraq, Kuwait)

**Africa supplies
16 percent**

(Leading Sources: Nigeria, Angola, Algeria)

**Other World Sources
supply 5 percent**

Thinking Globally

- 1. Identifying** Which two regions of the world supply the most oil to the United States?
- 2. Analyzing** How do you think the amount of oil supplied by a region affects the political situation between that region and the U.S.?
- 3. Applying** Choose one country listed in the chart, and then use the Internet to research how much oil that country supplies to the United States. Then research the political relationship between that country and the U.S. How are the two related?