The Corporate World and Franchises

Big Idea

As you read pages 218–223 in your textbook, complete the flowchart below by filling in the steps necessary to form a corporation.

Decide to form a corporation → ______ → ______ → ______

Notes

Read to Learn

Corporations and Their Structure *(page 219)*

Synthesizing Information

What is the main goal of forming a corporation?

____

Comparing and Contrasting

Name one advantage and one disadvantage of owning preferred stock.

Pro: ______________________

Con: ______________________

A corporation is a business organization owned by many people but treated as a separate legal entity. Corporations have substantial growth and profit potential, while protecting its owners from personal liability. A corporation is more heavily taxed than other business structures, and certain requirements must be met.

First, a business owner must **register** the corporation, submitting articles of incorporation, or information about the corporation, to the state in which he or she is *incorporating* (forming the corporation). Specific information varies but usually consists of the name and the purpose of the company, the names of board members, and the amount of capital to be raised through **stock.** The state then provides a license, or **corporate charter.**

Next, the corporation must raise capital by selling either *preferred* stock or *common* stock. Preferred stock guarantees a dividend, while common stock grants voting rights. Finally, you must appoint an initial **board of directors,** whose members are subsequently elected by stockholders. The board oversees the corporation, sets the **bylaws,** and hires its senior officers.

Notes | Read to Learn

Franchises *(page 222)*

Making Inferences

1. Why would a franchise business grow faster at the very beginning than an independently owned business?

2. When might the goals of the franchisor conflict with the goals of the franchisee?

Hotel and fast-food chains are common examples of franchises, which have been very popular in the United States since the 1950s. A **franchise** is a commercial agreement in which the *franchisor,* the existing parent company, grants the rights to sell its products to the *franchisee,* the person or group of people seeking a business opportunity. This usually requires that the franchisee pay an initial fee as well as a percentage of the franchise's yearly profits to the franchisor. In return, the franchisee receives a variety of support from the franchisor.

Franchise owners increase their chances of success and reduce their risk by following a predefined, pretested formula of selling a standardized product or service, sometimes under a well-recognized name. The franchisor provides business expertise, including marketing and advertising plans, management guidance, financing assistance, choosing a location, administrative support, and/or training. In addition, entrepreneurs benefit from advertising paid for by the franchisor.

For example, iSold It on eBay is a franchise. It is a retail store that provides the service of posting and selling things on eBay. The cost of the service provided is a percentage of the total sale of the item. For $85,000, you can open a fully functional store. Some of this franchise's features include specialized software, fast check processing, and easy store construction.

There are disadvantages to opening a franchise, too. Franchise owners cannot run their business however they wish—they can be legally bound by the franchise contract to perform even simple tasks in a very specific way. Both the franchisee and the franchisor can fail to abide by the contract, which can result in legal expenses or problems.

Corporations also benefit from granting franchise rights. The franchisees expand the business while sharing the cost and the risk. Franchises allow corporations to compete in more markets and reach more consumers.

Section Wrap-up

Answer these questions to check your understanding of the entire section.

1. What does a business owner gain and lose by incorporating??

2. Why does a franchise pose less risk than other types of business to entrepreneurs?

Descriptive Writing

Write a short story about what it might be like to work at a franchise restaurant versus an independently owned restaurant. What does the restaurant look like? What do you wear to work? How are you trained? How do your managers treat you?