

Week 2 Lecture 1: Types of Business Ownership

Cast: **Dr. Benson**, Anthony, Tonya, **Ryan**, Rosa, and **Cheryl**

Scene #	Scene/Interaction	Narration
1	<p><b>Interaction Type:</b> Conversation  <b>Scene:</b> Classroom</p>	<p><b>Dr. Benson (Instructor):</b> Welcome, everyone. In today's lecture, we will discuss the various options for business ownership-- sole proprietorships, joint ventures, corporations, partnerships, limited liabilities, and franchises.</p> <p><b>Dr. Benson:</b> Let's start with a sole proprietorship. <b>A sole proprietorship</b> is a single business owned by an individual, or sometimes a couple. In this type of ownership, there is no distinction between the business and owner. Although the owner makes all business decisions and is entitled to all profits, he or she is responsible for all business debts and liabilities.</p> <p><b>Anthony:</b> So, based on what I am hearing, it seems that a sole proprietorship is quite simple. I suppose it's the best option.</p> <p><b>Dr. Benson:</b> Well let's not get too far ahead of ourselves. While a sole proprietorship may seem fairly simple, remember that you are also personally responsible for all liabilities and debts against the business.</p> <p><b>Dr. Benson:</b> <b>[slight pause]</b> So, now that we know what a sole proprietorship is, let's move on to the next option: partnerships. Partnerships include general partnerships, limited partnerships, and limited liability partnerships.</p> <p><b>Dr. Benson:</b> Generally, a partnership is when two or more people share ownership of a single business. The partners have a legal agreement. It specifies the capital each individual brings to the business, how profits will be shared, and how the partnership can be dissolved. With more than one owner, a business's chances to raise funds increase-. The partners could benefit from having owners with complementary skills, For example, in a restaurant partnership, if one partner is a chef, and the other has strong management skills, both partners benefit from the other's expertise.</p> <p><b>Dr. Benson:</b> Individuals in partnerships are also responsible for all debts and liabilities. However, in a general partnership, profits are shared among partners, and partnerships could be in crisis when one of the partners disagrees or when one is deceased.</p> <p><b>Ryan:</b> Would it be difficult to dissolve a partnership and change ownership to a sole proprietorship?</p> <p><b>Dr. Benson:</b> That's a very good question. Dissolving a partnership into a sole proprietorship could be challenging. Each partner has a financial stake in the business. Assuming there are two partners, one partner would need to</p>

	<p>buy the other's stake in the business. This becomes even more challenging when one partner refuses to sell their share of the business. Such feuds could become a distraction and result in an unfavorable outcome for both parties.</p> <p>[slight pause] Next we will discuss other types of partnerships – Limited Partnership and Limited Liability Partnerships.</p> <p><b>Dr. Benson:</b> Limited partnerships, known as L-Ps, and limited liability partnerships, known as L-L-Ps are two forms of partnerships. Unlike general partnerships, limited partnerships and limited liability partnerships offer their owners' limited personal liability for business debts.</p> <p><b>Dr. Benson:</b> In a Limited liability partnership, or L-L-P, all partners participate in managerial decisions, and liabilities are limited to the extent of their investments. However, in a limited partnership or L-P, at least one of the owners is considered a "general" partner. This "general" partner makes business decisions and is personally liable for business debts. The limited partners have limited input in managerial decisions. One advantage of a limited liability partnership is that the limited partners are not responsible for the business's debts and obligations beyond their investments of the business.</p> <p><b>Anthony:</b> This is a bit confusing. What is the main difference between Limited partnerships L-Ps and Limited liability partnerships L-L-Ps?</p> <p><b>Dr. Benson:</b> [show graphic similar to W2L1.1] You are right, this can be confusing. A limited partnership has at least one general partner and at least one limited partner. Only limited partners have limited liability. However, in limited liability partnerships there are no general partners, and all partners have limited liability. Does that help?</p> <p><b>Anthony:</b> Yes. Thanks.</p> <p><b>Dr. Benson:</b> [slight pause] Okay, let's talk about Franchises. A franchise is when a group or an individual is given the authority to carry out specified commercial activities using a trade name or a business model. Examples of franchises in the fast food industry include McDonalds, Pizza Hut, and Subway.</p> <p><b>Dr. Benson:</b> Advantages of owning a franchise includes the use of a nationally recognized brand name, and receiving management and marketing assistance from the franchisor. Drawbacks includes the fact that most franchisors requires a large start-up cost, some as high as two million dollars. Also, profits are shared between the franchisees and franchisors, and sometimes the franchisee may feel burdened by the franchisor's rules and regulations.</p> <p><b>Ryan:</b> So if there are so many restrictions, then what makes a franchise an attractive option?</p>
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	<p><b>Dr. Benson:</b> Good question, Ryan. One of the major reasons why small businesses fail is because most owners are unable to raise funds to run or expand the business. In an effort to maintain the standards of high quality and grow the business, franchisors provide valuable assistance and periodic management advice to franchisees. The advantages here include the fact that affiliation with the franchise helps to increase the company's credibility and the owner's chances to secure loans from financial institutions.</p> <p><b>Dr. Benson:</b> Any questions? [Slight pause] Okay, now to our next ownership option - Corporations.</p> <p><b>Dr. Benson:</b> Corporations are independent business entities that are separate from the people who own, control, or manage them. A corporation is formed under the laws of the state in which it is registered, and the owners have limited liabilities.</p> <p><b>Dr. Benson:</b> A Corporation can be either privately or publically owned. A privately owned corporation has fewer owners and their shares are not available to the public. However, shares of a publically owned corporation are available to the general public.</p> <p><b>Dr. Benson:</b> A corporation's legal structure receives a number of advantages and obligations from the state. Some of these advantages allow corporations to accumulate and distribute profits among the various stakeholders.</p> <p><b>Cheryl:</b> If it is easier for a corporation to raise funds by selling stocks, then why do some business owners choose to be sole proprietors or go into partnerships instead?</p> <p><b>Dr. Benson:</b> Well, let's look at a few things to clarify this. First, there is the issue of high initial cost. The large size of a corporation could make it inflexible to respond to issues in a timely manner, and there is also the issue of double taxation. A corporation pays taxes on its income before it can distribute dividends to stockholders. The stockholders are also required to pay taxes on the dividends they earn. However, in partnerships and sole proprietorships, all profits are taxed as personal income of the owners.</p> <p><b>Dr. Benson:</b> Alright, our last business ownership option is Joint Ventures. A joint venture is a partnership in which two or more individuals, groups of individuals or companies join forces to undertake a major project or for special opportunities. The partners agree to join forces in sharing resources, risks, and profits but do not actually merge permanently. Joint ventures are created for various reasons. A joint venture partnership can help speed up the expansion of a business or establish a business in markets of a foreign country.</p> <p><b>Dr. Benson:</b> Competition in the global market has also encouraged the growth of strategic alliances. Strategic</p>
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		<p>alliances are long- term partnerships between two or more companies. This helps each company build market advantages. Examples of such ventures are very common in the airline industry. For example, United Airlines, US Airways, and Lufthansa are all members of the Star Alliance Network. Unlike joint ventures, strategic alliances do not share costs, risks, and profits. Instead, they provide broad access to markets, capital and technical expertise.</p> <p><b>Anthony:</b> Professor, won't a joint venture expose one partner's business secrets to the other?</p> <p><b>Dr. Benson:</b> Well, joint ventures are quite beneficial, but yes, one major drawback is that a partner can learn the other's technology or practices and use it to gain its own market advantage. This is why it is very important to join forces with the right partners and for the right reasons. You must ensure that all potential legal and competition issues are addresses in the joint venture agreements.</p> <p>[slight pause] Now you that you're familiar with options for business ownerships, let's stop for a moment and apply this knowledge to the scenario interaction for this week.</p>
2	<p><b>Interaction Type:</b> Assessment  <b>Scene:</b> Background graphic should look like a mobile device such as a tablet or iPad device. Include photos of scenario character "Chris" and "Erica". Use the same voice as the instructor for the narration. Make it seem as though they are listening to the teacher while looking at the assessment text on their mobile device. Show text and include audio.  <b>Assessment Type:</b> multiple choice question.  <b>Correct Answer: C</b></p>	<p><b>Dr. Benson:</b> In this week's scenario interaction, Chris and Erica are two individuals that are planning to start a business. What type of business ownership option would be most appropriate?</p> <p>A: Sole proprietorship          B: Corner Deli Strategy option          C: Partnership          or, D: Mom and pop business model</p>
2a	<p><b>Interaction Type:</b> Assessment Feedback  <b>Scene:</b> Same as assessment, however please change the character images to express the look of an incorrect answer if the answer given is incorrect, or a correct answer if the answer given is correct. Also show the feedback in text form as well as audio.  <b>Number of Attempts:</b> 1</p>	<p><b>Feedback Answer A:</b> That would not be an appropriate option. A sole proprietorship, has one legal owner</p> <p><b>Feedback Answer B:</b> That would not be an appropriate option. A corner deli strategy is not a type of business ownership.</p> <p><b>Feedback Answer C:</b> Correct! A partnership is the most appropriate answer for this situation, as it requires two or more people.</p> <p><b>Feedback Answer D:</b> That would not be an appropriate option. A Mom and Pop business model is not a type of business ownership.</p>
3	<p><b>Interaction Type:</b> Conversation  <b>Scene:</b> Classroom</p>	<p><b>Dr. Benson:</b> Looking back at today's lecture, we learned that the major types of business ownership options are sole proprietorships, partnerships, and corporations. The main concerns when determining ownership options are taxes and personal liabilities.</p>

		<p><b>Dr. Benson:</b> A sole proprietorship is owned by a single person thus making it easy to form. Taxes are levied on the owner's personal income tax, and the owner is responsible for all debts and liabilities of the business.</p> <p><b>Dr. Benson:</b> Partnerships have two or more owners. Taxes and liabilities are treated in a similar manner as sole proprietorships. The exception is limited partnerships where liabilities do not extend beyond their investment in the company.</p> <p><b>Dr. Benson:</b> We also looked at Franchises and joint ventures and discussed their benefits and drawbacks.</p> <p><b>Dr. Benson:</b> This concludes our lesson.</p>
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Appendix							
Figure #	Figure						
W2L1.1	<table border="1" style="width: 100%;"> <thead> <tr> <th>Limited Partnerships</th> <th>Limited Liability Partnerships</th> </tr> </thead> <tbody> <tr> <td>Has at least one general partner, and at least one limited partner  (must have both limited and general partners)</td> <td>No general partners</td> </tr> <tr> <td>Only limited partners have limited liability</td> <td>All partners have limited liability</td> </tr> </tbody> </table>	Limited Partnerships	Limited Liability Partnerships	Has at least one general partner, and at least one limited partner  (must have both limited and general partners)	No general partners	Only limited partners have limited liability	All partners have limited liability
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