Ownership Structures

Types of Business Structures

Structure	Control	Profits and Taxation	Liability	Ease of establishment
Sole proprietorship	One owner has complete control	Profits and losses flow directly to the owner and taxed at individual rates	Unlimited liability	Easy
General partnership	2 or more owners with equal control (unless stated otherwise)	Profits and losses flow directly to partners and taxed at individual rates	All partners have unlimited liability	Easy
Limited partnership	2 or more owners, 1 or more general partners manage the business	Same as general partnership	Limited partners have limited liability, general have unlimited liability	Easy
Corporation	Unlimited number of shareholders, ownership and management are separate	Profits taxed at corporate rates and then again at individual rates if distributed to investors as dividends	Investors liability limited to amount of their investment	More complicated

Advantages and disadvantages of Business Structures

Proprietorship – owned by one person

- ADVANTAGES
    - Simple
    - Single layer of taxation
    - Private
    - Flexible
    - Control
    - Fewer limitations on personal income
    - Personal satisfaction
- DISADVANTAGES
    - Liability
    - Demanding on the owner
    - Limited managerial perspective
    - Limited resources

    - No employee benefits for the owner
    - Finite life span
- Eg – tutoring, retail stores

<u>Partnerships – </u>owned by 2 or more but not a corporation

- ADVANTAGES
    - Simple
    - Single layer of taxation
    - More resources
    - Cost sharing
    - Broader skill and experience base
    - Longevity
- DISADVANTAGES
    - Unlimited personal liability
    - Potential for conflict
    - Expansion, succession and termination issues
- McDonalds, Warner Brothers, Apple??

<u>Corporations – </u>distinct legal entity owned by shareholders

- Public – anyone who has the means can buy shares
- Private – owned by individuals or companies and not made available to the public
- ADVANTAGES
    - Ability to raise capital
    - Liquidity
    - Limited liability
    - Ability to change between public and private as needed
    - Longevity
- DISADVANTAGES
    - Cost and complexity to set up
    - Reporting requirements
    - Managerial demands
    - Possible loss of control
    - Double taxation
    - Short term orientation of the stock market
- **S Corporation** – a type of corporation that combines the capital raising options and limited liability of a corporation with the federal taxation benefits of a partnership
- **LLC** – limited liability corporation, combines limited liability with pass through taxation, number of shareholders not limited nor is members participation in management ONLY US
- **Benefit corporation** – a profit seeking corporation whose charter specifies a social or environmental goal that the company must pursue in addition to profit

Business Strategy

Strategy – from analysis to implementation, contingency planning and strategic control

Why is strategy important?

- To maintain a sustainable competitive advantage to improve on competitors
- Helps set goals and objectives
- Helps allocate resources in an optimal way
- Integrates different parts of organisation
- Can be an internal change driver
- Helps develop the workforce
- Allows to control and monitor performance
- Niche markets have a higher growth rate BUT broad shops (Myer) have a better long term survival rate

Strategy creation:

- **Rational approach**
  - A set process
  - A moves to B moves to C
- **Incremental (emergent) approach**
  - Responding to situations as they happen
  - A moves to C to B to D to A

Process

1. Find the businesses **core competence** → the activities of an organisation that give it an advantage over its competitors (eg Apple's core competence would be design/innovation, don't have a core competency in delivery therefore joined with a delivery company to extend this competence)
2. Michael Porter's 'Five Forces' model:
   a. Power of suppliers
   b. Power of customers
   c. Threats of new entrants
   d. Threats of substitutes
   e. Attractiveness of industry
3. SWOT
   a. Strengths – positive internal factors within your control on which you could capitalise
   b. Weaknesses – negative internal factors within your control that should be limited or improved upon
   c. Opportunities – positive internal factors outside of your control which you could capitalise
   d. Threats – negative external factors outside of your control whose effects you should seek to listen

Types of strategies

- Differentiation strategy→
  - Involves uniqueness along some dimension that is sufficiently valued by customers to allow a price premium

- Focus strategies →
    - Targets a narrow segment of the domain of activity and tailors its products or services to the needs of that specific segment to the exclusion of others
- Means- Ends Strategy →
    - Identify a strategic goal
    - Examine each option in which this goal can be achieved
    - Evaluate strengths, and weaknesses of each option
    - Implement the best option