

# *Fickle Financial Services*

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You run a small consulting business giving advice to people who are thinking about starting up their own business. For a small fee, you offer your customers advice on the best way of organizing a business. Your business has been successful because you understand clearly the advantages and disadvantages of various forms of business organization. You ask what is most important to future business operators and compare their interests with the benefits and costs of various types of business organization.

<b>SOLE PROPRIETORSHIP</b>	
A business that is owned and managed by one individual who receives all the profits and bears all the losses.	
<b>Benefits</b>	<b>Costs</b>
<ul style="list-style-type: none"><li>• Ease of starting and going out of business</li><li>• Control over profits and business operations</li><li>• Pride of ownership</li><li>• Lower taxes (pays no corporate income taxes)</li></ul>	<ul style="list-style-type: none"><li>• Unlimited liability</li><li>• Difficulty in raising financial capital</li><li>• Responsible for all losses</li><li>• Management knowledge may be limited</li></ul>

<b>PARTNERSHIP</b>	
A business that is owned and managed by two or more individuals who receive all the profits and bear all the losses.	
<b>Benefits</b>	<b>Costs</b>
<ul style="list-style-type: none"><li>• Easier to raise financial capital</li><li>• Partners may combine managerial skills</li><li>• Personal satisfaction</li><li>• Lower taxes (pays no corporate income taxes)</li></ul>	<ul style="list-style-type: none"><li>• Unlimited liability</li><li>• Shared profits</li><li>• Possible conflicts between partners</li><li>• Possible instability after death of a partner</li></ul>

<b>CORPORATION</b>	
A business that is owned by stockholders and has rights and responsibilities as if it were a person.	
<b>Benefits</b>	<b>Costs</b>
<ul style="list-style-type: none"><li>• Limited liability</li><li>• Greater financial capital</li><li>• Unlimited life</li><li>• Specialized management</li></ul>	<ul style="list-style-type: none"><li>• Increased taxation (pays corporate income taxes)</li><li>• Difficulty in starting (each state has its own rules for a corporate charter)</li><li>• May be larger, more bureaucratic than other forms of business</li><li>• Increased government control</li></ul>

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## **DIRECTIONS**

Read and discuss each client case on the back and then make a recommendation about what form of business organization you think is best for each. Be sure to state reasons to support your position.

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## **Client 1**

I am 16 years old and I love little kids. I like to organize special events-like birthday parties for children. I have decided that a great way to earn extra money is to provide families with children's birthday parties for a modest fee. I do it all – arrange the food, supply the music, decorate the party room, play games, give away small prizes, even play the part of Bongo, the Birthday Clown. Families I know love the idea. I have an advertising plan figured out, with posters to put up at the local grocery stores.

What type of business organization do you recommend? Why?

## **Client 2**

I am 27 years old and have just finished law school and passed the state bar examination, Now I am ready to begin my new career as a lawyer. I am not interested in a job with a big firm. I'd like to be more on my own. I have two friends who are in similar situations. But it takes money to start a law practice. A modern law firm needs a lot of business machines-computers, copiers, fax machines, and so on. Even in a small firm the lawyers might need to hire some helpers-a receptionist, maybe a paralegal worker. I want this firm to be a success, but I am not sure I have all the legal and business skills I need to pull it off.

What type of business organization do you recommend? Why?

## **Client 3**

I am 35 years old and have been running three successful bookstores for five years. My customers think I have the right mix of books to appeal to younger and older readers. My "coffeehouse nights" which feature local authors reading passages of their books to espresso-drinking customers have been a big hit. I am thinking about expanding to eight stores. I have identified the new locations. They seem just right. My two biggest problems are that I do not have enough money to support this expansion and I am not sure I have the skill to manage all eight locations.

What type of business organization do you recommend? Why?

## **Client 4**

My business partner and I are 25 and 26 years old. We run a small but growing business. We buy auto parts made in Taiwan for American cars. Then we sell the parts to auto repair shops in five cities in our state and two cities in nearby states. We are now getting requests for our auto parts from auto repair dealers in four new states. To meet these requests, we will need a major expansion of our warehouse and we will need to hire some new employees.

What type of business organization do you recommend? Why?

## **Client 5**

I am a 45-year-old agricultural scientist. I have been working for years to come up with a natural egg that is free of cholesterol and low in fat. I finally have completed all the tests and have received all the government approvals I need for my new eggs. Up until now, my work has been simple and I have been my own boss. But now I want to launch my new product-Eggs You Can Love-on a national scale.

What type of business organization do you recommend? Why?