

Unit 11

Entrepreneurship and Finance

Chapter 33 Entrepreneurial Concepts

Chapter 34 Risk Management

Chapter 35 Developing a Business Plan

Chapter 36 Financing the Business





Chapter 33 Entrepreneurial Concepts

- Section 33.1 Entrepreneurship
- Section 33.2 Logistics of Business Ownership

Entrepreneurship

Key Terms

entrepreneurship
entrepreneurs

Objectives

- Define entrepreneurship
- Detail the advantages of entrepreneurship
- Explain the risks and disadvantages of entrepreneurship

Entrepreneurship

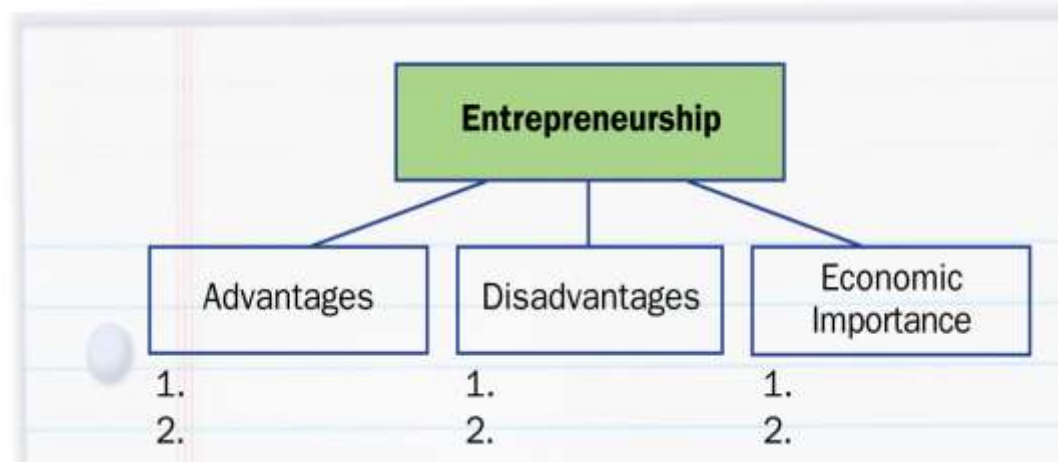
Objectives

- List the characteristics and skills of entrepreneurs
- Understand the importance of small business in the U.S. and global economies

Entrepreneurship

Graphic Organizer

Draw a diagram and list the characteristics of entrepreneurship as you review this section.



What Is Entrepreneurship?

entrepreneurship

The process of starting and operating your own business.

entrepreneurs

People who create, launch, organize, and manage a new business and take the risk of business ownership.

Entrepreneurship ◀ is the process of starting and operating your own business.

Entrepreneurs ◀ are people who create, launch, organize, and manage a new business and take the risk of business ownership.

What Is Entrepreneurship?

Entrepreneurs often have an idea, or business concept, that drives their business. Combining this vision with the means to manufacture the product (or provide the service) and market it can make huge contributions to the economy.

Advantages of Entrepreneurship

The advantages of entrepreneurship can include:

- Personal freedom
- Personal satisfaction
- Increased self-esteem
- Increased income

Disadvantages of Entrepreneurship

Entrepreneurial disadvantages include:

- High level of stress
- Possible setbacks
- Risk of failure
- Potential loss of income
- Long and irregular hours

Disadvantages of Entrepreneurship

Starting a new business requires a major commitment of:

- Time
- Money
- Effort

The risk of failure with a new business is very real.

Entrepreneurship as a Career Choice

First, entrepreneurs must have the skills necessary to run their business, such as:

- Determination
- Self-motivation and self-confidence
- Strong organizational skills
- Leadership ability and self-discipline

Entrepreneurship as a Career Choice

- Creativity
- Willingness to work hard
- Spirit of adventure
- Good social skills

Entrepreneurship as a Career Choice

If you want to start a business, you should assess your personal qualities, abilities, interests, and skills to see if you have the characteristics of a successful entrepreneur.

Doing research on the type of business you want to start is essential.

Entrepreneurship as a Career Choice

Entrepreneurs with a good understanding of marketing have an advantage over those who do not. Many resources exist for entrepreneurs who need help with marketing.

The Role of Entrepreneurship in the Domestic and Global Economy

Entrepreneurs and small to medium businesses play a key role in the domestic and the global economies: They generate growth at a rate that is much faster than other larger and more established businesses.

Entrepreneurship and the Global Economy

New businesses are a sign of an economy's vitality and readiness to find or invent new opportunities in a world market that has become more and more challenging.

The U.S. Small Business Administration (SBA) is finding new ways to help small businesses.

Trends in Entrepreneurship

Several recent trends in the marketplace have fostered the growth of entrepreneurship:

- The availability of technology
- Increased global communication
- The rise of the Internet and e-commerce
- A diversified society and market

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SECTION 33.1 REVIEW

SECTION 33.1 REVIEW

1 out of 5 Correct.

entrepreneurship

An idea, or _____, that drives business

✓ employment

Failure also means loss of _____

entrepreneurs

Firms with fewer than _____ employees were responsible for _____ percent of the GDP

500, 50

The process of starting and operating your own business

business concept

People who create, launch, organize, and manage a new business

- click twice to continue -

Logistics of Business Ownership

Key Terms

franchise

sole proprietorship

unlimited liability

partnership

general partnership

limited partnership

corporation

stockholders

limited liability

foreign corporation

limited liability company (LLC)

Doing Business As (DBA)

Articles of Incorporation

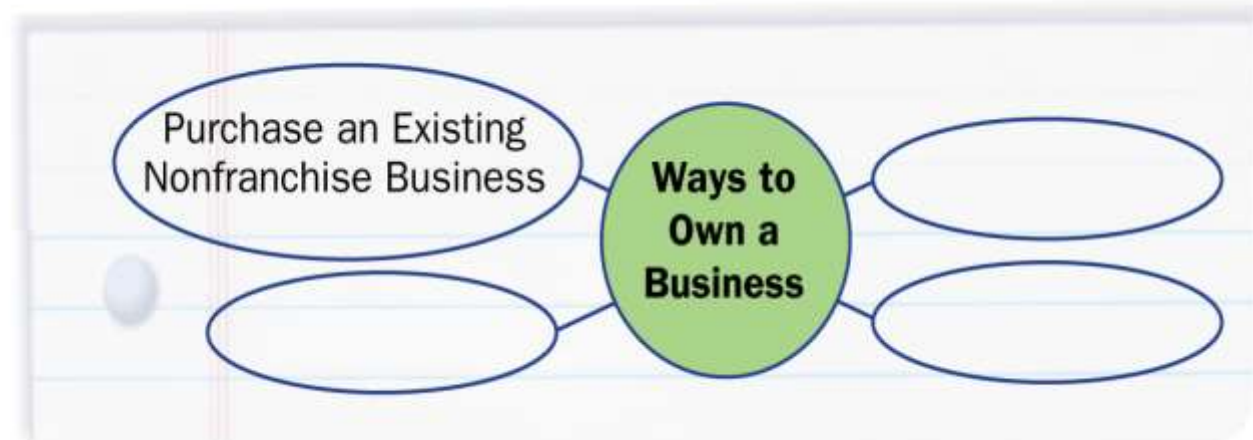
Objectives

- Identify the forms of business ownership
- Name the legal steps to take in establishing a business

Logistics of Business Ownership

Graphic Organizer

Think of yourself as an entrepreneur and write down the steps you need to take to establish your new business.



Business Ownership Opportunities

There are four ways to enter business:

- Purchase an existing nonfranchise business
- Take over the family business
- Start a new business
- Purchase a franchise business

Purchase an Existing Nonfranchise Business

The prospective buyer must investigate the reasons for the sale of the business, as well as consider the business's local reputation. The buyer is completely responsible for the business after the purchase, so every aspect should be examined before the deal is closed.

Take Over the Family Business

The new owner must explore potential conflicts and concerns with family members. Succession planning, managing growth, and family relations are some of the challenges of taking over and running a family business.

Start a New Business

Starting a new business gives an entrepreneur great freedom of choice. While the decisions to be made are completely under his/her control, it is also the new owner's responsibility to establish a reputation and build a customer base.

Purchase a Franchise Business

franchise



A legal agreement to sell a parent company's product or services in a designated geographic area.

A **franchise** is a legal agreement to sell a parent company's product or services in a designated geographic area. The franchisee invests money and pays an annual fee and a share of the profits.

The franchisor provides a well-known name, business plan, advertising, and proven methods and products.

Forms of Business Organization

There are four possible forms of business organization:

- Sole proprietorship
- Partnership
- Corporation
- Limited liability company (LLC)

Forms of Business Organization

unlimited liability



A business owner's financial liability is not limited to investments in the business, but extends to his or her total ability to make payments.

One of the disadvantages of a sole proprietorship is **unlimited liability** ◀. This means a business owner's financial liability is not limited to investments in the business, but extends to his or her total ability to make payments.

Sole Proprietorship

sole proprietorship



A business owned and operated by one person.

A **sole proprietorship** ◀ is a business owned and operated by one person. While the profits are greater in this system, business debts and legal judgments against the company are the responsibility of the owner.

The Partnership

partnership


A legal agreement between two or more people to be jointly responsible for the success or failure of a business.

A **partnership** ◀ is a legal agreement between two or more people to be jointly responsible for the success or failure of a business.

The Partnership

general partnership

A way to organize a business in which each partner shares in the profits and losses.

In a **general partnership** , each partner shares in the profits and losses, with each one's share of the profits taxed as personal income. Each partner has unlimited liability for the company's debts.

The Partnership

limited partnership

A form of business organization in which each limited partner is liable for any debts only up to the amount of his/her investment in the company. The business's general partner is liable for all debts.

In a **limited partnership** ◀, each limited partner is liable for any debts only up to the amount of his or her investment in the company. Every limited partnership must have at least one general partner who has unlimited liability.

The Partnership

A partnership may make more capital available, allowing easier operation and expansion, and it is taxed solely on the profits of the business.

However, even when owners do not agree on business decisions, the actions of one are still legally binding on the others.

The Corporation

corporation



A legal entity created by either a state or a federal statute authorizing individuals to operate an enterprise.

A **corporation** ◀ is a legal entity created by either a state or a federal statute authorizing individuals to operate an enterprise. It has several unique features:

- Legal permission to operate
- Separate legal entity

The Corporation

stockholders

The owners of a corporation with limited liability.

- **Stockholders** ←the owners of a corporation
- Board of directors

The Corporation

limited liability



The personal assets of the owners cannot be taken if the company does not meet its financial obligations.

Corporations offer **limited liability** ←personal assets of the owners cannot be taken if the company does not meet its financial obligations or gets into legal trouble.

The Corporation

There are two main categories of corporations: private and public.

A public corporation is a business entity created by the federal, state, or local government. This group can include incorporated cities as well as school, transit, and sanitation districts.

The Corporation

A private corporation is formed by private persons. This category includes closely held corporations, owned by a few persons or a family. It also includes publicly held corporations, companies whose stock is owned by many people.



The Corporation

Forming a corporation is a complicated process. An entrepreneur must determine:

- The company's internal corporate structure
- The processes for selecting a board of directors and electing officers
- The state in which to establish the company

The Corporation

foreign corporation

A company that is incorporated under the laws of a state that differs from the one in which it does business.

A **foreign corporation** ◀ is one that is incorporated under the laws of a state that differs from the one in which it does business.

The Corporation

There are four main advantages of incorporation:

- Each owner has limited liability
- It is easier to raise capital (money)
- Owners can easily enter or exit the business by buying or selling stock
- Management is shared

The Corporation

Disadvantages include:

- Complexity of formation
- Increased government regulation
- Corporate profits are taxed
- Intricate accounting and record keeping

The Limited Liability Company

limited liability company (LLC)



A relatively new form of business organization that is a hybrid of a partnership and corporation.

The **limited liability company (LLC)** ◀ is a hybrid of a partnership and a corporation. Its owners are shielded from personal liability, and all profits and losses pass directly to the owners without taxation of the entity itself.

Legal Steps to Establishing a Business

Before an entrepreneur can start a new business, he or she must take specific steps to legally establish and protect the business. These steps vary as the business may be a sole proprietorship, partnership, corporation, or limited liability company.

Step 1: Find Help

The entrepreneur might wish to consult with an accountant, attorney, or other business advisor. When a corporation is formed, many states require an attorney to guide the entrepreneur through the complicated steps of incorporation.

Step 2: Register the Business

DBA (Doing Business As)



The registration by which a county government officially recognizes that a new proprietorship or partnership exists.

A **DBA (Doing Business As)** is the registration by which the county government officially recognizes that a new proprietorship or partnership exists.

Step 2: Register the Business

Articles of Incorporation

A document filed with a state department of commerce that identifies the name and address of a new corporation, its purpose, the names of the initial directors, and the amount of stock that will be issued to each director.

To form a corporation, an entrepreneur must file **Articles of Incorporation** with the corporation and securities bureau in the state's department of commerce.

Step 2: Register the Business

The articles of incorporation identify the new company's:

- Name and address
- Purpose
- Names of the initial directors
- Amount of stock that will be issued

Step 2: Register the Business

To form an LLC requires filing Articles of Organization with the state. Many states also require LLCs to have an operating agreement.

Obtain Licenses

Licenses establish minimum standards of education and training for people who practice in particular professions. Companies may also have to get local licenses or permits to comply with zoning ordinances, building codes, and safety standards.

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SECTION 33.2 REVIEW

SECTION 33.2 REVIEW

PLAY

- click twice to continue -

FOCUS on KEY POINTS

Section 33.1

- Being an entrepreneur involves risk taking, but it can bring both personal and financial rewards.
- Advantages of entrepreneurship include being your own boss and earning a high income. Disadvantages of entrepreneurship include the risk of failure, long hours, and the potential loss of income.

continued

FOCUS on KEY POINTS

Section 33.1

- Entrepreneurship is important to our economy. It creates jobs, which provide income to individuals and communities.

continued

FOCUS on KEY POINTS

Section 33.2

- The four ways to become a business owner are (1) purchase an existing business, (2) take over the family business, (3) start a new business, and (4) purchase a franchise business.
- The four forms of business organization are (1) sole proprietorship, (2) partnership, (3) corporation, and (4) limited liability company.



DECA performance indicators:

- Explain the types of business ownership.
- Explain the concept of private enterprise.
- Describe the nature of legally binding contracts.
- Determine factors affecting business risk.
- Make oral presentations.



CHAPTER 33 REVIEW

CHAPTER 33 REVIEW

You are X.

Start by picking a square. If you answer correctly, you win that square. If your answer is incorrect, O gets the square.

PLAY

- click twice to continue -