

Review Questions

1. What are some sources of start-up money for a single proprietor?
2. Why is unlimited liability considered to be a disadvantage for a single proprietorship?
3. Identify the main advantage of a partnership.
4. Identify the four types of corporations.
5. What role does a board of directors serve in a corporation?
6. Which forms of business ownership attempt to provide dividends to their owners/members?
7. What is the primary motive for establishing a co-operative?
8. Why might a business choose to change its type of ownership?
9. Why are franchises thought of as a hybrid form of ownership?

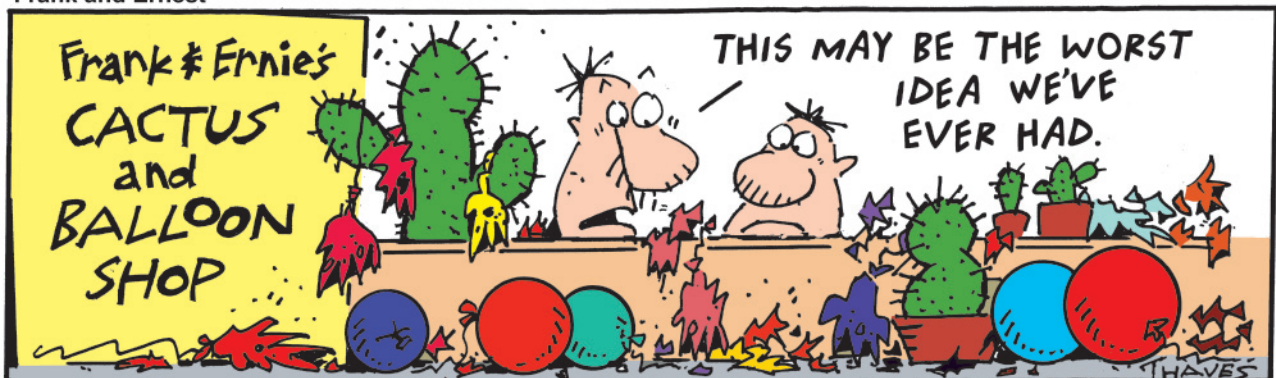
Keep in Mind

1. Why start your own business?
2. What different types of businesses are there?
3. What are your skills and interests?
4. Where can you find information about a business?
5. What are the start-up costs?
6. What level of risk can you expect?
7. What steps are involved in running this business?
8. What resources will you need?

2.2 Going into Business

Starting and running a business takes motivation, commitment, and talent. Before deciding to go into business, you have to do a lot of research and planning. What types of businesses are most likely to succeed for your business idea? Should you start an e-business or a traditional “bricks and mortar” business? Because the business environment is so complex, everything that you need to know before starting a business can’t be explained here. As you do your research and planning, you can locate many other sources that provide useful information. Chapters 10 and 11, which focus on entrepreneurship, will also help you.

Frank and Ernest



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In the News

In 1975, Sony launched a video standard known as Betamax, or Beta for short. A year later, JVC announced the arrival of a different video standard known as VHS. This signalled the beginning of a war for superiority in the video market. In the end, the VHS format was accepted in the marketplace. Some people believe that the VHS format won out more because of slick marketing. Others believe that Sony's reluctance to license its

technology to other companies meant that the price of Betamax remained high, while competition drove down the price of VHS. Despite Betamax's superiority, it could not compete with a cheaper, more widely used alternative. These same factors were present in the 2010 fight between two versions of DVD players. In the end, Blu-ray was successful in beating out HD-DVD in that corporate battle.

Why Start Your Own Business?

Have you ever worked for someone else and thought that you could do a better job if you were in charge? While many people spend their entire lives working for someone else and enjoy it, others hope to advance in the organization until they become the boss. That way, they can be the ones responsible for making final business decisions. A faster way to become the boss is to start your own business.

Many people go into business to achieve financial independence. In the beginning, having your own business is usually financially difficult—you need to spend quite a bit of money to get a new business off the ground. This money usually comes from your personal savings as well as from others who have loaned you money to help with start-up costs. But once the business begins to generate a profit, you are the primary beneficiary. If your business is successful, you will likely earn more money than you would working for someone else's company.

Starting your own business gives you the opportunity to use your skills and knowledge and to be creative. Some businesses are launched by an innovative idea for a product or service. For example, when magnetic tape (the kind used in cassette tapes) appeared in the marketplace as a device to store information, no one imagined that CDs and DVDs would come along later to replace it.

“The important thing is not being afraid to take a chance. Remember, the greatest failure is to not try. Once you find something you love to do, be the best at doing it.” Debbi Fields, founder of Mrs. Fields Cookies.

Stretch Your Thinking

Business ideas come from sources such as hobbies, interests, books, magazines, newspapers, and television programs. Ask yourself: What do I do well? What do others say I do well? Can I interest others in what I have to offer? Use your answers to identify business opportunities for yourself.

What Different Types of Businesses Are There?

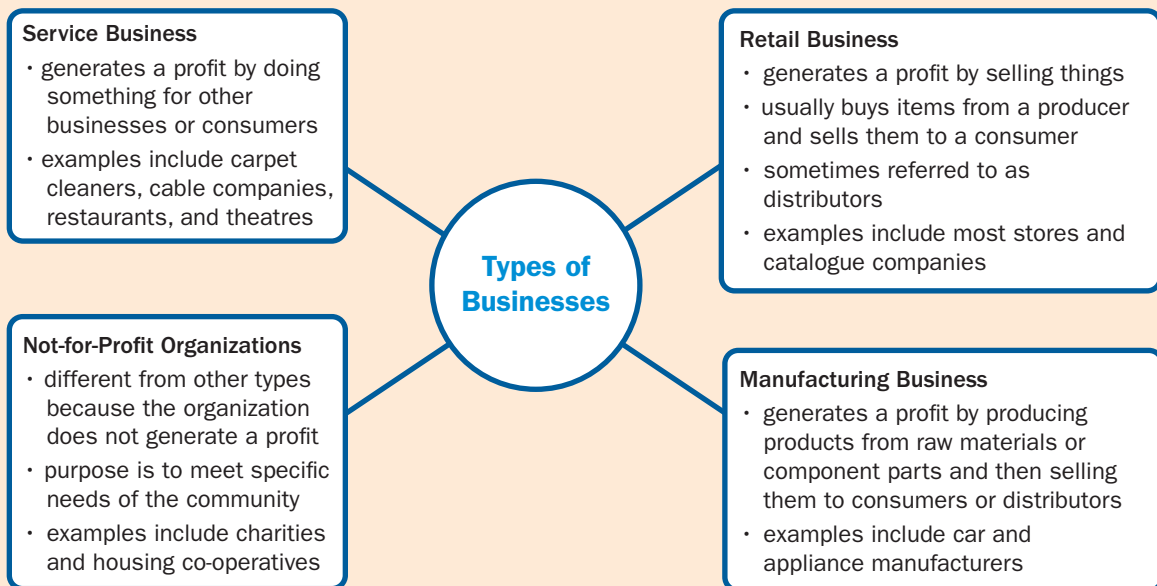
Once you decide to go into business, you have to decide what type of business you want to own. Do you want to offer a service? Do you want to sell something? Or do you want to produce something?

Businesses are classified into types based on what they do.

What Are Your Skills and Interests?

Your experiences in school, in your private life, and possibly on the job have provided you with ideas, skills, and knowledge. Starting your own business gives you the opportunity to pursue these ideas and employ these capabilities. For example, if you enjoy doing small renovation projects, you might want to start a summer business building patio decks, fixing or erecting fences, or doing painting or staining jobs. If you would like the opportunity to be creative and achieve financial independence, then you should consider what business would be just right for you.

Figure 2.1 Types of Businesses





Paramount Imax is an example of a service business. Chapters represents a retail business.

Business Fact

Canada's social sector is made up of over 160 000 organizations employing 2 million workers and 12 million volunteers. These 12 million volunteers provide an estimated 2 billion hours of work per year, and, at \$20 per hour, that translates to \$40 billion in value.

Should Your Business Be Home-based?

Home-based businesses—sometimes called **SOHO** (short for “small office, home office”)—are not a new idea. However, technological advances over the past two decades have changed how these businesses operate. Computers, scanners, video equipment, camcorders, and access to the Internet have transformed the home office into a “virtual” office.

Working out of the home may mean fewer meetings to attend, no office politics, and less time spent on the telephone or running from office to office. Running your business from home also means you can wear casual clothes—who's to know that you're sitting at your desk in jeans and a T-shirt!—and save on clothing and dry-cleaning costs. Not everyone, however, would enjoy working from home. Some people need personal contact or the discipline of a traditional work environment.

Today, many types of online businesses are home-based. For example, many cartoonists who work from home have their own websites. At these sites, customers can view samples of the cartoonist's work and purchase copies. Customers may also be able to submit online requests for customized illustrations and cartoons.

Stretch Your Thinking

Would a home-based business suit your personality? Why or why not?



This woman works from her home-based business.

In the News

Several years ago, Peter and Frank Zuuring, a father-and-son team, tried to launch a board game named Antarctica in an attempt to capture a share of the estimated 90 million board games sold annually worldwide. The team invested over four years and \$200 000 in an effort to make the game ready for sale.

The Zuurings patented their idea as their own invention and had some success. But the cost of moving the product into the mass market spelled the end of the business.

Fast-forward to 2010 and the game's rebirth in a different format. Frank Zuuring began looking for investors to develop the game for

the video market, offering shares and rights in the company and a possible full-time position for a developer who could convert the board game to the video-game format. What other strategies could Zuuring use to interest others in this venture?

Should Your Business Be Web-based?

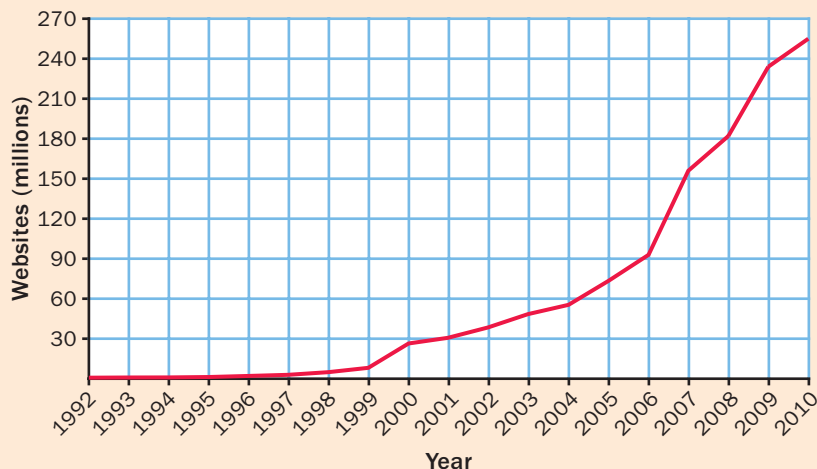
Chapter 1 briefly examined what it would take to set up an online business. Perhaps this type of business is right for you! In today's electronic marketplace, consumers and sellers can conduct business without ever meeting face to face. This is known as **e-commerce**, which stands for "electronic commerce." To go shopping, all your customers need is Internet access. Most traditional businesses may be open 12 hours a day for six days a week. E-businesses are generally "24/7"—they are open 24 hours a day, seven days a week.

To conduct e-commerce, a business needs an actual physical space in which to operate. Electronically, the first thing the business needs is a **website** to conduct e-commerce transactions. It also needs a **domain name**—a catchy and simple Internet address—if it wants to present the business professionally to potential customers. This Internet address lets potential customers connect with the business **online**. Once a business website is created, **web pages** are necessary to advertise the goods or services that are for sale. Some small businesses do this design work themselves, but larger businesses usually hire professional Internet service businesses to do this work. E-businesses also need a method of processing payments. If it is more convenient for them, online businesses may hire other businesses to assist them with their payment process.

Once all this is accomplished, e-businesses can measure their success in different ways. Sales and profits are a critical indicator, but e-businesses can also gauge the popularity of their websites by keeping track of the website hits. **Website hits** represent the number of people who visit the website. They are a reflection of whether the business’s online presence has become well known and popular.

How big are online businesses? The following graph will give you an idea of how this marketplace has grown since the introduction of the World Wide Web in 1991.

Figure 2.2 Growth in the Total Number of Websites



Oops!

Blogging has been credited with enhancing the reputation of companies such as Microsoft and Sun Microsystems. Is blogging an effective business strategy? IBM thinks so—it even supplies employees with blogging tools. The computer giant believes that blogs can create new business relationships, market products, and generate feedback.

E-ACTIVITY

Visit www.nelson.com/WOB and follow the links to learn more about web-based businesses.

Business Fact

August 6, 1991, marked the launching of the World Wide Web. Sir Timothy Berners-Lee, who was knighted in 2004 for his role in the creation of the Web, believes that it is “a force for individual, regional, and global understanding.”

Deciding What to Sell Online

Many goods and services are selling well on the Internet, and the volume of sales is increasing rapidly. Some products that sell particularly well online include CDs, health products, books, software, downloaded music, and hardware. Clothes, jewellery, toys, and gift items are also gaining popularity online. Frequently used online services include car insurance shopping, banking and **investing**, distance education, airline bookings, and travel planning. Of course, the Internet has also created a market for many new types of services, such as web page design and Internet security services.

As more businesses go online, consumers are faced with a staggering number of goods and services. In the “real world,” consumers can touch the goods they are considering buying. They can meet the people offering services. In contrast, e-commerce takes place in cyberspace, where nothing is tangible. As a result, some consumers are cautious about



In addition to selling merchandise from store locations, Apple products are also available for purchase online from Apple's website.

placing their trust in e-businesses. Research indicates that many consumers make buying decisions online but then buy offline. Many surveys have been done over the past several years in an attempt to find out about consumer reluctance to buy online. One survey cited the top reason for consumers hesitating to buy online was because they worried about unreliable or dishonest retailers. A more recent survey found that consumers were more worried about privacy issues, such as their information being stolen or misused.

Where Can You Find Information about a Business?

Imagine that you're thinking about going into business. Where can you find information that will help you make a good decision? It's important that your information be accurate and current. Libraries, existing businesses, trade associations, government resources, and the Internet are all sources of free information.

Industry Canada, a department of the federal government, provides a comprehensive Internet site for Canadian businesses and consumers. The Industry Canada site gives Canadians direct access to valuable business and consumer information sources, time-saving interactive tools, and a large number of online and e-commerce services. A businessperson can use the site to find new markets, business partners, and technologies, or to learn about risk factors that may apply to the business venture. In addition, the site offers information on business opportunities and market analysis, promoting and improving your business, and contacts and events. This information is organized according to business categories or sectors. Industry Canada also gives advice on doing business both in and outside Canada.

Another source of information for businesspeople is Statistics Canada, which collects statistical information. For example, if you are interested in starting a business related to environmental affairs, you can see whether this area is growing. You might find out how much the environmental affairs sector contributes to Canada's total **gross domestic product (GDP)**. The gross domestic product is the total dollar value of all goods and services produced in a country during one year. It measures how a country's economy is performing.

In the News

Where do millions of people go every day to shop? If you said eBay, you would be right. eBay promotes itself as "The World's Online Marketplace" and has in fact registered this expression as its trademark. Trading on eBay can be done on a local, national, or international basis, and these goods and services are available through auction-style or fixed-price trading. To help assist customers and to inspire confidence in the trading process, eBay purchased PayPal in 2002. PayPal is a process that can be used to enable any individual or business with an e-mail address to securely, easily, and quickly send and receive payments online. PayPal uses the most up-to-date and secure fraud prevention system to create a safe payment solution. PayPal is accepted by millions of merchants worldwide, on and off eBay.

Ethical, Moral & Legal Considerations

The GDP is the most popular statistical tool for measuring the health of a country's economy. However, many people believe the GDP has serious shortcomings. For example, it measures every transaction as a gain. An oil spill off the west coast that causes an

expensive clean-up effort would be recorded as a gain in the GDP because it generated employment and purchases. The GDP doesn't measure the loss of wildlife, natural resources, underground oil, water quality, and fisheries, nor does it measure human health or

quality of life. What might be the long-term effects of measuring a country's economic health using only the GDP? Can you think of any other ways, besides the GDP, to measure a country's economic health?

Business Fact

Canada's GDP for 2010 was \$1.242 trillion, or approximately \$37 636 for each and every Canadian.

What Are the Start-up Costs?

Where will you get the money to start a business? In Chapter 1, money was identified as one of the economic capital resources needed to run a business. You will need money to pay the rent or **mortgage**, to pay for other expenses such as salaries and advertising, and to buy equipment and goods. You will also need money for day-to-day operations.

Start-up money is available through two kinds of sources—debt financing and equity financing. **Debt financing** means borrowing money to run the business. **Equity financing** means using your savings or investor savings to run your business. Each method of financing has advantages and disadvantages. If you borrow a large sum from a bank, you may have difficulty repaying it on time. With equity financing, on the other hand, you must risk your own savings or be willing to risk the funds of others through a partnership or corporation. Equity financing often means giving up part of the ownership of the business.

Where Can You Find Financing?

Debt financing isn't automatically available. **Financial institutions**, such as banks, trust companies, and credit unions, lend money to businesses, but not until they have assessed several factors. They check the applicant's past credit history and review the company's **business plan**. They also try to judge whether the owner has the skills necessary to achieve the company's objectives. This information helps the lending institution predict how successful the business will be and whether the applicant will be able to repay the loan. Using all of that information helps the financial institution establish the rate of **interest** that will be

Stretch Your Thinking

If you were a loans officer, what questions would you ask a person applying for a loan before making a decision about the application?

charged for the loan. Higher interest rates are charged for higher risks, even though the applicant may not feel that they are a risk factor.

What Level of Risk Can You Expect?

Starting and operating a business can be a risky undertaking, even if you've done preliminary research and planning. Let's say you wanted to start a lawn-care and snow-clearing business. Here are some situations that you might encounter:

- A homeowner might be dissatisfied with the quality of your lawn-care service and refuse to pay you.
- Your business partner might make a deal with a customer that is unacceptable to you.
- You might hire an employee who fails to do the job properly. Terminating this employee might lead to legal action for wrongful dismissal.



This entrepreneur speaks with his bank manager about debt financing.



This student cannot afford to start a business that has high financial risks, and so instead chose to start a small lawn-mowing company.

- A supplier might be late delivering the snowblower that you ordered, preventing you from fulfilling your commitments.
- You might use a product that kills your customer's lawn and results in a lawsuit for damages.

These types of risks could put you in financial difficulty. For example, the loss of customers or their failure to pay might mean that you are unable to repay a loan or pay for the snowblower and other supplies. Eventually, you may lose the capital that you invested and be forced out of business. Earlier this chapter pointed out that banks charge higher interest rates when they deal with a situation that could involve more risk. Individuals who establish businesses can use the same approach by charging more for services to guard against possible losses such as those described above.

What Steps Are Involved in Running This Business?

Some types of businesses are more complex than others. Usually, a complex business requires people with a variety of skills to start and run it successfully—especially when operating the business involves many different steps. In a manufacturing company, for example, someone has to determine what raw materials are necessary to make the finished product. Someone needs to ensure that those raw materials are available when needed; otherwise, production comes to a halt. Someone has to determine how many employees are required for the various stages of production. Having too many employees is costly; having too few employees slows production. And on it goes. In a complex operation, “someone” may in fact be several people.

What Resources Will You Need?

Cash, inventory, supplies, furniture and fixtures, computer hardware and software, equipment, tools, vehicles, and buildings are some resources that you may require to set up and run a business. As the owner, you must determine what resources you require and how much financing you will need to acquire them. This process is called **forecasting**.

Every three months or so, you will also need to figure out how much projected revenue you will have. Projected

revenue is the amount of money that you think the business will generate over a period of time. **Revenue** is the amount of money you will gain from the sale of the product or service. Comparing this sales revenue with your total expenses and costs will help you determine profits or losses. If, for example, you project that the business will generate \$8000 in sales revenue over the next three months and the costs and expenses should not exceed \$5000, then your profit should be \$3000. It's very important to accurately monitor the business over the three-month period to detect any problems that should be considered in the next forecast. If, for some reason, the sales revenue was lower than expected, or the expenses were higher than expected, the profits may evaporate. It is important to find out why this happened and then make another forecast. Chapter 9 on Accounting will explore the notion of forecasting in more detail.

Business Fact

A lack of business profits could spell bankruptcy for a business. In the first 10 months of 2010, there were 3500 firms that declared bankruptcy. However, that is 26% below where it was one year earlier and less than half the average of the past 20 years.

Review Questions

10. Identify the three most common types of businesses.
11. Why would a business establish itself as a not-for-profit operation?
12. Identify a business start-up possibility for a person who is skilled as a musician or as a technician.
13. Define e-commerce. Why are consumers reluctant to buy online?
14. How has the introduction of PayPal helped online businesses?
15. Name the federal government website that provides valuable business and consumer information. How is that website organized?
16. What is the difference between debt financing and equity financing?
17. Why is forecasting a critical step in the process of running a business?