

Business Ownership: How Sweet It Can Be!



Key Economic Concepts:

- Business
- Entrepreneurs
- Entrepreneurship
- Legal forms of business
- Risk

Description:

In this lesson, students research the three basic types of business organization: sole proprietorships, partnerships, and corporations. Considering the advantages and disadvantages of each, they function as consultants offering advice on which form of business is best suited for different business scenarios. The case studies all feature real-life entrepreneurs who started businesses producing chocolate candy and cookies—they all result ultimately in “sweet” success stories. Once students have made their recommendations, they are provided the identities of their clients and asked to prepare reports that tell the rest of the story—what happened to each founder and business. Products featured in this lesson that almost every student will recognize are the Hershey chocolate bar, Mars M&Ms and Famous Amos chocolate cookies.

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Lesson Objectives:

Students will:

- Identify the advantages and disadvantages of sole proprietorships, partnerships and corporations.
- Provide advice on choosing a form of business organization to people interested in starting a business.
- Prepare a report on a successful businessperson and the business she or he founded.

Introduction:

Hold up a small bag of M&Ms or Hershey’s kisses. Tell students the chocolate candy is a hint as to what they will be studying next. Provide a few minutes for students to write down on a slip of paper what they think the topic will be. Instruct them to include their names on their predictions.

Collect their predictions then announce that students are going to be studying the “sweets” industry—more specifically, people and businesses that produce chocolate and chocolate-related products. Give

the bag of candy as a reward to the student who has the closest correct answer or the one closest to being correct. If there is a tie, you can divide the bag.

Resources:

- A small bag of M&Ms or Hershey's Chocolate Kisses, for the introduction to this lesson.

The following web links provide the background students will need to provide clients with advice on the appropriate form of ownership for a new business:

- <http://www.sba.gov/smallbusinessplanner/index.html>
Forms of Business Ownership from the U.S. Small Business Administration explains the three broad forms of business ownership plus their advantages and disadvantages. Unlimited partnerships and S-corporations are also discussed.
- Should You Have a Partner?
www.myownbusiness.org/s4/index.html#
AND
What Type of Business Organization is Best for You?
www.myownbusiness.org/s4/index.html#2
The above links are two sections of the following, much larger, free e-learning program for entrepreneurs offered by MyBusiness.com
<http://www.myownbusiness.org/s4/index.html#1>

Process:

Activity 1: Three Types of Business Organization

Additional information is provided below on several issues you may want to raise with your students during this activity or later in the lesson as the opportunity arises.

Liability:

Students may not be familiar with the term “liability.” To help them grasp its importance, discuss specific circumstances in which liability could be an issue for sole proprietorships and partnerships. The most common situation is debts owed when a business experiences financial difficulties or fails. If a business is not fully insured, there is also the possibility of loss due to disaster (e.g., fire, flood) or lawsuits. Unlimited liability means that the owner’s personal assets can be used to pay for any debts of the business.

Finance Options:

A point to stress regarding corporations beyond the limits on liability is the fact that corporations have more options when they need to obtain additional financing. For sole proprietorships and partnerships, the only source of money is often personal assets. On rare occasions, they may be able to borrow money from family members, friends or a bank. Corporations have the option to issue more stock. Also corporations typically find it easier to borrow money - through loans from the financial markets (commercial banks, credit unions, insurance companies). And corporations can issue corporate bonds.

Tax Implications:

If students are not familiar with tax law, you may need to provide information about the tax implications of different forms of business.



Tax law permits corporations to deduct the full cost of employee benefits, such as medical insurance, thus reducing corporate tax liabilities. But sole proprietorships and partnerships are not permitted to deduct these costs directly from their business income (the costs may be partially deductible as an adjustment to income). For some business owners, this is a major disadvantage of the sole proprietorship and partnership forms of ownership.

Sole proprietors and partners pay individual income tax on their companies' earnings. In contrast, a corporation is taxed as a separate entity that pays tax on its income. The stockholders also pay personal income tax on any dividends they receive. The effect is referred to as "double taxation" and in this case, it is the corporate owners that have a tax disadvantage.

Life of the Business:

There are probably examples of sole proprietorships and partnerships in your community that dissolved when a key person became ill or died - a medical practice, a law firm, a neighborhood store, or a mechanic's shop. News reports occasionally tell of acrimonious splits among business partners (and even families) who are unable to agree on the management or sale of these forms of business. Real-life examples from Mars, Inc. are provided as an extension activity in this lesson.

Activity 2: Sweet Opportunities

Divide students into small groups to prepare their recommendations. If time is limited, you may want to assign each group just one or two clients. After the groups finish reading the client stories in the file, [Sweet Opportunities](#), have them prepare written recommendations as to which business organization they believe to be best. Make sure the groups provide reasons for their recommendations as well as listen at least one negative with suggestions on how to minimize that negative's effect.

When students have completed their recommendations, compare and discuss their decisions as a class. Here are some sample recommendations, [Sweet Success-Recommendations](#), to assist you in this discussion. Obviously, there will be variations in their advice given. Here are some questions for the discussion:

- What accounts for the differences in your recommendations?
[The weight advisors and clients give to various decision factors varies; also, with most problems there is more than one solution.]
- What are the negatives you identified and what are your solutions for dealing with them?
[Answers will vary. Particularly savvy students may suggest the use of limited partnerships or subchapter S corporations.]
- Why do you think most new businesses are sole proprietorships and partnerships?
[These forms of ownership are easier and less expensive to start.]
- What do you see as the biggest disadvantages of sole proprietorships and partnerships in the long term?
[Disruptions caused by the death/disability of an owner; potential for disagreements over operations; difficulty transferring ownership; acquisition of resources for expansion are limited to owner assets, income and debt.]
- What are the advantages of setting up a limited versus general partnership?
[The partners can limit their liability to their investment in the business. A limited partnership can also be used to establish who has the authority to make decisions.]
- Are there any disadvantages?
[Partners unable to provide input in the decision process may be unhappy.]
- Under what circumstances might a business operating as a sole proprietorship or partnership decide to incorporate?
[Potential answers include when a company wants to insure there is no disruption to business]

if an owners dies; to reduce liability; to offer ownership shares as a means to get money for expansion or motivational incentive for employees.]

Activity 3: Sweet Success

Divide students into four groups. Have each group research what has happened to the founders and businesses featured in the case studies. PowerPoint slide presentations are an ideal way for students to share with classmates what they discover. If this is not possible, have them use word processing or desktop publishing software to create their report. Encourage them to use images as well as text.

Private vs. Public Corporations

A look at Mars, Inc. offers an excellent opportunity to discuss public vs. private corporations. In the 1960s, Forrest Mars, Sr. purchased his stepsister's interests in Mars, Inc. Owning 80 percent of the company, Forrest then had little problem convincing the rest of the board members to sell their shares to him. Since his death in 1999, his three children have owned and managed the company: Forrest Mars Jr. (President), John Mars (CEO), and Jacqueline Badger Mars (Vice President). As a privately-held (closed) company, Mars, Inc. is not required to report information about its business to the public.

In contrast, public (open) corporations are required by federal law to disclose information about their finances and operations to anyone interested in reading about them. The purpose of this legislation is to give people information about companies in which they might invest. The Securities and Exchange Commission (SEC) is the federal agency that monitors whether public corporations are abiding by the law—providing prospectuses and regular financial reports. Ask students:

- What are the advantages of a privately-held company?
[Less government paperwork such as filings with the Securities and Exchange Commission; the ability to keep business plans and financial status information from competitors]
- Are there any disadvantages? *[As with partnerships, resources are limited to what may be a limited number of shareholders]*

Privately-held companies are very much a tradition within the candy industry—unusual in today's business world. Most of these companies can trace their roots back several generations to an immigrant with a recipe and an affinity for sweets.

Risk Management through Diversification

The students' research reports also provide an opportunity to discuss how companies try to reduce risk through product diversification. Both Hershey Foods and Mars have purchased manufacturers of other chocolate candy bar brands and non-chocolate candies. Hershey Foods also sells cocoa mulch, a byproduct of the chocolate making process, to gardeners (see <http://www.hersheys.com/mulch/>). Mars has a long history in the pet food and care business that can be traced back to the first company Forrest Mars, Sr. established in Europe. During the period Forrest partnered with Bruce Murrie, Uncle Ben's rice was introduced. Other Mars ventures include hot and cold drink vending machines and electronic automated payment systems.

Ownership of Famous Amos Cookies changed hands several times between 1985 and 1998, eventually being purchased by Keebler Foods Company www.keebler.com. Keebler was acquired by Kellogg Company in 2001, helping expand what is viewed as a cereal company into the snack foods market as well.

Conclusion:

Ask students to vote on what they view as the top three factors to consider when choosing the form for a new business. Remind them to take account of what they have learned as they vote on these factors. (The bulleted list of factors provided below is also presented in the Conclusion section of the student version's of this lesson.) Discuss the reasons for their choices. Were there any other important factors that they think are missing from the list?

- The resources needed to start and expand the business
- Your level of expertise starting and managing a business
- Your willingness to share decisions and profits
- The level of liability you and any potential partners are willing to accept
- The tax implications of your choices
- Your willingness to re-invest earnings into the business
- How long you see yourself and any partners involved in the venture
- Whether this venture is something you want to live on after you and any partners are gone.

Assessment Activity:

Evaluation is built into Activities 1 and 2. [Assessment Rubrics](#) should be adjusted and weighted to fit the needs of the teacher.

Extension Activity:

1. Starting any business is risky. There is no guarantee a business will be profitable. When there is more than one owner, there is also the chance that there will be disagreements on how to operate the business. For a case study in the types of problems that can result, have students read excerpts from *The Emperors of Chocolate - Inside the Secret World of Hershey and Mars* by Joel Glenn Brenner. (New York: Broadway Books) 2000. Chapter 2 tells the story of the troubled partnership between Forrest Mars and his father, Frank. Chapter 11 exposes the difficulties that plagued the limited partnership between Forrest Mars and Bruce Murrie. The second half of Chapter 12 reveals the story of the corporate power struggle that ultimately gave Forrest full control of the Mars candy empire.
2. Have students collect packaging from candy and other sweets sold in vending machines and near the checkout counters of grocery stores. Identify the major manufacturers and their products. Students will probably be surprised that despite the many different brands, most candy is produced by a few large corporations. Mars and Hershey Foods together control about three quarters of the candy rack.
3. Chicago calls itself the candy capital of the world. Chocolate production was centered in California and Pennsylvania with Chicago, IL the site for almost everything else—chewing gum, cordials, candy bars, and caramel corn. Analyze the supply and demand factors that led to this claim. The first part of Chapter 12 in *The Emperors of Chocolate - Inside the Secret World of Hershey and Mars*. (noted previously) does a great job of identifying the elements that contributed to Chicago's claim.
4. Web sites for the large candy manufacturers typically provide a timeline or other history that tells how the company got started and how it has changed over the years. Links for a variety of U.S. manufacturers are provided as starting points for an extension activity in the student version of this lesson. Have students combine this information to create a time line for the candy industry. Analyze how the industry has changed and why. For example, prior to the 1900s, the industry was comprised of a multitude of small businesses operating out of people's homes and small shops. The industrialization of the industry forced makers to become more efficient and operate in a more businesslike manner. The world wars created a demand for cheap, high calorie, non-perishable and individually packaged products. The wars also

dramatically increased adult consumption of candy - a level of consumption that continued after the wars. More recently, the largest companies have begun to gobble up the remaining smaller family-owned candy operations in a bid to diversify and reduce risk.

5. Have students identify examples of sole proprietorships, partnerships and corporations in your local community or state. Interview the managers of the businesses chosen to find out why the form of ownership was chosen and how it affects their work. Most large corporations can also be researched on the Internet.

<http://www.econedlink.org/lessons/index.cfm?lesson=EM533&page=teacher>