Chapter 2 Small Business Options

Entrepreneurial Finance: Fundamentals of Financial Planning and Management for Small Business, First Edition. M. J. Alhabeeb.

THERE ARE A FEW alternatives for an entrepreneur to enter the market of small business. Basically, the main couple of options are either the startup of a business from scratch or to buy an existing one and mold it to personal liking. Even the franchise, which would seem to be a third option, can be started anew or be purchased ready. Other alternatives may also sound as options but they seem to be more as given than being a choice. These alternatives are inheriting a business or gaining the control of a family business.

2.1 Starting a New Business

Starting a business from scratch could be the most difficult and risky among the other alternative ways to get into the market of small business. Assuming there is a unique and viable entrepreneurial idea, the new business project could either be classified as

1. a **new-new project**, which means coming up with an entirely new and unique product, service, or a method of doing something, or
2. a **new-old project**, which means presenting a certain modification to an existing product or service or method, or introducing them to a new market.

Either of the two approaches would require a well-thought-out process of execution that has to be based on knowing well the product, consumer, market, suppliers, and the production process itself so that the business would start on a solid ground of reality rather than on assumptions and imagination. In addition to getting familiar with all of the details of production and market, knowing the legal rights and responsibilities that are related to operating a business, dealing with consumers and vendors, and settling with the form of ownership is another essential side of knowledge that has to be acquired. This side is the legal requirements of business, which has been described by Barron and Shane (2005), as they stressed the importance of new business owners and managers to be familiar with at least three categories of business law:

1. Government rules and regulations such as those related to taxes, health and safety, discrimination, and the like.

2. Laws related to intellectual property, and
3. Laws related to business contracts.

Advantages and Disadvantages of Starting from Scratch

As one of the options available to entrepreneurs, starting a business from zero has its own advantages and disadvantages:

Advantages

It is a valuable opportunity for entrepreneurs who start up a business from the beginning when they get to

- set up and control everything according to personal belief and taste. No aspect of the business has to be accepted just because it used to be.
- enjoy the full value of brand new equipment and other assets and to jump right to the newest technology, choose the desired location and building, and arrange new relations with suppliers, banks, and customers.
- save a lot of time, energy, and money dealing with the old problems that would be related to an old business in any of its aspects.

Disadvantages

Entrepreneurs who start up a business from scratch have also to

- spend a lot of time and effort establishing its name and reputation, deliver good reliable products, and gain consumers' loyalty, suppliers' trust, and employees' commitment.
- face some difficulties in securing the needed capital and dealing with banks and investors.
- deal with a limited capacity to get the best physical and human resources which would translate into a limited access to highly skilled professionals and top quality resources.
- spend extra time and energy to be familiar with the rules and regulations, and legal matters related to starting and operating a new business. This may, in some cases, become overwhelming to the point that it would lead to an early end of the business.

Important Steps for the Right Start

There are some plausible ways to insure a right start and increase the probability of survival and success. A good startup for any business should seriously consider having

- a good unique viable and feasible business project idea that has a certain market and should enjoy a potentially good demand;
- a detailed and solid business plan with realistic budget;
- an adequate financing and a diversified source of capital, and preferably more than one financier;

- good knowledge and adequate skills related to the project and its products. This could either be already available through the entrepreneur's education and experience or via training and preparation prior and throughout the startup process;
- an efficient cost–benefit analysis that allows a high profit margin after being able to minimize many of the financial problems that may begin to pile up if some costs cannot be or can barely be dealt with;
- a well-thought-out plan B and exit strategy that would take into consideration each potential reason for the necessity to exit, and the way to do it most efficiently.

2.2 Buying an Existing Business

Another alternative to starting a new business from scratch is to find and buy an existing business. Like any other option, this would require to first know the advantages and disadvantages.

Advantages

- Probably the most striking advantage is to instantly get a turn-key business and save plenty of money, time, and energy that would be spent in preparation of a new business and get it to be established. One of the immediate benefits is that the purchased business can potentially be operable and profitable from the first day of assuming its ownership.
- Obtaining an up and running business is usually less costly in consideration of the total cost as compared to starting a business from zero. This can be especially confirmed if the purchase of the business turns out to be a good bargain.
- It could be an efficient way to assure success, especially if the purchased business has already been proving a degree of success. The new owner would not do much but to grab that success and run with it.
- The new owner and management can effectively leverage the established traditions of the business, the accumulated experience of the employees, the credibility of the suppliers, and the loyalty of the customers. All of these elements can be daunting if they are to be built right from the start of the business.
- Another piece of comfort and peace of mind for the business buyer is to have all major assets in place, especially if it happens that the location is appropriate and satisfactory; equipment is properly installed, tried, and running; inventories are in control; finances are secured; in and out credits are well established; and services are already set.

- Last but not least, buying an existing and established business would naturally reduce all of the uncertainties and overcomes all barriers to entry to a specific

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industry and market as compared to chartering all new territories when starting from scratch.

Disadvantages

- Finding an appropriate business that matches the buyer's desires at the right time, right location, and right price is a very difficult task and probably a rare possibility.
- An existing business that is running well and generating a reasonable profit is most likely going to be hard to be professionally and fairly valued for sale, especially when the buyer is trying to strike a favorable deal at a bargain price.
- A buyer of an existing business may run into the hard fact of having to deal with a heavy package that comes with the business such as the management style, employee relations, customer's expectations, suppliers' methods, etc.
- It is possible that all or most of the physical assets are highly depreciated and running near the end of their life span, or some of them have gone obsolete and need immediate updating or replacement.
- It is possible that some of the old relations and arrangements may not work well with the new owner and management. This can be especially true with the supplier and vendor relations and with the new management's ability to collect the turned-over account receivable.
- It is possible that the old establishment would develop a strong resistance and defiance to any change attempted by the new ownership-management. This could become a huge challenge that may threaten the company's success and survival.
- It is possible for the new owner to run into some old problems which were not properly disclosed at the purchase time. These problems may be related to the unreliability of the business books and records or related to previous liability issues that have not been settled completely.

After recognizing all the possible advantages and disadvantages of this option of buying an existing business, the potential buyer has to go further in details to know as much as possible about the business to be purchased in a process commonly known as “due diligence.”

Due Diligence

Given that the laws in the United States do not require business sellers to disclose all the problems and deficiencies that may exist in the businesses on sale, it would be imperative for the potential buyer to fully examine all of the aspects of the business and investigate as much as possible if there is any problem or unresolved issue that may affect the soon to be estimated purchase value of the business. **Due diligence** is the systematic and detailed process of examining and investigating all the aspects of the candidate business for purchase in order to minimize the risk of making a losing deal or overestimating the purchase value of that business. This process includes the following steps:

- Exploring the history, character, and reputation of the business through examining the documented records of credible agencies such as Better Business Bureaus (BBB), credit reporting agencies, lenders agencies, local legal offices, vendors, consumer protection agencies, and offices that handle consumer complaints.
- Examining the financial statements and tax return records for the past 3–5 years. It is also advisable to examine the cash flow history and projection for the next 3–5 years.
- Examining the liabilities and legal obligation records and all of the settled and still pending legal suits, if any, as well as the business insurance records.
- Examining the paperwork of properties and equipment and reviewing their depreciation records and remaining warranties. It is also advisable to examine, physically and in person, the building inside and out, its surrounding and location, as well as check the inventory and test the working condition of major equipment.
- In addition to the examination of the tangible assets and their record, there should be a careful examination of the records of intangible assets such as trademarks, patents, copyrights, goodwill, and all intellectual properties.
- Meeting and interviewing selected samples of related people such as employees, vendors, suppliers, customers, lenders, investors, and service people in order to get a collective sense of the business rapport, and how it has been doing in the perspective of these people.

The due diligence process would most likely require the help of either a professional agency or some individual consultants in the areas of entrepreneurship, accounting and finance, business law, banking, investment, and insurance. It would be ideal if an estimation of the business value is performed after the completion of the due diligence process, followed by writing a thorough business plan and securing the required capital to purchase the business.

2.3 Purchase Options

When purchasing an existing business, there are four purchase options from which a buyer can choose from.

Buy-Out Option

A **buy-out** is the purchase of all of the business so that ownership would be transferred entirely to the buyer including all of the liabilities attached to the business. The purchase of all that is related to the business would most likely occur at once. One of the common buy-outs is the one where the business is purchased by its own current management or employees. Since the mid 1970s, it became possible for employees of a company to assume ownership through the Employee Stock Option Plan (ESOP). **ESOP** refers to some firms' approach to allocate shares of ownership to their employees free of upfront charges, but the shares are held in a trust account, and cannot be sold until an employee leaves or retire.

Buy-In Option

On the other hand, a **buy-in** refers to the partial buying into the equity of a business. Only a part of the business ownership would be transferred to the buyer, keeping the other parts owned by the current owners. Most of the times, the business stays operating the way it used to but sometimes the new partner would introduce certain changes. In such a case, the proposed changes may or may not be welcomed and accepted by the current management and employees, and the status of business would depend on the state of accepting or rejection of the new changes.

Bulk-Asset Buying Option

Bulk-asset or **resource acquisition** is a business purchase option where only selected major assets are purchased and therefore the ownership of the rest of the business remains with the old owners. Since major assets include both tangible and intangible types of assets, it is only with the intangible part of assets that a potential buyer would have difficulty estimating the real value of the assets.

Take-Over Option

A **take-over** means that a buyer would purchase enough of the business stock to grant him control over the business board and the decision-making authority in the business. It is specific to businesses with publicly traded stocks such as corporations and some partnerships. It is, therefore, unlikely that small businesses get to be taken over.

The Final Steps in the Buying Process

The final step in the process of buying an existing business is to negotiate the price and other elements, and close the deal. The following are important elements to make the negotiations healthy and productive, to save time and energy, and help shorten time and efforts to close the deal.

- Be well prepared and armed with knowledge. Know your numbers, terms, and rules and regulations.
- Establish your own ceiling price and attempt to know the seller's floor price. When the limits of both desired prices are known and respected, the price negotiation area would be delineated as shown in **Figure 2.1**. Then, and only then, the jointly acceptable deal can be properly reached.

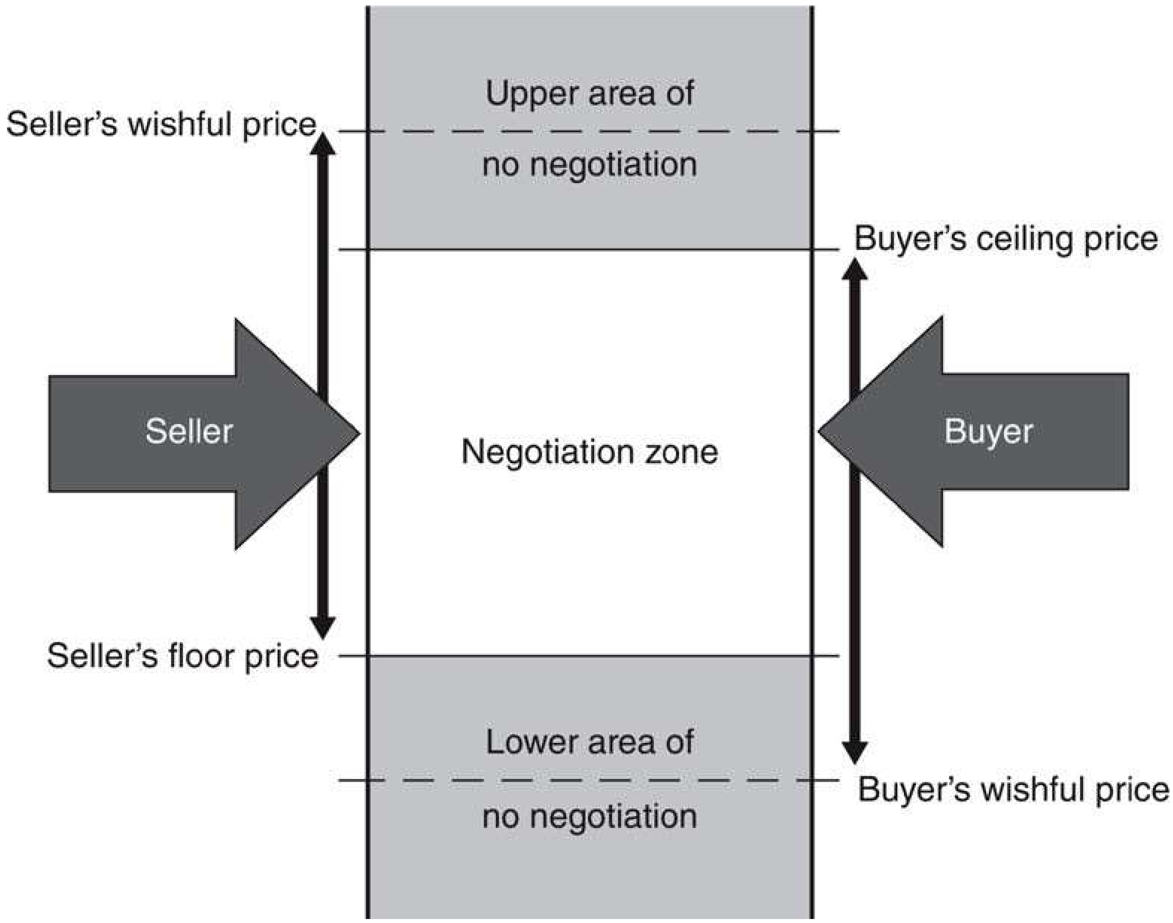

Figure 2.1 Price Negotiation

The buyer's ceiling price line indicates that the buyer cannot pay higher than this line, and he wishes to go below the seller's floor to a price such as at the buyer's wishful price. On the other hand, the seller would wish to sell at a price higher than the buyer's ceiling such as at a line of the seller's wishful price. This conflict would produce the upper and lower areas of no negotiation leaving the possibility of a deal to be stricken only in the negotiation zone.

- Listen to the other party's views and perspectives and avoid pushing to the unfeasible zone.
- Explore all the possible options and seek a win-win outcome.
- Avoid emotional and quick responses.
- Keep the negotiation going and try not to let it turn into a stalemate.
- Be ready to walk away if you cannot guarantee your minimum requirements.
- Make sure that your lawyer does work out all the details and clarify all ambiguities.
- Do not sign anything until you and your lawyer are fully satisfied with the contents of the documents that require signatures.

2.4 Franchise

As a way of doing business, franchising goes back to the late nineteenth century when General Motors Company came up with the first net of auto dealerships organized in a certain system of management. A few years later other franchising experiences were followed by Howard Johnson Hotel and Restaurant, as well as by Rexall Drugs. Probably the most iconic start of the modern franchising started in the 1950s by Colonel Sanders of Kentucky Fried Chicken, and Ray Kroc of McDonalds in the United States, and by J. Lyons of Wimpy Restaurants in the United Kingdom. These pioneering and successful experiences were followed up by a burst of other franchises, not only in the restaurant business but also in all other fields of business. It is estimated that there are more than 854,000 franchise outlets in the United States alone. They employ 9.6 million people, and generate $835 billion worth of annual output or nearly 6% of the gross national product (Scarborough, **2012**). They also make up 36% of all retail sales nationwide (Spinelli and Adams, **2012**). A **franchise** is a business arrangement by a legal contract in which one party, who is the ultimate business owner (franchisor), grants the right and license of selling a product or service to the other party who is the immediate business owner (franchisee). The **franchisor** develops the product and brand name, procedure and policies, training and marketing, while the **franchisee** performs and manages all business according to the franchisor's standards and pays franchise fees and royalties.

Types of Franchise

The typical franchise we are familiar with is the **format franchise** which is only one kind, but there are other kinds too. They differ in the set and range of rights and responsibilities for both parties in the contract. The following are the different types of franchise, starting with the format franchise.

Business Format Franchise

It is also called **pure franchise** or **Turnkey Franchise**. It is the most common and familiar to us and the most growing type of franchise. It has reached nearly 90% of all franchises in the United States. This franchise is highly standardized and heavily structured. Every aspect of business has to go by the manual which is prepared by the franchisor. The franchisee receives a comprehensive how-to-do package, going over every aspect of business, from the product and service to the way of operation and delivery. There is a standard for everything from the license, product characteristics, rules and procedures, design and presentation, quality control, customer service, training of managers and staff, marketing and advertising, and even the accounting system. The most typical representatives of this type is the fast food restaurants such as McDonalds, Burger King, and Wendy's, also hotel chains, car rentals, and print shops.

Product Distribution Franchise

In this type, the franchisee obtains the right to sell a specific product which is exclusively made and distributed by the franchisor. The franchisee remains independent in all other aspects of the business. A good example of this type is the gasoline stations such as Exxon, Texaco, and Mobile, or restaurants, which carry only Pepsi or Coke as their choice of soft drink.

Trade Name Franchise

This is the most limited type of franchise. It is only to be associated with a specific brand name without any obligation to exclusively sell or distribute that brand name. Needless to say, there are no other restrictions by the franchisor on the franchisee. The typical example of this type is the True Value Hardware and the Associated Grocers, Inc.

Conversion Franchise

This is a fourth type of franchise which some experts add to the common group above. The basic premise in this franchise is to combine resources of similar but independent businesses to form a collective entity that would strengthen parts of the business operation such as marketing and advertising. A good example of this type is the Century 21 Real Estate (Katz and Green **2014**).

Cobranding or Piggy-backing

This type is actually a combination of two or more known franchises in order to increase sales and widen market shares. It is more likely to include franchises that are compatible or belong to the same owner or have some kind of cooperation. The best example is a franchise outlet that is located inside another franchise such as Dunkin' Donuts, Starbucks, or Pizza Hut found inside grocery stores, convenient stores, or gas stations, which themselves are known franchises. The result of such experience of franchise marriage has been a higher sale for both franchises.

Advantages and Disadvantages of the Franchise Option

Generally speaking, there are some expected pros and cons to both, the franchisor and franchisee in a standard franchise. Below we will focus on the advantages and disadvantages of the franchise system to the franchisee as the immediate owner/manager of the business.

Advantages

The franchisee would get

- a given business idea that has a track record and has proven its feasibility and reliability to the point of becoming a national brand name;
- a full system of operation that has been tested for dependability and efficiency;
- an effective site selection analysis to ensure healthy competitiveness and reasonable market share through a careful territorial protection;

- a certified and reliable net of suppliers and vendors;
- well considered and standardized products and services to keep a comprehensive and collective integrity;
- a higher chance of success as compared to the average rate of success of any other new independent business;
- a full training and support system for managers and employees;
- high level financial and marketing assistance, especially on the level of national lending and advertising;
- development services, research, and competitive analysis; and
- a good buying power and needed trust with suppliers and lenders.

Disadvantages

- High starting cost that comes in three or more forms. The initial franchise fees are usually several tens of thousands of dollars. A typical franchise fee such as for McDonald's is averaging at $50,000. An investment cost to get the location ready and having it up and running could reach to a significant amount. For example, investment cost for Kentucky Fried Chicken's franchise can exceed $1,000,000 and it could go up to $5,000,000 for some hotels or motels. Monthly royalties is another type of franchise cost. It is usually assessed as a percentage of monthly gross sales, the average of which is 6.5%. Another 1–3% would be paid as the franchisee's contribution to advertisement. Collectively, the total cost can be very high and in some cases can be overwhelming.
- Despite the many benefits, the franchisee may feel a lack of independence as he is obligated by many detailed restrictions and limitations on almost every aspect of the business. A complete adherence to the franchise agreement is a crucial feature of the franchise character.
- Franchisees may sometimes feel that the franchise agreement encourage franchisors to be aggressively intruding into the business's finances and management as a way for the franchisor to control compliance with the agreement.
- Some franchisees, especially those who are motivated and driven by creating and executing their own personal business ideas, may not get their expected thrill as they have to only implement a business contract where the creator and controller is somebody else. They may also feel that their skills and hard work would produce significant business goodwill but somebody else is going to claim it.
- The combination of the central control and individual operation could lead to an odd situation, where problems and scandals involving one franchise may negatively spillover to all other franchise, affect their reputation, and damage their creditability.
- Franchisees could face tough competition and market saturation if the franchisor is so growth-aggressive and not serious about territorial protection. This could prove to be a big problem especially if there is no communication and coordination of policies going on among the individual franchisees.

We can also briefly touch on the major general advantages and disadvantages for the franchisor.

- The most striking advantage for the franchisor is the ability to expand their business, build their reputation, and collect a lot of profits, using the franchisee's money, talents, and hard work. This is not to minimize the franchisor's contributions but in comparison to building that success only by themselves, it would seem that the franchise system serves them very well.

- Franchisors also face some disadvantages such as their full commitment to their franchisees that does not come easy. Also, the franchise system would give them less control over their individual franchisees in comparison to their branch manager had they have a regular corporation with many branches. Also, among the common disadvantages is that the franchise integrity and national reputation can easily be damaged by a bad act or scandal committed by only a single franchisee.

The Legal Aspect of Franchising

Since the franchisor wielded a tremendous power in setting all the terms of their franchise, and because of the high demand on this form of business since its explosion in the 1950s, there has been significant room for the unscrupulous individuals and groups to commit all kinds of fraud and cheat a great number of hopeful franchisees. Such a potential situation has set up the backdrop for some regulations on both aides and on federal levels to level the playing field, and particularly to protect prospective franchisees against exploitation. The first state to pass legislation in this regard was California, which enacted its Franchise Investment Law in 1971. It was quickly followed by 14 states, all of which required the franchisors to have a full disclosure guideline and provide it to prospective franchisees. This guideline was known as Uniform Franchise Offering Circular **(UFOC)**. The federal government, through its Federal Trade Commission (FTC), followed suit and enacted its **1979 Rule 436,** which was also a full disclosure guideline on a federal level. It was called "Disclosure Requirements and Prohibitions Concerning Franchising and Business Opportunity Ventures."

The UFOC was amended in 1993 and the amendment became effective at the start of 1996. It remained valid until 2008 when the Federal Trade Commission replaced it by the Franchise Disclosure Document (**FDD**), which is a full disclosure by the franchisor to the franchisee who was allowed up to 14 days to examine all the details before signing any contract or paying any fees. The FTC also required franchisors to submit a sample contract and show a 3-year audited financial statement to establish its legitimacy. The franchisors have to disclose basic information in what became known as the 23-item form, as summarized in **Table 2.1**.

2.5 Home Business and Family Business

First, we need to distinguish between two close terms, home business, or as it is called sometimes, home-based business and family business or family-owned business. **Home business** is a business that makes the owner's residence as its primary facility for its operation. Needless to say, that it is one of the oldest forms of business, which faded away for some time but made a big comeback in recent decades. It is estimated that 53% of all small businesses in the United States are home based where more than 12% of American households are involved in some sort of home business. They generate $427 billion in sales (Scarborough, 2012). The primary justifications for owners to operate their businesses at home are the significant reduction in cost, and the freedom they enjoy by working at their own residence. The recent revive of home-based business is mostly attributed to major reasons such as:

- the technological revolution, especially the advancement in computers, internet, and other electronic devices that became accessible to consumers at reasonable cost and professional capacity;

ble 2.1 The Franchisor's Disclosure

The 23-Item Franchisor's Disclosure

1. Franchisor's company, affiliates, and franchises sold so far
2. Individual franchisors' business experience
3. All lawsuits involving the company and its officers
4. All bankruptcies involving the company and its officers
5. The initial franchise fees, its intended use and conditions of refunds
6. All other franchise fees and their due dates. These include royalties, service fees, training fees, lease payments, advertising fees and all others, if any
7. Estimated ranges of the total investment cost and its components
8. Any restriction on the goods and services purchased by the franchisee
9. All the franchisee's obligations to the franchisor
10. Franchisor's financial assistance to the franchisees
11. All the franchisor's obligations to the franchisees
12. Franchisor's offer of any territorial protection to the franchisee
13. Franchisor's trademarks, service marks, trade names, logos, and any other specific commercial symbols, and their registrations
14. Franchisor's patents, copyrights, proprietary information, and the conditions of their use
15. Franchisor's conditions on the personal involvement in operation by the franchisee
16. Franchisor's restrictions on what the franchisee sells
17. Franchisor's conditions on renewal, termination, transfer, and disputes
18. Franchisor's requirements of the involvement of celebrities and public figures in the franchise or its endorsement
19. Franchisor's statement on any earnings claim
20. List of current and projected number of franchise outlets and plans of expansion or contraction
21. Franchisor's audited financial statements
22. Sample of franchise main contract and other related contracts such as lease contract or purchase and sell agreement, if any
23. A receipt to prove that the prospective franchisee has received this information as a Franchise Disclosure Document (FDD) in compliance with the Federal Trade Commission (FTC) regulations

- the shift in social values toward independence, self-control, personal determination, and freedom in one's career choice;
- the increase in corporate trends toward downsizing and outsourcing that heightened people's sense of job insecurity and vague future;
- the shift in production and employment toward the service sector of the economy more than the productive agricultural and industrial sectors.

In addition to the aforementioned major advantages of cost cutting, work flexibility, and freedom, home-based business can enjoy a high margin of profit, can tap into the owner's own family for its talents and skills such as in the classic cases of babysitting, pet care, art and music teaching, and event planning. Most of the time, such home-based jobs, not only utilize the family member's ready abilities and talents, but also enable them to use resources available at home. However, home-based business has its own disadvantages and problems such as the potential family conflict on time, space, and earnings in addition to potential neighborhood conflict on problems such as traffic, noise, pollution, and alike.

Table 2.2 Involvement in the Family Business

	Member	Non-Member	Own	Work
Member	①	②	③ Member/ owner	④ Member/ employee
Non-member	⑤	⑥	⑦ Non-member/ owner	⑧ Non-member/ employee
Own	⑨ Member/ owner	⑩ Non-member/ owner	⑪	⑫ member/ owner employee
Work	⑬ Member/ employee	⑭ Non-member/ employee	⑮ Non-member/ owner employee	⑯

As for **family business**, it is defined as a business where one or more family members who: (1) founded the business, (2) partially or totally own it, (3) being prominent in its management, financial control, and decision-making, or (4) any combination thereof. In this sense, there is a wide range of involvement of the family and the role of its members in the business ownership and operation. The matrix-table 2.2 classifies this variety of involvement in the family business among the family members and others. The classification is based on four constructs: being a family member, non-member, owner, and employee.

Looking at **Table 2.2**, we can observe the following categories:

- Cells 3 and 9 – Member owner: A member of the owning family who owns some shares but does not work the business.
- Cells 4 and 13 – Member employee: A member of the owning family who works in the business but does not own any shares.
- Cells 7 and 10 – Non-member owner: An owner of the business who is not related to the owning family and does not work in the business.
- Cells 8 and 11 – Non-member employee: An employee of the business who is neither related to the owning family nor owning any share in the business.
- Cell 12 – Member of the owning family who owns share in the business and involved in its operation.
- Cell 15 – Owner of the business and an employee but not related to the owning family.

The dynamics of the relationships and the extent of involvement in the business in terms of ownership and employment would directly affect its performance and survival. Family business is undoubtedly one of the oldest types of business ownership. The Japanese hotel company Hoshi Ryokan, which is a family business, is about 1300 years old, and some of the wine and olive oil family businesses in Italy and France have been operating for a 1000 years or a little more. However, it has not been easy for family businesses to survive. In fact, statistics shown in **Figure 2.2** indicate that more than half of all businesses (55%) will not survive beyond the original owners, 30% would survive to the second generation, 12% would survive to the third generation, and only 3% would survive to the fourth generation and beyond.

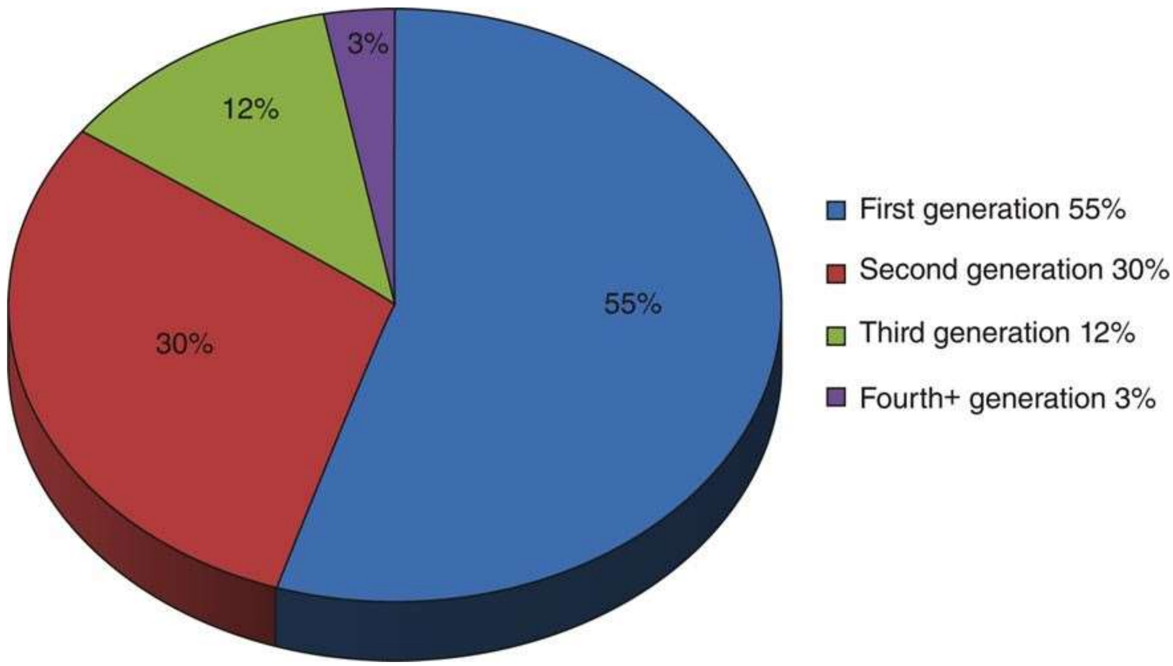

Figure 2.2 Business Survival by Generations of Owners

The vast majority of the American businesses can be characterized as family business. It is estimated that they reach to 90% of all businesses. They are responsible for producing 64% of the gross domestic product (GDP), 62% of employment, 78% of new job creation, and 65% of all wages. They also constitute one-third of the Fortune 500 companies (Scarborough, 2012; Byrd and Megginson, 2013). Table 2.3 shows only a small sample of the known family businesses with their market worth and family share of ownership.

One of the most challenging issues facing a family business is rivalry and conflict among family members who are most likely expecting to be named as successors. Succession and ownership transfer is a complex matter that is always accompanied by family bickering and power struggle. One of the wisest ways to deal with this potentially explosive problem is for the founder or major owner to start the process of estate planning early and using professional help.

Table 2.3 Market Worth and Family Shares in Selected Family Businesses

Company	Work ($)	Family Ownership (%)
Carlson	37.1 billion	100
Mars	20 billion	100
Estee Lauder	6 billion	88
Cargill	62 billion	85
Tyson	26 billion	80
Fidelity	1 trillion	49
Walmart	288 billion	43
Ford	170 billion	40
Berkshire	74 billion	38
Comcast	54 billion	33

Table was constructed based on information obtained from Spinelli and Adams (2012).

2.6 Summary

In this chapter, we discussed the alternative options available for an entrepreneur who wants to get into the small business market. The major alternatives are either starting a new business by building it up from scratch, buying an existing business, or going for a franchise, which can be either a new startup or a purchase of an already available one. In all of these alternatives, we discussed both the advantages and disadvantages. Some selected important steps were suggested for securing the right startup process, and the due diligence approach was explained as necessary for buying an existing business. Also several purchase options were discussed such as the buy-out, buy-in, resource acquisition, and takeover. They were followed by a description of what to do to close any purchase of business deal.

The franchise option was discussed in detail through the pros and cons of such a system for both parties, the franchiser and franchisee, and different types of franchise were cited, as well as the legal aspects of franchising. The last section in this chapter was to discuss home business and family business and articulate the difference between them.

Key Concepts

New-new project New-old project Due diligence
Buy-out option Buy-in option Bulk-asset option
Resource acquisition Takeover option Franchise
Franchiser Franchisee Format franchise
Pure franchise Turnkey franchise Product-distribution franchise
Trade name franchise Conversion franchise Co-branding
Piggy-backing

Discussion Questions

1. What are the alternatives to consider if you are an entrepreneur contemplating getting into the small business market?
2. If you find yourself leaning toward starting up a new project right from the beginning, what would be the convincing reasons?
3. List the major disadvantages of starting up a business from scratch.