**7.02 Three Types of Business Organizations – Student Activity**

**Sweet Success: Make a recommendation as to (1) what form of business organization you think is best for each client. (2) State the reasons for your position. There will also be some disadvantages to the business form you choose. (3) Identify at least one negative and suggest how you might minimize it.**
Client 1: Elise MacMillan and her brother Evan co-founded The Chocolate Farm in Englewood, Colorado, in the late 1990s.

**Client 1:** When I was three years old, I started making candy with my grandmother. I am now 10 and I want to sell chocolate candy with a farm theme to my friends and family. My product ideas include Brown Cows (chocolate cows on a stick), Pigs in Mud (marshmallow dipped in caramel, nuts and chocolate) and Farm Eggs (jelly beans dipped in chocolate). The start-up expenses for my business are pretty small: a few candy molds, candy and chocolate.) My parents have agreed to loan me the money I will need and to let me work in the family kitchen. Schoolwork has to take priority over business so if I have more sales than I can handle, I will

probably ask friends or my older brother to help. My brother is also pretty good at math and computers so he could help me with keeping track of my expenses and advertising. I really like the product development and packaging part of the business.

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Client 2: Milton Hershey broke ground for his chocolate factory near Lancaster, PA in 1903. It was the beginning of what would become Hershey Foods Corporation.

**Client 2:** After apprenticing for another candy maker, I started my first candy business at age 18. Unfortunately, my first attempt at starting a business (as well as my second) was a failure. After a rocky start, my third try was more successful – I have just received a fortune from the sale of my caramel business. During my world travels, I discovered and decided to buy new equipment that makes chocolate. Today, only the wealthy can afford chocolate. With this new technology, I think I can make a chocolate that everyone can afford. In my mid-thirties, I know very little about making chocolate but I am willing to take the time to learn. I want my life to center on inventing new candies, building this new business, and laying out a new community

that will be a wonderful place for the people I hire to live. I prefer to leave day-to-day operations of the company—handling production, sales, marketing and distribution—to someone else.

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Client 3: Forest Mars invited Bruce Murrie, an investment banker and son of the Hershey company president, to be his partner in M&M Ltd. The M&Ms we still eat today were first sold to the public in 1941. The letters in "M&M" stand for Mars & Murrie. Eventually, Murrie left the business but Forest Mars became the owner of Mars, Inc.

**Client 3:** I have substantial experience working in the candy industry. I helped my father introduce a very popular chocolate bar in the U.S. and have worked in the factories of two of the best chocolate makers in the world. Today, I am a thirty-plus year-old businessperson operating a company I started selling candy and pet foods across Europe. While traveling in Spain recently, I saw a candy-coated chocolate that I think will sell well in the U.S. I would like to create a new American business producing this candy. I have at least 80 percent of the money for getting started but I am concerned about getting the chocolate used in production. There is a war going on and it may be difficult to get this important ingredient without taking on a partner who has connections to a chocolate maker. I like the challenge of building businesses and finding ways to make them operate more efficiently. I also prefer making decisions on my own.

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Client 4: Wally Amos launched the Famous Amos Cookie Company in a Hollywood, CA storefront on Sunset Boulevard in 1975.

**Client 4:** I am in my late thirties. I have worked myself up from handling mail to being an agent for a well-known entertainment agency. I now represent several famous musicians. People say I am an enthusiastic and tireless promoter. To help my clients get jobs, I use bite-sized chocolate chip cookies as a calling card. My aunt taught me how to bake cookies when I lived with her as a teenager. Before I dropped out of high school and joined the air force, I was getting vocational training in the food trades but I have never run my own business. Some of my friends in the entertainment industry have encouraged me to open a store that would sell my cookies. They have offered to help finance my venture in exchange for partial ownership. My cookies would look and taste very different from the cookies sold in the grocery stores today.

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Summarize:

1. What accounts for the differences in your recommendations?
2. What are the negatives you identified and what are your solutions for dealing with them?
3. Why do you think most new businesses are sole proprietorships and partnerships?
4. What do you see as the biggest disadvantages of sole proprietorships and partnerships in the long term?
5. What are the advantages of setting up a limited versus general partnership?
6. Are there any disadvantages?
7. Under what circumstances might a business operating as a sole proprietorship or partnership decide to incorporate?

**Extension: Create a Timeline**

Review the website for one of the large candy manufacturer mention above. Typically companies provide a timeline or other history that tells how the company got started and how it has changed over the years. Combine this information to create a time line for the candy industry.

***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:

1. What are the advantages of a privately-held company?
2. Are there any disadvantages?