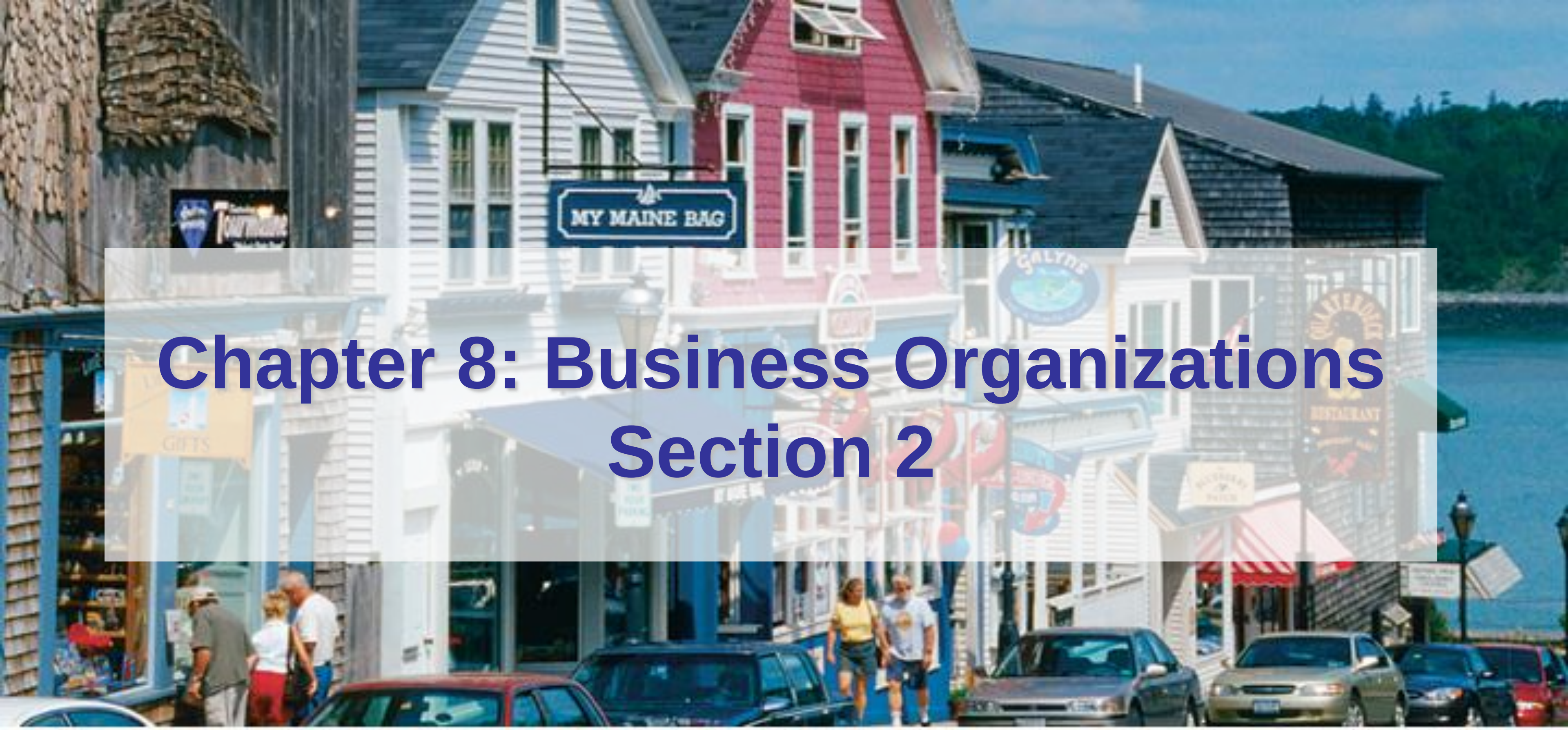
Chapter 8: Business Organizations
Section 2



Prentice Hall

ECONOMICS

PEARSON

In Partnership With
THE WALL STREET JOURNAL
CLASSROOM EDITION

Objectives

1. **Compare and contrast** different types of partnerships.
2. **Analyze** the advantages of partnerships.
3. **Analyze** the disadvantages of partnerships.
4. **Explain** how a business franchise operates.

Key Terms

- **partnership**: a business organization owned by two or more persons who agree on a specific division of responsibilities and profits
- **general partnership**: a type of partnership in which all partners share equally in both responsibility and liability
- **limited partnership**: a type of partnership in which only one partner is required to be a general partner
- **limited liability partnership (LLP)**: a type of partnership in which all partners are limited partners

Key Terms, cont.

- **articles of partnership**: a partnership agreement that spells out each partner's rights and responsibilities
- **assets**: the money and other valuables belonging to an individual or business
- **business franchise**: a semi-independent business that pays fees to a parent company in return for the exclusive right to sell a certain product or service in a given area
- **royalties**: the share of earnings given by a franchisee as a payment to the franchiser

Introduction

ECONOMICS

- What are the risks and benefits of partnerships and franchises?
  - Partnerships are easy to start up, have more assets to contribute, and are subject to few regulations. But, like sole proprietorships, there is unlimited liability for at least one of the partners.
  - Franchises allow each owner a level of control and benefit from the support of the parent company. Disadvantages include high fees, royalties, and purchasing restrictions.

Partnerships

- A partnership is a business organization owned by two or more persons who agree on a specific division of responsibilities and profits.

- There are three types of partnerships
  - General partnerships
  - Limited partnerships
  - Limited liability partnerships

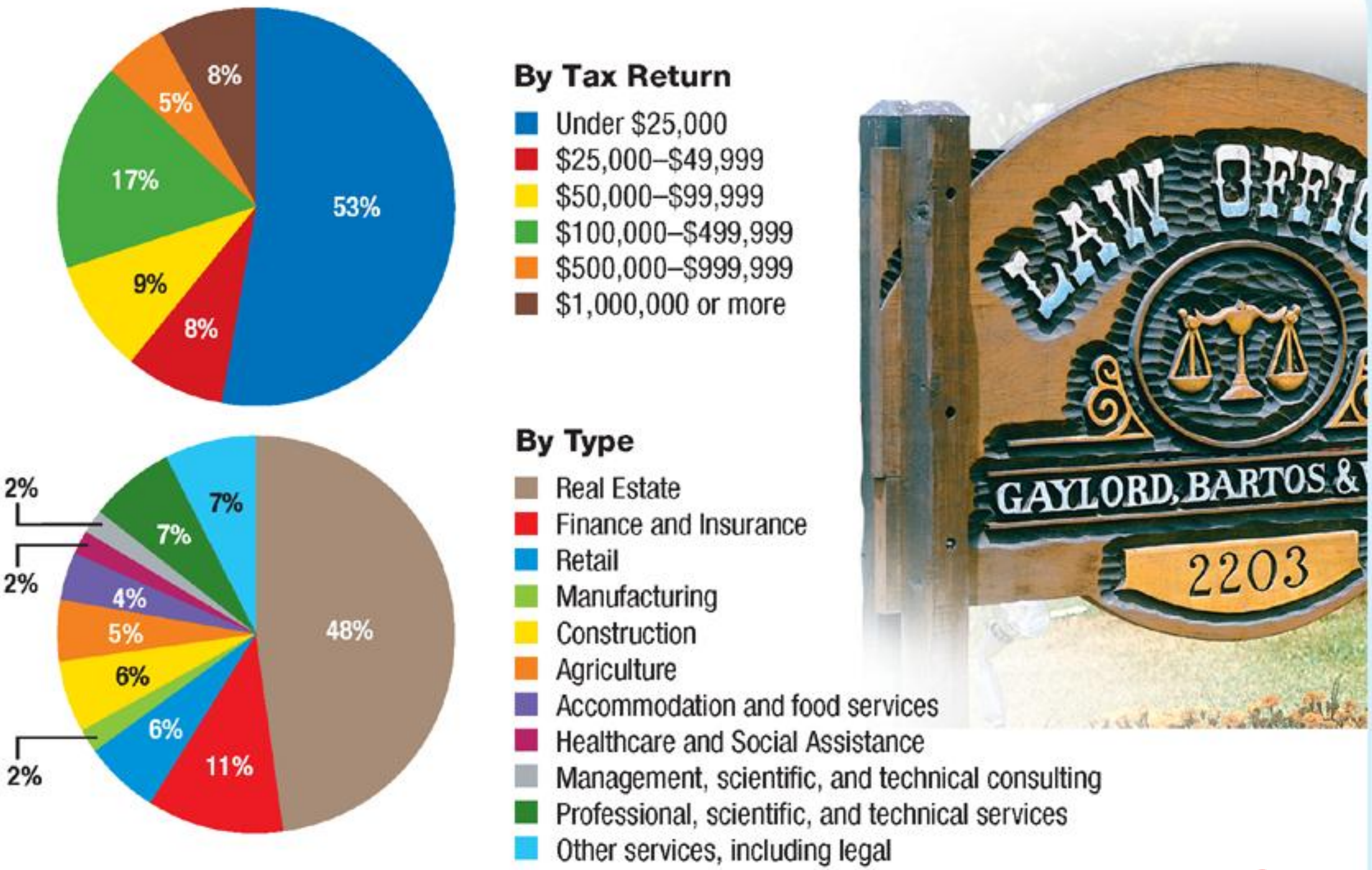
Types of Partnerships

- General Partnerships
  - All parties share equally in both responsibility and liability
- Limited Partnerships
  - Only one partner is required to be a general partner
  - Limited partners only contribute money; they are not liable for the firm's actions

Types of Partnerships, cont.

- Limited Liability Partnerships
  - This partnership acts like a general partnership, except that all partners have limited personal liability in certain situations, such as another partner’s mistakes.

Characteristics of Partnerships



Note: Because of rounding, totals may be greater than or less than 100 percent. Data is for 2004.
SOURCE: *The 2008 Statistical Abstract of the United States*

Action Graph online

Advantages

ECONOMICS

- Checkpoint: What are the advantages of partnerships?
  - Ease of start-up - partnerships are easy and inexpensive to establish. It is a good idea, though, to sign a partnership agreement, which spells out the rights and responsibilities of each partner.
  - Little government regulation
  - More capital - with more people involved, more capital can be raised.

Advantages, cont.

- Better employees - partnerships can attract and keep talented employees more easily than sole proprietors can
- Taxes - partnerships are not subjected to any special taxes
- Shared decision-making - each partner brings different strengths and skills to the business

Disadvantages

ECONOMICS

- Disadvantages of partnerships include:
  - Unlimited liability - at least one partner has unlimited liability (unless the partnership is an LLP) which means that person could lose everything
  - Lack of performance - a partnership may not outlast the life of one of the general partners

Disadvantages, cont.

- Potential for conflict - interpersonal conflicts between partnerships can lead to disagreements and, in some cases, an end to the partnership

Franchises

- Sometimes people opt to form a business franchise instead of a partnership.
  - A business franchise is a semi-independent business that pays fees to a parent company.
  - In return, the business is granted the exclusive right to sell a certain product or service in a given area.

Advantages

- Advantages of franchises include:
  - Built-in reputation
  - Management training and support
  - Standardized quality
  - National advertising programs
  - Financial assistance
  - Centralized buying power

Disadvantages

- With their many advantages comes a few disadvantages of franchises:
  - High franchising fees and royalties
  - Strict operating standards
  - Purchasing restrictions
  - Limited product line

  - Checkpoint: What are the advantages and disadvantages of franchises?

Review

- Now that you have learned about the risks and benefits of partnerships and franchises, go back and answer the Chapter Essential Question.
  - Why do some businesses succeed and others fail?