Entrepreneurship Development in Tourism

UNIT -4

TOPICS:

- **Ownership structure**
- **Financial management of new enterprises**
- **Functions of Financial Management**
- **Marketing management in the new enterprises**

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Ownership structure

Types of Ownership Structures

The most common ways to organize a business:

- Sole Proprietorship
- Partnership
- Limited partnership
- Limited Liability Company (LLC)
- Corporation (for-profit)
- Nonprofit Corporation (not-for-profit)
- Cooperative.

Sole Proprietorship

Sole Proprietorships and Partnerships For many new businesses, the best initial ownership structure is either a sole proprietorship or -- if more than one owner is involved -- a partnership. Sole Proprietorships A sole proprietorship is a one-person business that is not registered with the state like a limited liability company (LLC) or corporation. You don't have to do anything special or file any papers to set up a sole proprietorship -- you create one just by going into business for yourself. Legally, a sole proprietorship is inseparable from its owner -- the business and the owner are one and the same. This means the owner of the business reports business income and losses on his or her personal tax return and is personally liable for any business-related obligations, such as debts or court judgments.

Partnership

Partnerships similarly, a partnership is simply a business owned by two or more people that haven’t filed papers to become a corporation or a limited liability company (LLC). You don't have to file any paperwork to form a partnership -- the arrangement begins as soon as you start a business with another person. As in a sole proprietorship, the partnership's owners pay taxes on their shares of the business income on their personal tax returns and they are each personally liable for the entire amount of any business debts and claims. Sole proprietorships and partnerships make sense in a business where personal liability isn't a big worry -- for example, a small service business in which you are unlikely to be sued and for which you won't be borrowing much money for inventory or other costs.

Limited Partnerships

Limited partnerships are costly and complicated to set up and run, and are not recommended for the average small business owner. Limited partnerships are usually created by one person or company (the "general partner"), who will solicit investments from others (the "limited partners"). The general partner controls the limited partnership's day-to-day operations and is personally liable for business debts (unless the general partner is a corporation or an LLC). Limited partners have minimal control over daily business decisions or operations and, in return, they are not personally liable for business debts or claims. Consult a limited partnership expert if you're interested in creating this type of business.

Corporations and LLCs

Forming and operating an LLC or a corporation is a bit more complicated and costly, but well worth the trouble for some small businesses. The main benefit of an LLC or a corporation is that these structures limit the owners' personal liability for business debts and court judgments against the business. What sets the corporation apart from all other types of businesses is that a corporation is an independent legal and tax entity, separate from the people who own, control and manage it. Because of this separate status, the owners of a corporation don't use their personal tax returns to pay tax on corporate profits -- the corporation itself pays these taxes. Owners pay personal income tax only on money they draw from the corporation in the form of salaries, bonuses, and the like.

Nonprofit Corporations

A nonprofit corporation is a corporation formed to carry out a charitable, educational, religious, literary, or scientific purpose. A nonprofit can raise much-needed funds by soliciting public and private grant money and donations from individuals and companies. The federal and state governments do not generally tax nonprofit corporations on money they take in that is related to their nonprofit purpose, because of the benefits they contribute to society.

Cooperatives Some people dream of forming a business of true equals -- an organization owned and operated democratically by its members. These grassroots business organizers often refer to their businesses as a "group," "collective," or "co-op" -- but these are often informal rather than legal labels. For example, a consumer co-op could be formed to run a food store, a bookstore, or any other retail business. Or a workers' co-op could be created to manufacture and sell arts and crafts. Most states do have specific laws dealing with the set-up of cooperatives, and in some states you can file paperwork with the secretary of state's office to have your cooperative formally recognized by the state. Check with your secretary of state's office for more information.

Financial management of new enterprises

Financial Management means planning, organizing, directing and controlling the **financial** activities such as procurement and utilization of funds of the **enterprise**. It means applying general **management** principles to **financial** resources of the **enterprise**.

Objectives of Financial Management

The financial management is generally concerned with procurement, allocation and control of financial resources of a concern. The objectives can be-

1. To ensure regular and adequate supply of funds to the concern.
2. To ensure adequate returns to the shareholders which will depend upon the earning capacity, market price of the share, expectations of the shareholders.
3. To ensure optimum funds utilization. Once the funds are procured, they should be utilized in maximum possible way at least cost.
4. To ensure safety on investment, i.e, funds should be invested in safe ventures so that adequate rate of return can be achieved.
5. To plan a sound capital structure-There should be sound and fair composition of capital so that a balance is maintained between debt and equity capital.

Functions of Financial Management

1. **Estimation of capital requirements:** A finance manager has to make estimation with regards to capital requirements of the company. This will depend upon expected costs and profits and future programmes and policies of a concern. Estimations have to be made in an adequate manner which increases earning capacity of enterprise.

2. **Determination of capital composition:** Once the estimation have been made, the capital structure have to be decided. This involves short- term and long- term debt equity analysis. This will depend upon the proportion of equity capital a company is possessing and additional funds which have to be raised from outside parties.
3. **Choice of sources of funds:** For additional funds to be procured, a company has many choices like-
    a. Issue of shares and debentures
    b. Loans to be taken from banks and financial institutions
    c. Public deposits to be drawn like in form of bonds.

    Choice of factor will depend on relative merits and demerits of each source and period of financing.

4. **Investment of funds:** The finance manager has to decide to allocate funds into profitable ventures so that there is safety on investment and regular returns is possible.
5. **Disposal of surplus:** The net profits decision have to be made by the finance manager. This can be done in two ways:
    a. Dividend declaration - It includes identifying the rate of dividends and other benefits like bonus.
    b. Retained profits - The volume has to be decided which will depend upon expansional, innovational, diversification plans of the company.
6. **Management of cash:** Finance manager has to make decisions with regards to cash management. Cash is required for many purposes like payment of wages and salaries, payment of electricity and water bills, payment to creditors, meeting current liabilities, maintainance of enough stock, purchase of raw materials, etc.
7. **Financial controls:** The finance manager has not only to plan, procure and utilize the funds but he also has to exercise control over finances. This can be done through many techniques like ratio analysis, financial forecasting, cost and profit control, etc.

Marketing management in the new enterprises

Definition

Enterprise marketing management (EMM) has a vital role in multichannel **marketing** today. It is the engine behind effective **marketing** and offers the potential of true customer-focused, knowledge-based **marketing** and operations.

Scope of marketing management

- **Marketing** Research,
- Determination of Objectives,
- Planning **Marketing** Activities,

- Pricing of Product,
- Effective control on other function of management like planning, organising, directing coordinating and controlling

Function of marketing management

- Selling.
- Buying and Assembling.
- Transportation.
- Storage.
- Standardization and Grading.
- Financing.
- Risk Taking.
- Market Information.