

CHAPTER 6

Business Ownership and Operations

Types of Business Ownership

- The three different ways you can own a business are:
 - Sole proprietorship
 - Partnership
 - Incorporation

Types of Business Ownership

- Sole Proprietorship:
 - A **sole proprietorship** is a business owned by only one person.
- ADVANTAGES
 - It's easy to start
 - You get to be your own boss
 - You get to keep all the profits
 - The taxes are usually low

Types of Business Ownership

- Sole Proprietorship:

- DISADVANTAGES

- You have to pay for everything yourself
- You might have to use your personal savings or borrow money from the bank
- You might lack business skills
- A serious disadvantage to owning a sole proprietorship is that you have **unlimited liability**, or full responsibility for your company's debts.

Types of Business Ownership

■ Partnership:

- a business owned by two or more persons who share the risks and rewards.
- to start a partnership you need to draw up a partnership agreement, which is a contract that outlines the rights and responsibilities of each partner.

Types of Business Ownership

- Partnership:

- **ADVANTAGES**

- You might need only a license to start and have to pay taxes only on your personal profits.
- Each of your partners can contribute money to start the business.
- Banks are often more willing to lend money to partnerships than sole proprietorships.
- Your partners can bring different skills to the business. ([Click for YOUTUBE ad](#))

Types of Business Ownership

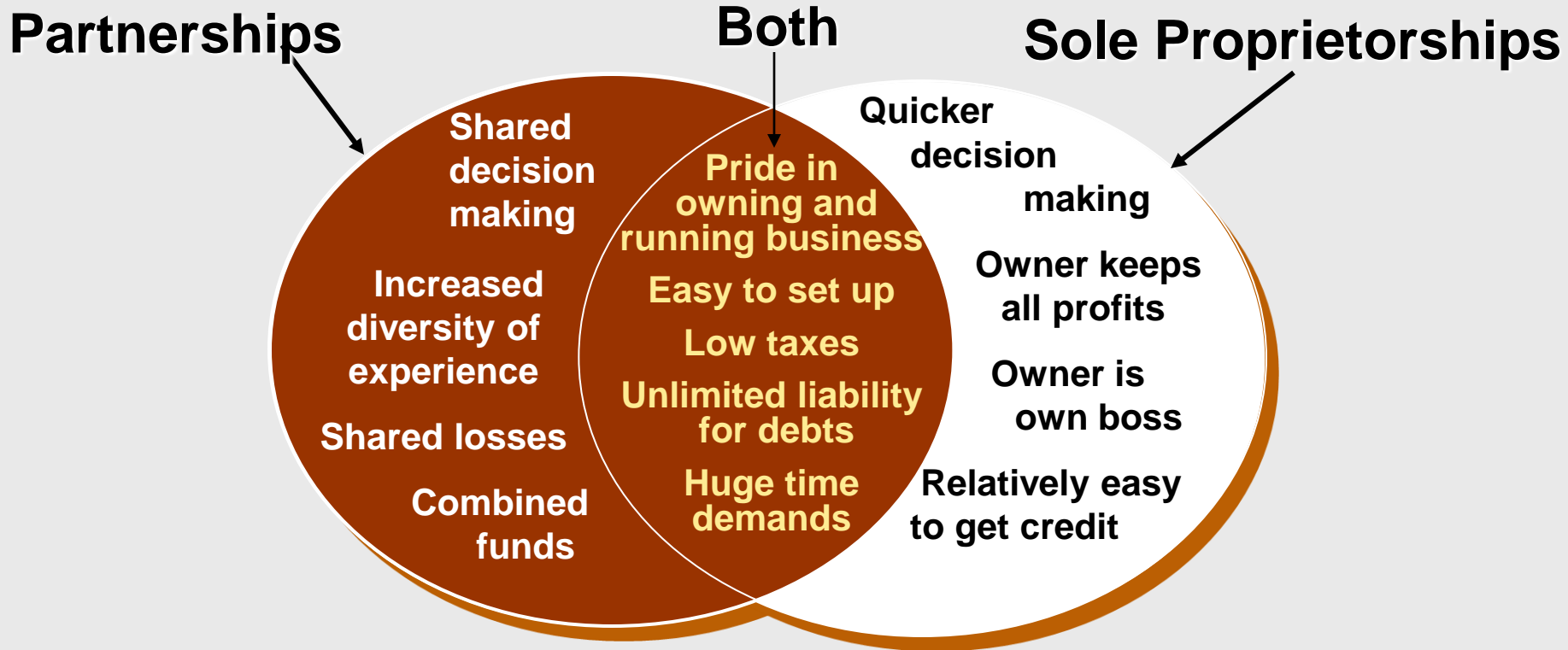
- Partnership:

- **DISADVANTAGES**

- You not only share the risks with your partners, you also share the profits.
- You might not get along with your partners.
- You share unlimited legal and financial liability with your partners.

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Similarities and Differences Between Partnerships and Sole Proprietorships



Types of Business Ownership

- Corporation:
 - a business owned by many people but treated by law as one person.
 - To form a corporation, you need to get a corporate charter from the state your headquarters is in.
 - To raise money, you can sell **stock**, or shares of ownership in your corporation.
 - For each share of common stock, the stockholder gets a share of the profits and a vote on how the business is run.
 - You also must have a board of directors who control the corporation.

Types of Business Ownership

- Corporation

- ADVANTAGES

- A major advantage of a corporation is its **limited liability**.
 - If your company loses money, the stockholders lose only what they invested.
- Another advantage is that the corporation doesn't end if the owners sell their shares.

Types of Business Ownership

- Corporation

- **DISADVANTAGES**

- A disadvantage of a corporation is that you often have to pay more taxes.
- The government closely regulates corporations.
- It is more difficult to start a corporation than a sole proprietorship or a partnership and running a corporation can be much more complicated.

Alternative Ways to Do Business

- Franchises, cooperatives, and nonprofit organizations offer you other ways to do business.
- A **franchise** is a contractual agreement to sell a company's products or services in a designated geographic area.
- To run a franchise you have to invest money and pay the franchisor an annual fee or a share of the profits.

Alternative Ways to Do Business

- Franchise
- In return, the franchisor offers a well-known name and a business plan.
- You can operate a franchise yourself, as a sole proprietor, as a partnership with someone else, or even as a corporation.
- **ADVANTAGES:**
 - It's easy to start.
 - The name of the parent company can be a big draw for customers.

Alternative Ways to Do Business

- Franchise
- **DISADVANTAGE**
 - The franchisor is often very strict about how the business is run.

Alternative Ways to Do Business

- Nonprofit Organization
 - a type of business that focuses on providing a service rather than making a profit.
 - Like a corporation, a nonprofit organization has to register with the government and might be run by a board of directors.
 - Because it doesn't make a profit, a nonprofit organization doesn't have to pay taxes.
 - Donors don't receive dividends like investors, but they can deduct their donations from their taxes.

Alternative Ways to Do Business

- Cooperative
 - an organization owned and operated by its members for the purpose of saving money on the purchase of certain goods and services.
 - A cooperative is like a corporation in that it exists as a separate entity from the individual businesses.
 - A cooperative can sell stock and choose a board of directors to run it.
 - Cooperatives pay less in taxes than regular corporations do. Cooperatives can save money by buying insurance, supplies, and advertising as a group.

Types of Businesses

- One way to classify businesses is to group them by the kind of products they provide:
 - Producing raw goods
 - Processing raw goods
 - Manufacturing goods from raw or processed goods
 - Distributing goods
 - Providing services

Producers

- A **producer** is a business that gathers raw products in their natural state.
- Raw goods are materials gathered in their original state from natural resources such as land and water.

Processors

- **Processors** change raw materials into more finished products.
- Processed goods are made from raw goods and may require further processing.

Manufacturers

- **Manufacturers** are businesses that make finished products out of processed goods.
- The finished products need no further processing and are ready for market.

Intermediaries

- An **intermediary** is a business that moves goods from one business to another.
- It buys goods, stores them, and then resells them.
- A **wholesaler**, also known as a distributor, distributes goods.
- Wholesalers buy goods from manufacturers in huge quantities and resell them in smaller quantities to their customers, usually other companies.

Intermediaries

- A **retailer** purchases goods from a wholesaler and resells them to the consumer, or the final buyer of the goods.

Service Businesses

- Service businesses provide services rather than goods.
- Services are the products of a skill or an activity, such as hairstyling and car repair.
- Some service businesses meet needs, such as medical clinics and law firms.
- Some provide conveniences, such as taxi companies and copy shops.