Types of Business Ownership

Chapter 6

1. Sole Proprietorships

Definition: A business owned by one person.

Percentage of U.S. sole proprietorships: 72%

Examples: Housekeepers, Dog walkers etc.

Sole Proprietorships

2. Advantages of sole proprietorships (List at least 4):

- Owner has ability to make all of the decisions
- Income taxes are lower than corporations
- Easier to start up
- Carry little to no ongoing formalities

Sole Proprietorships

3. Disadvantages of sole proprietorships (List at least 4):

- Unlimited Liability: The owner is responsible for the company's debt.

- Limited credit access.
- May not have all the necessary skills to run a business.
- Ends when the owner dies.

4. Partnerships

Definition: A business owned by two or more peope

Percentage of U.S. partnerships: 5%

Examples: An example of a business partnership would be Allstate insurance.

Partnerships

5. Advantages of partnerships (List at least 4):

- Partnerships are easy to start
- It's easier to obtain capital
- Banks are more willing to lend money
- Not dependent on one person

Partnerships

6. Disadvantages of partnerships (List at least 4):

- Partners share business risks.
- Problems can occur when partners do not get along.
- Partners share legal and financial liability.
- If a partner leaves the entire business must be reorganized.

7. Corporations

Definition: Distinct from other ownerships. Main aspect is limited liability. Shareholders have the right to participate in the profits, through dividend and/or appreciation of stock. Although are not held responsible for the company's debt.

Percentage of U.S. corporations: 20%

Examples: Coca Cola, McDonald's, J.P Morgan

Corporations

8. Advantages of corporations (List at least 4):

- **Limited Liability:** holds a firm owners responsible for no more than the capital that they have invested in it
- Ability to raise money when people buy stock
- Corporation does not end if owners dies
- Board of directors govern the corporation

Corporations

9. Disadvantages of corporations (List at least 4):

- They pay taxes on their income
- stockholders pay taxes on profits issued to them called double taxation
- government regulates corporations more than any other business
- difficult and costly to start

10. Franchises

Definition: Contractual agreement to use the name and sell the products or services of a company in a designed geographic area

Advantages of franchises (List at least 4):

- Having a well-known name
- Set business plan
- Established market
- Ability to expand more rapidly
- Comprehensive training

Franchises

11. Disadvantages of franchises (List at least 4):

- Costs may be higher, as well as the initial cost of buying the franchise
- Franchise agreement usually includes restrictions on how you can run your business
- Franchisor might go out of business
- Profits are usually shared with the franchisor

Examples: McDonalds, Bennigan's

12. Other Ways to Organize a Business

Cooperative: (co-op) People who organize a business to provide themselves with the goods and services they need, often non-profit community organizations

Example: Local food Co-op.

Nonprofit: Uses surplus revenues to achieve company goals rather than making profit

Examples: Salvation Army, American Cancer Society