**Name \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_**

**Introduction to Business - Ch. 6 Organizing a Business**

Types of Business Ownership

* **Sole Proprietorship**
* **Partnership**
* **Corporation**

Sole Proprietorship

* Owned by 1 person only.
* Good for a specific product or service.

- car repair shop, bookstore, floral shop

**Advantages** of a **Sole Proprietorship**

* Easy to start.

- License/permit

* Be your own boss.

- Come and go as you please and do busi`ness as you see fit.

* Keep all profits.
* Taxes are quite low.

**Disadvantages** of a **Sole Proprietorship**

* Pay for everything yourself.

- Buy own supplies, pay for advertising, rent office space, pay

taxes, etc.

* Unlimited Liability

- Full responsibility for businesses debts: use personal savings for

business, borrow $ from bank to start business or keep it going.

- Often fail because they run out of capital.

* Lack Business Skills

- May need to hire office manager or accountant.

Partnership

* Business owned by 2 or more people who share the risks and rewards.
* More owners are able to contribute to the business with $, ideas, etc.
* **Partnership Agreement** – contract that outlines the rights and responsibilities of each partner.

- It must be done **before** starting the business.

- What may be included in a

Partnership **Agreement**:

* How much $ will each partner *invest*?
* How will you share *profits/losses*?
* How will you share the *work*?
* How to *end* the partnership so the business can continue?

**Advantages** of a **Partnership**

* Share the risks & losses with your partner.
* Pay taxes only on personal profits.
* Easier to obtain capital

- All partners contribute

- Banks are more willing to give you $

* Each partner brings their own special skills & experiences to the business.

**Disadvantages** of a **Partnership**

* Share profits with partner(s).
* You must get along with your partner.
* A bad decision by a partner can affect you legally &/or financially.

Corporation

* A business owned by many people but treated by law as one person.
* It can own property, pay taxes, make contracts & be sued.
* Exists separate from its owners: stockholders/shareholders

Forming a Corporation

* Get a C**orporate Charter** from your state.

- License to run a corporation

* To raise $ you can sell stock in the corp.

- **Stock** - shares of ownership of your corporation

* **Board of Directors** –controls the corporation by making decisions.

- You pick the 1st Board of Directors

- Stockholders vote on future board members

**Advantages** of a **Corporation**

* **Limited liability**– stockholders can only lose what they have invested.
* Corporation doesn’t end if the owners sell their shares.

- Resell shares, sell new shares

* Stockholders are paid *dividends* when their company makes a profit.

- Based on the number of shares owned

**Disadvantages** of a **Corporation**

* Double taxation (higher taxes)

- Government taxes corp. profits (fed/state)

- Owners are taxed on their income (dividends)

* Government closely regulates corporations

- Harder to start and run than a sole proprietorship or partnership.

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* What are some of the advantages of a sole proprietorship?
* What is the difference between a sole proprietorship & a partnership?
* If a partner makes a bad business decision, what responsibility do the other partners have?

Alternative Ways to Do Business

* Franchise
* Non-Profit Organization
* Cooperative

Franchise

* A contractual agreement to sell a company’s products or services in a designated geographic area.

McDonalds, Taco Bell, Block Buster, etc.

* A franchise can be any business type.
* **Franchiser** – The existing or parent company.

To Run a Franchise

* Invest money
* Pay franchiser an annual fee or share the profits with them.

In return, the franchiser offers:

* Their well-known name.
* A Business Plan.
* Management training, advertising, & a system of operation.

**Advantages** of opening a **Franchise**

* It is easy to start.

- Just rely on the proven methods & products of the parent company

(franchiser).

* The name of the parent company draws customers.

**Disadvantages** of running a **Franchise**

* Franchiser is often very strict about how a business is run.
* Your business MUST operate like every other franchise.
* You may be limited in the products/services you offer your customers.

Non-Profit Organization

* Focus on providing a service rather than making a profit.
* Their common purpose is to help children, the poor, local artists, animals, etc. (NOT PROFIT).

Common nonprofit organizations:

- The Children’s Television Network, American Red Cross

- Meals on Wheels, Private Hospitals

- Schools, Museums

Ways a non-profit organization is LIKE a Corporation:

* Must register with the government.
* May be run by a Board of Directors.

Ways a non-profit organization is NOT LIKE a Corporation:

* Doesn’t have to pay taxes because it doesn’t make a profit.
* Relies on government grants & donations from businesses & individuals to raise $, not investors.
* Donors don’t receive dividends like investors, but can deduct them from their taxes.

Cooperative (Coop)

* An organization owned & operated by its members for the purpose of saving $ on the purchase of certain goods & services.
* Examples:

- Oceanspray is a cooperative of cranberry growers.

- Ace Hardware

- Welch’s

Ways a cooperative is LIKE a corporation

* It exists as a separate legal entity from the individuals.
* You need a government charter to start one.
* Can sell stock & choose a Board of Directors

Ways a cooperative is NOT LIKE a corporation

* Pay less taxes than a corporation.

Cooperatives allow groups to:

(Sample cooperative groups: small farms, book dealers, etc.)

* Pool their resources.
* Save $ by buying insurance, supplies, & advertising as a group.
* Can share factory facilities and warehouse space.

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* What are some examples of franchise businesses?
* What types of assistance does the franchiser give a franchisee?
* How is a non-profit organization like and unlike a corporation?
* What are some advantages of a cooperative?
* How are your needs met?

How are *your* needs met?

Businesses are often classified by the kind of products they provide:

* **Produce** raw goods.
* **Process** raw goods.
* **Manufacture** goods from raw or processed goods.
* **Distribute** goods.
* **Provide** services.

Producers - A business that gathers raw products in their natural state.

* Examples:

- Farmer who grows wheat.

- Miner who digs iron ore.

- Petroleum worker who drills for crude oil.

Industries of Producers

* Agriculture, Mining, Fishing, Forestry

Processors – Change raw materials into more finished products.

* Process raw materials.
* Examples:

- Wheat turned into flour.

- Crude oil into gasoline.

- Iron ore into steel.

* Businesses that process raw materials:

- Paper mills

- Oil refineries

- Smelting plants

Manufacturers – Businesses that make finished products out of processed goods.

* Examples:

- Bakeries bake bread out of flour.

- Automotive plant make cars out of steel, glass and plastic.

- Furniture factories make tables out of lumber.

* Leading Manufacturing Companies:

- Pepsi Co.

- General Electric

**Intermediary** - A business that moves goods from one business to another.

* Buys goods, stores them & resells them.
* **Wholesaler/Distributor** - Buys goods from manufactures in huge quantities and resells them in smaller quantities to their customers.
* **Retailer** - Purchases goods from a wholesaler & resells them to the consumer.

- Service stations

- Record stores

- Auto dealers

Service Business – Provide services rather than goods.

* Employ approximately ¾ of workforce.
* Rapidly increasing in numbers.
* Goods vs. Services

- **Goods** – material products (Cars, CD’s, computers, etc.)

- **Services** – the products of a skill or an activity.

Service Businesses that:

* Meet a Need

- Medical Clinics

- Law firms

* Provide a Convenience

- Taxi Companies

- Copy Shops

* Give Access to Information

- Newspapers

- Internet Services

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* What is the difference between a producer and a processor?
* Describe the activities performed by business.
* What does an intermediary do?
* Give examples of service businesses.