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Introduction to Business

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Chapter 6

Business Ownership and Operations

Section 6.1

Types of Business Ownership

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Section 6.1

Types of Business Ownership

Reading Guide



Read to Learn

Describe the advantages and disadvantages of the three major forms of business organizations.

Describe how cooperatives and nonprofits are like and unlike corporations and franchises.

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Reading Guide



The Main Idea

Sole proprietorships, partnerships, and corporations are the most common forms of business organization. Cooperatives, nonprofits, and franchises are other forms.

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Key Concepts

Organizing a Business

Other Ways to Organize a Business

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Key Term

**sole
proprietorship**

a business owned by one
person

**unlimited
liability**

when the owner is responsible
for the company's debts

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Key Term

partnership

a business owned by two or more people who share its risks and rewards

corporation

a company that is registered by a state and operates apart from its owners

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Key Term

limited liability

holding a firm's owners responsible for no more than the capital that they have invested in it

cooperative

an organization that is owned and operated by its members

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Key Term

nonprofit organization

a type of business that focuses on providing service, not on making a profit

franchise

a contractual agreement to use the name and sell the products or services of a company in a designated geographic area

Organizing a Business

The three main types of business organizations are:

**Sole
Proprietorships**

Partnerships

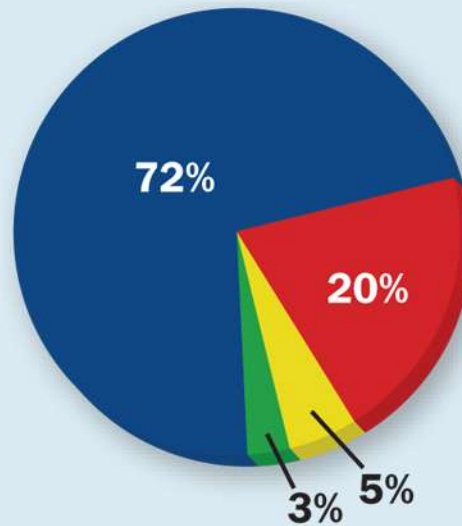
Corporations

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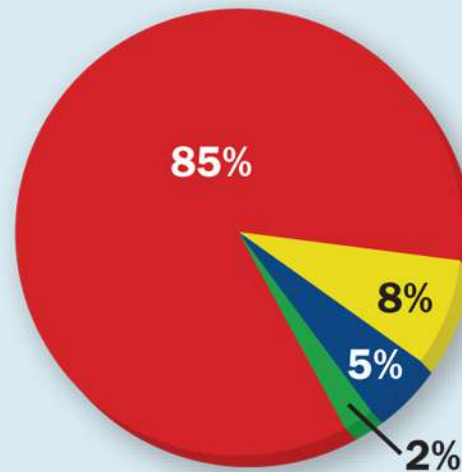
Types of Business Ownership

Figure 6.1

U.S. Sole Proprietorships, Partnerships, and Corporations



Total Number of Businesses



Amount of Revenue Generated by Each Kind of Business



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Types of Business Ownership

Sole Proprietorships

About three-quarters of all businesses in the United States are **sole proprietorships**.



Key Term

sole proprietorship

a business owned by one person

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Advantages of Sole Proprietorships

Easy to start

Proprietors are
in charge

Proprietors keep
all the profits

Taxes are lower
than a corporation's

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Sole Proprietorships

A major disadvantage of owning a sole proprietorship is that the owner has **unlimited liability**.



Key Term

unlimited liability
when the owner is responsible for the company's debts

Graphic Organizer

Disadvantages of Sole Proprietorships

Limited access
to credit

Many run out
of money

The owner may not have
the necessary skills

The business ends
when the owner dies

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Partnerships

To start a **partnership**, you need a partnership agreement.

Key Term

partnership

a business owned by two or more people who share its risks and rewards

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Advantages of Partnerships

Easy to
start

Easier to
obtain capital

Easier to
obtain credit

Not dependent
on a sole
person

Only taxed
once

Diversity in
skills

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Disadvantages of Partnerships

Business risk is shared

Unlimited legal and financial liability is shared

If one partner makes a mistake, all partners are responsible

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Corporations

To form a **corporation**, the owners must get a corporate charter from the state where their main office will be located.

Key Term



corporation

a company that is registered by a state and operates apart from its owners

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Corporations

Limited liability is a major advantage of a corporation.



Key Term

limited liability

holds a firm's owners responsible for no more than the capital that they have invested in it

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Advantages of Partnerships

Limited liability

Ability to raise
money by
selling stock

Business does
not end when an
owner dies

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Disadvantages of Partnerships

Double taxation

More government
regulation

Difficult and
costly to start

Income is taxed.
Stockholders pay taxes on
profits issued to them

Other Ways to Organize a Business

Other ways to organize a business include:

Cooperative

**Nonprofit
Organization**

Franchise

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Other Ways to Organize a Business

The purpose of a **cooperative** is to save money on the purchase of certain goods and services.

Key Term



cooperative

an organization that is owned and operated by its members

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Other Ways to Organize a Business

A **nonprofit organization** does not pay taxes because it does not make a profit.



Key Term

nonprofit organization
a type of business that focuses on providing a service, not making a profit

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Other Ways to Organize a Business

To run a **franchise**, you have to invest money and pay franchise fees or a share of the profits.

Key Term

franchise

a contractual agreement to use the name and sell the products or services of a company in a designated geographic area

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Car Sharing

Car sharing is a popular European process in which many households share vehicles.

Mobility CarSharing cooperative in Switzerland has over 50,000 clients.

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What is the difference between a sole proprietorship and a partnership?

A sole proprietorship is owned by one person. A partnership is owned by two or more people.

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If a partner makes a bad decision, what responsibility do the other partners have?

All partners share responsibility for a bad decision.

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Why are cooperatives formed?

**so that the members have advantages
in buying and selling products and
services**

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