



# Foundations of Business

In order to appreciate and make informed decisions in the world around them, students will need to establish a basic business/economic foundation.

# Ch 6 Business Ownership and Operations

Why is it important to understand the advantages and disadvantages of business ownership and operations before starting your own business?

# Ch 6 Targets

The title 'Ch 6 Targets' is positioned at the top left. To its right, there are five circles arranged horizontally. The first circle is solid light purple. The second circle is white with a light purple outline. The third circle is solid light purple. The fourth circle is white with a light purple outline. The fifth circle is solid light purple.

- Explain what a business is.
- Name the different types of business ownership.
- Compare the different types of business ownership.
- Explain the difference between limited and unlimited liability.
- Describe alternative ways of doing business.

# Business Ownership

- **What is a Business?**

- All the activities of an individual or group of individuals involved in producing and distributing goods and services to consumers in exchange for payment in some form.

- **Types of Businesses:**

- Sole Proprietorship
- Partnership
- Corporation



# Business Ownership

- **Sole Proprietorship**

- Owned by ONE person
- Receives ALL profits
- Bears ALL losses
- *How To Become A Millionaire Handout*
- Advantages:
  - Ease of starting
  - Control over business
  - Keep all the profits
- Disadvantages:
  - Difficulty raising financial capital
  - Unlimited liability
  - Limited life

**FYI: More than  $\frac{3}{4}$  of all businesses in the U.S. are sole proprietorships.**

# Business Ownership

- **Partnership**

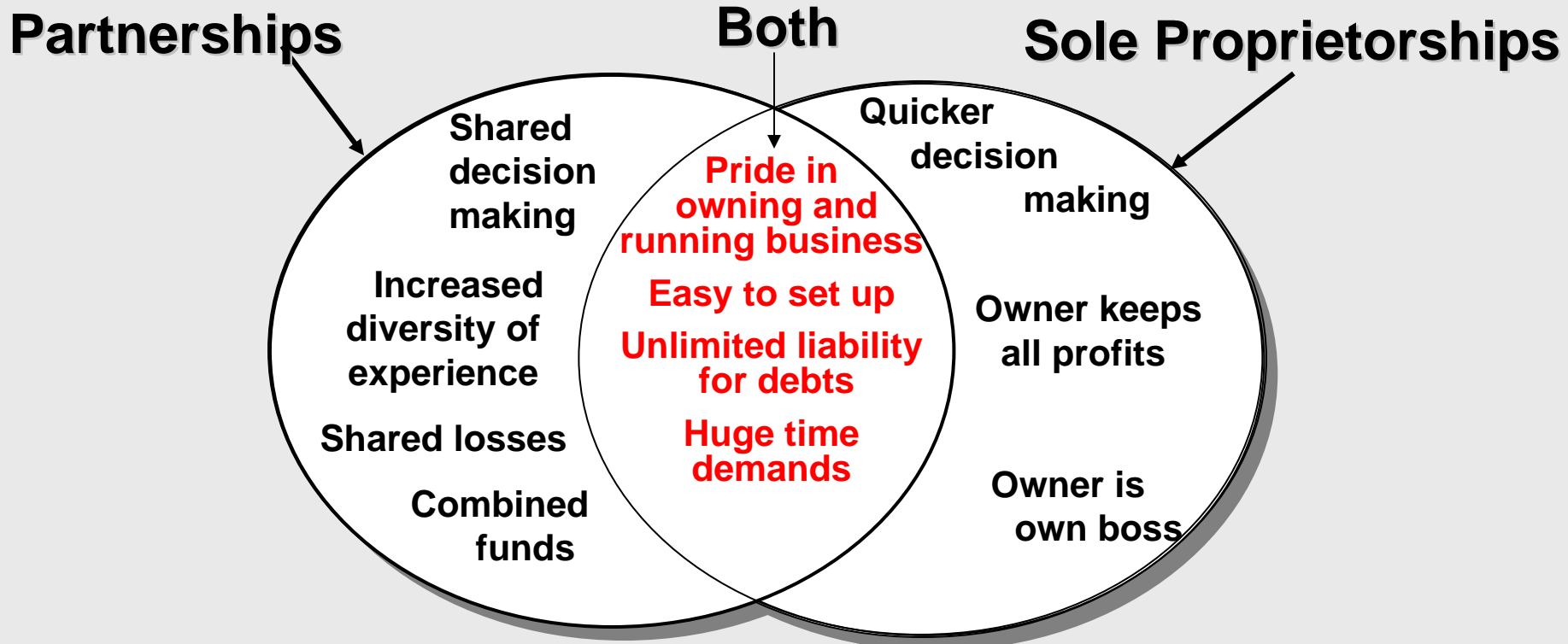
- Owned by two or more individuals
- Written contract between partners
- **Advantages**
  - Ease of starting
  - Easier to obtain capital
  - Different skills brought to the business

- **Disadvantages**

- Share profits
- Partners are equally responsible for bad decisions
- Unlimited liability
- Possible instability after death of a partner



# Similarities and Differences Between Partnerships and Sole Proprietorships



# Business Ownership



- **Corporations:**

- Owned by a number of people under written permission from the state in which it is located, but treated by law as one person.

- **Corporate Charter**

- License issued by the state to run a corporation



- **Sell shares of stock to owners**

- Shareholders

The easiest way to become a business owner is to buy a share of stock in a corporation.

# Business Ownership



## ● Corporations:

### ○ Advantages

- Limited liability – responsible only for your investment
- Unlimited life
- Greater financial capital

### ○ Disadvantages

- More difficult to start
- Increased government control
- Increased taxation
  - Corporation is taxed on revenues
  - Owners are taxed on dividends

- Fickle Financial Services Activity 1



**The easiest way to become a business owner is to buy a share of stock in a corporation.**

# Alternative Ways to do Business

## ● Franchise

- Contractual agreement to sell a company's products or services in a designated geographic area.
- Examples:
  - Barnes and Noble
  - Burger King
  - Blockbuster
  - KFC
  - Wendy's



**Almost 50% of all retail sales are made at franchise stores.**

# Alternative Ways to do Business

## ● Franchise

### ○ Franchisor - Parent Company

- Provides training
- Advertising
- Business plan
- System of operation

### ● Pay Annual Fee to Franchisor

### ○ Operate as:

- Sole Proprietor
- Partnership
- Corporation

# Alternative Ways to do Business

- **Franchise**

- **Advantages:**

- Easy to start
- Proven successful
- Name Recognition

- **Disadvantages:**

- Very strict on how to run the business
- Must operate just like all others
- Limited on products/ services you can offer
- Expensive



# Alternative Ways to do Business

- **Nonprofit Organization**

- A type of business that focuses on providing a service rather than making a profit.

- **Examples:**

- PBS TV
- American Red Cross
- Meals on Wheels
- Churches, religious organizations

# Alternative Ways to do Business

- **Nonprofit Organization**

- Register with government
- Doesn't pay taxes (no profit)
- Relies on government grants & donations
  
- Donors
  - Get tax deduction

# 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.
  - Can sell stock
  - Can choose a board of directors to run it.



# Ch 6 Targets Review



- Explain what a business is.
  - All the activities of an individual or group involved in producing and distributing goods and services
- Name the different types of business ownership.
  - Sole Proprietorship, Partnership, Corporation
- Compare the different types of business ownership.
  - Sole Proprietorship – owned by one person
  - Partnership – owned by two or more people
  - Corporation – owned by many people
  - Advantages vs. Disadvantages

# Ch 6 Targets Review



- Explain the difference between limited and unlimited liability.
  - Unlimited – full responsibility for business's debts
  - Limited – lose only what is invested
- Describe alternative ways of doing business.
  - Franchise
  - Non-Profit
  - Cooperative