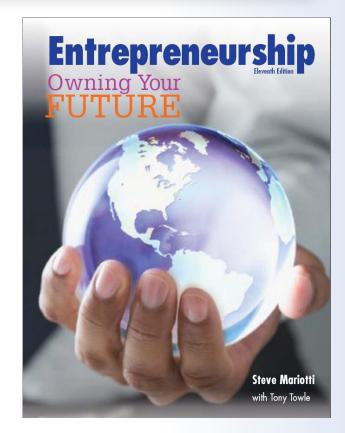


Types of Business & Business Ownership

Section 3.1 Types of Business

Section 3.2 Types of Business Ownership



Section 3.1

Types of Business

OBJECTIVES

- Identify the four main types of business
- Examine trends in business startups in recent decades
- Explore growth expectations for business

Types of Business

A manufacturing business (manufacturer) converts materials into goods suitable for use and then sells those goods to others.

- A wholesaling business (wholesaler) buys goods in large quantities, typically from manufacturers, and resells them in smaller batches to retailers.
- A retailing business (retailer) buys goods, often from wholesalers, and resells them directly to consumers, who are the end buyers.
- A service business provides services to customers for a fee.

Trends in Business Startups

Over the past fifty years, the business make-up of the United States has changed significantly.

- In the 1950s, the country's dominant industry was manufacturing.
- During the 1950s and 1960s, America experienced a boom in franchising.
- By 1970, service, wholesale, and retail businesses accounted for the majority of America's economic production.
- The vast majority of businesses started in the 2000s have been service and trade businesses.

Businesses of the Future

- The U.S. Department of Labor makes predictions on which industries will likely experience the largest growth in number of employees in the following decade using the The North American Industry Classification System (NAICS).
- The top ten companies have one thing in common they provide some type of service. This demonstrates that service businesses are expected to dominate the U.S. economy through 2020.

Section 3

Types of Business Ownership

OBJECTIVES

- Define liability
- Examine sole proprietorships
- Learn about partnerships
- Examine corporations
- Understand cooperatives

Liability of Business Owners

Owner's liability is the legal obligation of a business owner to use personal money and possessions to pay the debts of the business.

- Unlimited liability means that a business owner can be legally forced to use personal money and possessions to pay the debts of the business.
- Limited liability means that a business owner cannot be legally forced to use personal money and possessions to pay business debt.

Sole Proprietorships

A **sole proprietorship** is a legally defined type of business ownership in which a single individual owns the business, collects all profit from it, and has unlimited liability for its debt.

- The sole proprietorship is the simplest and least expensive option for business ownership.
- Because the owner and the business are one and the same, business income and costs are reported on the owner's personal income tax return.
- In a sole proprietorship, only one individual is responsible for the business.
- The sole proprietor has unlimited liability for any business debts.

Partnerships

A partnership is a legally defined type of business organization in which at least two individuals share the management, profit, and liability.

- In a general partnership, all partners have unlimited liability.
- A limited partnership is structured so that at least one partner (the general partner) has limited liability for the debts of the business.
- General partnerships rely on the entrepreneurial skills and financial backing of at least two individuals.
- Because general partners have unlimited liability, they risk losing personal money and possessions to pay business debts.

Corporations

A **corporation** is a legally defined type of business ownership in which the business is considered a type of "person" (or "entity") under the law, and limited liability is granted to the business owner(s).

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- The owners of a corporation are called its shareholders or stockholders.
- A share of stock is a unit of ownership in a corporation.
- Each share may earn its owner a dividend, which is a portion of the corporation's profit.
- Shareholders have a limited liability. They risk only the money they invested in the corporation.

Types of Corporations

- Most corporations are C corporations, which are taxed as an entity by the federal government.
- A subchapter S corporation differs from a C corporation in how it is taxed. It is not taxed as an entity, rather its income or loss is applied to each shareholder and appears on their tax returns.
- A limited liability company is a legally defined type of business ownership similar to a C corporation, but with simpler operating requirements and tax procedures and greater liability protection for the business owners.
- A nonprofit corporation is a legally defined type of business ownership in which the company operates not to provide profit for its shareholders but to serve the good of society.

Cooperatives

- A cooperative is a business owned, controlled, and operated for the mutual benefit of its members—people who use its services, buy its goods, or are employed by it.
- In the U.S., cooperatives are not as common as other types of businesses and are often organized as corporations.
- Cooperatives often share their earnings with the membership as dividends.