

# Entrepreneurship/Business Ownership

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## Types of Businesses

There are many different types of businesses. Here are some of the types:

- An extracting business is a business that takes raw materials from nature or grows products. Farming and mining are examples of extracting businesses.
- A manufacturing business transforms raw materials and parts into usable products. Some local manufacturing businesses include American Proteins, Precision Millworks, and Tyson.
- A wholesaler, sometimes referred to an intermediary, is a business that serves as the link between producers and retailers. Edgework Imports and Michelle and Scott's Wholesale are wholesalers.
- The type of business that you are probably the most familiar with is the retailer. A retailer sells directly to consumers. Some local examples of retailers are Target, Best Buy, and Kroger. What other retailers can you think of? Retailers usually obtain merchandise from wholesalers.
- A service business performs an activity for a fee. Examples of service businesses include house cleaners, accountants, and lawyers. If you have ever had a small business like babysitting or mowing lawns, you have engaged in a service business.

## Forms of Business

In addition to the different types of businesses, there is also the legal formation of a business.

### Sole Proprietorship

Sole proprietorships make up 74% of all of the businesses in the United States. A sole proprietorship is a business that is owned by only one person. Sole proprietorship are easy to start and offers the own freedom to make all businesses decisions. The owner gets to keep all of the profits and has a great sense of pride in ownership. The disadvantages of a sole proprietorship included a limited source of start of funds, potential of working a lot of long hours and working hard. There is also unlimited risk. This means that the sole owner of the businesses is personally



S-Corp  
Franchise  
Partnership  
Corporation  
Proprietorship  
Cooperative  
Nonprofit  
LLC  
C-Corp

responsible for the debts (money owed) of the business. There is also limited life of the business. The business only exists as long as the owner does.

## Partnership



A partnership is a business owned by two or more people, but is not incorporated. A partnership can exist between two or more people. Partnerships are easy to create and offer an additional source of funds and different talents because there are more people owning the businesses. However, the partners are liable for the debts of the business. The profits are shared among several owners. There is the potential for disagreement among the owners and the business can dissolve suddenly.

There are different types of partnerships:

- General partnership
- Limited Partnership
- Limited Liability Partnership (LLP)
- Joint Venture

With a general partnership all of the partners share equal rights and responsibilities in the management of the business assumes full personal liability for the debts and obligations of the business one partner can enter into a contract on behalf of the partnership, making the other partner(s) legally bound to the terms of the contract. A limited partnership consists of at least one general partner and one or more limited partners. The general partner, just like in a general partnership, bears full personal responsibility for the debts and obligations of the business. The limited partner takes a passive role in the business and in fact does not participate in the management of the business at all. The limited partner's risk is limited to his or her investment in the business.

The limited liability partnership (LLP) is the same as a general partnership except that a partner cannot be held liable for the wrongful acts of other partners; and, in some states, the general partners cannot be held responsible for the debts and obligations of the business. The joint venture acts like a general partnership, but is clearly for a limited period of time or a single project.

## Corporation

A corporation is a business that operates as a legal entity separate from any of the owners known as stockholders. Stockholders purchase shares of stock in the corporation which is an ownership in the corporation. As a result of their ownership, stockholders earn dividends and get a right to vote on company policies. Stockholders can sell their shares at any time.

Advantages include:

- More sources of funds
- Fixed financial liability of owners
- Availability of specialized management
- Unlimited life of the company

Disadvantages include:

- Difficult creation process
- Requires a charter – document granted by the state or federal government that allows a company to organize as a corporation.
- Owners are usually limited in their control
- Double taxation on corporate earnings

## **Types of Corporations**

**C-Corporation.** A C-Corporation is the most commonly used type of corporations suitable for businesses of any size. It can have any number of shareholders. Shareholder's assets are protected from the creditors of the corporation since the liability of the shareholders is limited to the amount contributed by them to the capital of the Corporation. The only disadvantage of C-Corporations is double taxation as profits are taxed first as income to the corporation, then as income to the shareholder when distributed as dividends.

**S-Corporation.** An S-Corporation is a smaller corporation and can have more than 75 shareholders. It is treated as a Partnership or a Limited Liability Company for tax purposes and therefore it avoids double taxation. It is also generally exempt from federal taxes. If a shareholder works for the company, and if there is a profit, he must pay himself wages, and must meet standards of *reasonable compensation*.

**Limited Liability Company (LLC).** A LLC is a fairly new type of hybrid business structure that is a legal entity that is formed by filing Articles of Organization at the state level. A LLC is similar to a C-Corporation with shareholders but without the formalities and stringent recordkeeping requirements normally associated with corporations. The members of an LLC are generally not responsible for the debts and obligations of the LLC. LLC is flexible in allocating ownership interest amongst partners. Ownership interest in an LLC can be divided in any way the partners see fit, regardless of if and how much capital is contributed by each partner. A LLC can be taxed like a partnership or a corporation. LLC must not have more than two of the four characteristics that define

corporations: Limited liability to the extent of assets, continuity of life, centralization of management, and free transferability of ownership interests. Otherwise, the business would have to have a charter of a C-Corporation.

## Other Forms of Business

In addition to the other forms of businesses mentioned above, there are a few others:

- **Nonprofit corporations** – created to provide service and are not concerned with making a profit such as churches, the American Red Cross, or the United Way
- **Cooperative** – business owned by its members and operated for their benefit such as Credit Unions or Utility Services.
- **Franchise** – is a method a company uses to distribute its products or services through retail outlets owned by independent, third party operators. McDonald's is an example of a franchise.
  - Advantages: The independent operator does business using the marketing methods, trademarked goods and services and the "goodwill" and name recognition developed by the company.
  - Disadvantages: The independent operator pays an initial fee and royalties to the owner of the franchise and the independent operator must use the supplier the Franchisor requires.

## Assignment: Types of Corporations noteguide

**Directions:** Download the [Types of Corporations noteguide](#) and put your answers in the answer document found in itsLearning.

## Assignment: Ownership Factors Worksheet

**Directions:** Read each statement and evaluate whether it represents an advantage or disadvantage for the form of business ownership described.

## Entrepreneurship

There is a saying that there are only three types of people in the world: those who watch what happened, those who wonder what happened and those who make things happen. Entrepreneurs are people who own, operate, and take the risk of a business venture.

Do you think you know who started some popular businesses? Give it a try:

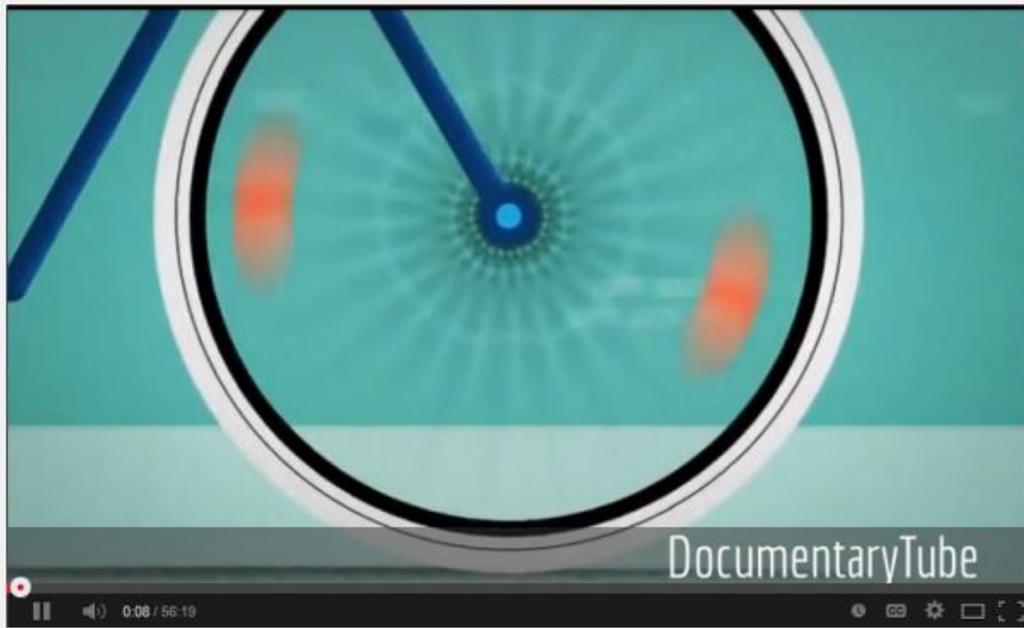
*My most satisfying day is the day I work the hardest -- the day I get the most accomplished. I think most people are that way. When they do something less than what they are capable of doing, its work. When they do an outstanding job in their performance, it's rewarding to them. ~ S. Truett Cathy*



Click the picture to read the presentation

### **The Life of a Young Entrepreneur**

*The Life of a Young Entrepreneur* is a documentary about young web entrepreneurs in the U.S. and Europe. It contains interviews with the founders of Vimeo, Soundcloud, Kiip, InDinero, Dropbox, Foodspotting and many others who talk about how they started their company and their lives as an entrepreneur. The movie is made by two Icelandic entrepreneurs, Vala Halldorsdottir and Sesselja Vilhjalmsdottir, who founded their first company shortly after the economic collapse of Iceland and wanted to motivate other young people to become entrepreneurs.



### The Life Of A Young Entrepreneur - Documentary

Click the picture to watch the video

## Assignment: What Makes a Successful Entrepreneur

**Directions:** Do you often wonder what it takes to be a successful entrepreneur? Let's take a look at some published biographies of people who are worth millions because they put their ideas to work! Open the assignment in itsLearning for further instructions.

## Assignment: Entrepreneur of the Year project

**Directions:** You have been selected as Entrepreneur of the Year by the magazine of your choice. Your picture will be on the cover and an article featuring your business will be inside. Create a magazine cover and write a feature story about you and your start up business. Open the assignment in itsLearning for further instructions.

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## Business Plan

A business plan is a formal statement of a set of business goals, the reasons they are believed attainable, and the plan for reaching those goals. It may also contain background information about the organization or team attempting to reach those goals.

# 10 KEYS TO A SUCCESSFUL BUSINESS PLAN

When starting a business, you must have a clear vision of your purpose and goals. The best way to do this is through a business plan: a written, organized layout for how you want your business to start, perform, and excel. Learn the essentials for creating a great business plan.

## WHY YOU SHOULD WRITE A BUSINESS PLAN IN THE FIRST PLACE

As a business owner, there are many reasons why you might need one, such as:



- Searching for investors
- Applying for business loans
- Making improvements in your existing business

### 1 IDENTIFY THE NEED YOUR BUSINESS FULFILLS

- Define the need (or problem) that your business satisfies
- If you aren't sure what your business' purpose is, you need to rethink it before launching!



### 2 CLEARLY DESCRIBE HOW IT FULFILLS THIS NEED

- This is the place for your mission statement
- List objectives for the actions your business takes to address holes in the market
- Chances are, other businesses are working to fulfill the same niche — but how does your business do it better than they do?

### 3 RECOGNIZE HOW YOUR BUSINESS IS UNIQUE

- Outline a business model that details the advantages of your organization, in order to ascertain how your business will survive
- Scrutinize the strengths and weaknesses of your competition, as well



- Distinguish yourself from the crowd to boost your shot at investment capital
- 36% of surveyed business owners with a business plan obtained investment capital
- Only 18% of those without business plans secured it

### 4 NAME YOUR KEY STAKEHOLDERS

- Identify your management team, board, and advisers
- Include the details of their value-add

### 5 KNOW THE SIZE OF YOUR MARKET

- Analyze the market conditions: how big it is, how much is it growing, how fast is it growing and what is its profit potential?

### 6 KNOW WHO MAKES UP YOUR TARGET MARKET

- Your marketing strategies should be clearly aimed at your target market
- If not, you're wasting time, effort, and money



### 7 DEVISE IDEAL PROMOTIONAL STRATEGIES

- How do you reach that target market?
- Your strategy should include the ideal mediums that speak most to your clients and where they gather their information



### 8 BREAK DOWN YOUR REVENUE STREAMS

This should include:

- PRICING STRUCTURE
- COSTS
- MARGINS
- EXPENSES

Revenue prediction in real terms can actually be detrimental to your plan (as it often doesn't meet expectations) — but knowing what makes up your revenue is valuable

### 9 BUDGET HOW MUCH MONEY YOU NEED TO GET STARTED — AND KEEP GOING

- Funding to move your idea to a proof of concept will typically come from friends, family, and personal funds.
  - SBA loans and bank financing are options for modest growth businesses.
  - Angel investors and venture capitalists will fund rapid growth opportunities.
- Whoever is providing your funding will want to see a solid business plan.

- If you apply for an SBA loan, you'll need 30% of the funding (plus a solid business plan)
- If approved, SBA will loan you up to 70% of what you need to start



### 10 CREATE A PLAN FOR BREAKING EVEN

- Yes, revenue can be tough to predict... but create a few different scenarios and establish the sales required to pay for your expenses and subsequently turn a profit!
- If possible, break it down month-by-month for your business' first two years

Create contingencies for positive and negative scenarios

- If you hit a rough patch and you don't have a plan, your business could slump or even fail
- If you see unexpected success, your goals may be pushed up significantly — and suddenly you need a new plan



To obtain the skills you need to develop a great business, consider obtaining an online MBA from WSU. You can continue your education while maintaining your career, so that you can apply what you learn as you learn it. Contact us today to learn more.

<http://omba.wsu.edu/mba-program/>

#### SOURCES:

- <http://www.thehartford.com/smallbizhead/hub-article/writing-business-plan>
- <http://www.businessnewsdaily.com/3333-business-plan-templates.html>
- <http://smallbiztrends.com/2010/06/business-plan-success-twice-as-likely.html>
- <http://www.businessinsider.com/how-to-write-a-successful-business-plan-2012-11>
- <http://www.allbusiness.com/business-planning-structures/business-plans/3508-1.html>
- <http://www.forbes.com/sites/thesba/2012/08/06/top-10-questions-every-business-plan-should-answer/>

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Take a moment to google business plan. There are many templates available to help you with proper formatting when writing a business plan.

## Assignment: Question for Thought

**Directions:** Do some research of our local community to identify several business opportunities. Write a summary (in paragraph format) of what you find and submit directly in the textbox (do not submit a separate document) in itsLearning. Be sure to proofread.

## Assignment: Current Event

**Directions:** Visit the following website:

<http://www.entrepreneur.com/technology/index.html> and select one of technology related articles or video. Summarize the article or video in paragraph format (at least 5 sentences) and submit into the textbox in itsLearning.

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## Review

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## Resources

If you are having problems viewing this page, opening videos, or accessing the URLs, the direct links are posted below. All assignments are submitted in itsLearning. If you have having problems, contact Mrs. Rush through the itsLearning email client.

Evolution of Business Communication video:

<https://www.youtube.com/watch?v=g7xVhjblXt8>

Design Guideline presentation: <http://www.mrsrush.net/communications/tips.pdf>

Entrepreneurs presentation: F:\IBT 2013\Online\Entrepreneurship\entrepreneurship.pdf

The Life of a Young Entrepreneur - Documentary:

<http://www.youtube.com/watch?v=OjYceP2Fup4>

Types of Corporations noteguide: <http://www.mrsrush.net/entrepreneurship/type.pdf>

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**Credits**

10 Keys to a Successful Business Plan infographic:  
<http://www.entrepreneur.com/article/231525>

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[Transcript of this lesson](#)