

# Cheat Sheet: Business Ownership

## Essential Concepts

### **Owning a Business, Sole Proprietorship**

Sole proprietorship, partnerships, corporations, and hybrids (LLC, LLP) are all possible options for the legal formation of a business. Each structure carries risks and rewards, costs and benefits. Which form of business ownership is best for an individual depends not only upon the nature of the business opportunity but also the level of personal exposure to risk the owner is willing to accept. Important factors to consider include the cost of start-up, control versus responsibility, profit sharing, taxation implications, entrepreneurial ability, risk tolerance, financing options, continuity and transferability, and long-term business goals.

A sole proprietorship is a business owned by one person, and it automatically arises from the individual's business activities without any formal action. The owner is personally responsible for all debts and liabilities of the business, and the profits are taxed as personal income. While forming a sole proprietorship is easy and inexpensive, it has disadvantages such as unlimited liability, difficulty raising capital, limited managerial expertise, challenges in finding qualified employees, personal time commitment, and uncertainty regarding the business's lifespan.

### **Partnerships**

A partnership is a single business in which two or more people share ownership. There are two general types of partnership arrangements: general partnerships and limited partnerships. Each of these types of partnerships has advantages and disadvantages that must be considered by partners.

### **Corporations**

Although not the most common form of business ownership, corporations account for the majority of the revenue from business in the U.S. They are also the most complex type of organization to start and maintain. Types of corporations include C corporations, S corporations, B corporations, and LLCs.

A corporation, also known as a C corporation or C corp, is an independent legal entity owned by shareholders and is held liable for the actions and debts of the business. It is more suitable for established, larger companies and offers the ability to sell ownership shares through stock

offerings. An S corporation, on the other hand, is a special type of corporation that allows profits and losses to pass through to the shareholders' personal tax returns, but they must be paid reasonable compensation and have certain limitations.

Benefit corporations (B corps) are for-profit entities that prioritize positive social and environmental impact alongside profit and are required to consider the broader impact of their decisions. They also have transparency requirements and publish annual benefit reports.

An LLC is a business structure that combines the limited liability of a corporation with the tax advantages and flexibility of a partnership, making it an attractive option for small business owners. LLCs can have multiple members and the profits and losses are passed through to individual members for tax purposes.

## **Franchising**

For aspiring business owners who do not have the time, vision, or resources to “start from scratch,” franchising is a viable alternative for business ownership. Everyone is familiar with franchises—many industries such as fast food are almost wholly comprised of franchises. As appealing as this may seem, there are still risks to franchising for both the franchisor and franchisee.

## **Mergers and Acquisitions**

One of the quickest ways for a business to expand into other markets or product lines is either to merge or acquire/purchase another company. Although this is common in today's business environment, there are still many complex factors to consider before deciding whether a merger or acquisition is the optimal solution.

Growing your business through an acquisition or merger can provide benefits such as acquiring skilled staff, industry knowledge, and business intelligence, accessing funds and valuable assets, addressing underperformance, expanding your customer base, diversifying your offerings, reducing costs and competition, and accelerating organic growth through resource consolidation.

## **Career Connection: Professionalism**

Professionalism encompasses many attributes and skills, including understanding diverse work environments, demonstrating effective work habits, aligning with organizational values, being present and prepared, displaying dependability, attention to detail, a positive attitude, and dedication to job excellence.

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# Glossary

## **acquisition**

when a company purchases the assets of another business (such as stock, property, plants, equipment) and usually permits the acquired company to continue operating as it did prior to the acquisition; usually refers to a purchase of a smaller firm by a larger one

## **benefit corporation**

sometimes called a B corp, a type of for-profit corporate entity, authorized by thirty U.S. states and the District of Columbia, that includes positive impact on society, workers, the community, and the environment—in addition to profit—as its legally defined goals

## **corporation**

sometimes referred to as a C corporation or C corp, is an independent legal entity owned by shareholders

## **franchise**

a business model that involves one business owner licensing trademarks and methods to an independent entrepreneur for a certain period of time

## **franchise agreement**

the contract between franchisor and franchisee that sets the conditions of establishing a new franchise business

## **franchisee**

the independent entrepreneur who contracts to use the trademarks and methods owned by the franchisor

## **franchisor**

the business that owns trademarks and methods in a franchise agreement

## **horizontal merger**

occurs between companies in the same industry; essentially a consolidation of two or more businesses that operate in the same market space, often as competitors offering the same good or service

## **integration**

when businesses acquire other businesses or operations that were previously competitors, suppliers, buyers, or sellers

**liability**

legal responsibility for matters such as debts and claims that arise from lawsuits

**limited liability company**

a hybrid business structure allowed by some states; they provide the limited liability features of a corporation and the tax efficiencies and operational flexibility of a partnership

**merger**

the consolidation of two companies that, prior to the merger, were operating as independent entities; usually creates one larger company and one of the original companies ceases to exist

**partnership**

a single business in which two or more people share ownership

**professionalism**

understanding that work environments can be very different, that you demonstrate effective work habits, and that you act in a way that furthers the interest of your workplace and the larger community.

**S corporation**

a special type of corporation where profits and losses can pass through to your personal tax return to avoid double taxation

**sole proprietorship**

the simplest and most common legal structure that consists of an unincorporated business owned and run by one individual in which there is no distinction between the business and the owner

**synergy**

the idea that the sum of two entities will be greater than their individual parts