

A vibrant street scene in a coastal town, likely Maine, featuring colorful buildings and various signs. A prominent sign reads "MY MAINE BAG". Other signs include "GALYDE", "RESTAURANT", and "GIFTS". People are walking on the sidewalk, and cars are parked along the street. The background shows a body of water and a forested hillside.

Chapter 8: Business Organizations

Section 1

Prentice Hall

ECONOMICS

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Objectives

1. **Explain** the characteristics of sole proprietorships.
2. **Analyze** the advantages of sole proprietorships.
3. **Analyze** the disadvantages of sole proprietorships.



Key Terms

- **sole proprietorship:** a business owned and managed by a single individual
- **business license:** authorization to operate a business issued by a local government
- **zoning laws:** laws in a city or town that designate certain areas, or zones, for residential and business use
- **liability:** the legal obligation to pay debts
- **fringe benefits:** payments to employees other than wages or salary.



- What are the risks and benefits of a sole proprietorship?
 - Sole proprietorships are easy to start and when you are the sole owner, you receive all of the profits from the business.
 - On the other hand, you have total liability for the company and could lose your investment as well as other personal property if the business fails.



The Role of Sole Proprietorships

- A sole proprietorship is a business owned and managed by a single individual.
 - In this type of business organization the lone entrepreneur earns all of the firm's profits and is responsible for all its debts.
 - More than 70 percent of all businesses in the United States are sole proprietorships but they are small, generating only 4 percent of all U.S. sales.

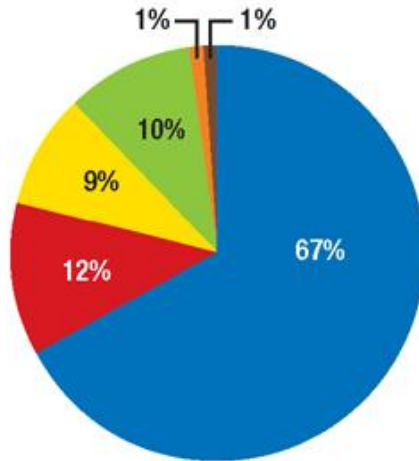


Entrepreneurs

- The potential to make a profit is a big incentive for entrepreneurs to start a sole proprietorship.
 - Entrepreneurs must be willing to assume total responsibility and take risks.
 - A successful entrepreneur is:
 - Optimistic
 - Enthusiastic
 - Focused on the future

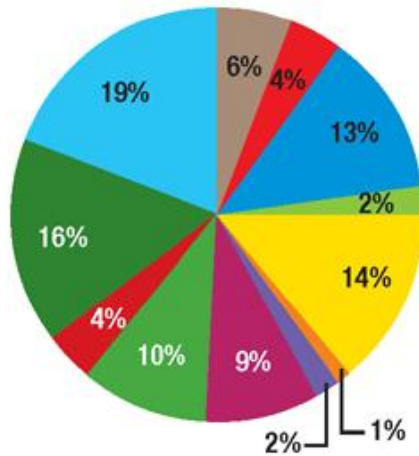


Characteristics of Proprietorships



By Tax Return

- Under \$25,000
- \$25,000–\$49,999
- \$50,000–\$99,999
- \$100,000–\$499,999
- \$500,000–\$999,999
- \$1,000,000 or more



By Type

- Real estate
- Finance and Insurance
- Retail
- Manufacturing
- Construction
- Agriculture
- Accommodation and food services
- Healthcare and Social Assistance
- Administrative support and waste management
- Management, scientific, and technical consulting
- Professional, scientific, and technical services
- Other services, including legal



Note: Because of rounding, totals may be greater than or less than 100 percent. Data for 2004.
SOURCE: *The 2008 Statistical Abstract of the United States*



Advantages

- Sole proprietorships have many advantages, including:
 - They are easy to start - there is only a small amount of paperwork and legal expense
 - There are minimum requirements - sole proprietors need only a business license, a state permit if not working out of their home, and a name for their business



Advantages, cont.

- There are few regulations - sole proprietorships are the least regulated form of business organization.
 - However, sole proprietorships are subjected to zoning laws, which may prohibit them from operating businesses out of their homes.
- They are the sole receiver of profit - the owner gets to keep all of the profits after paying income taxes.



Advantages, cont.

- Sole proprietors have full control - a high level of freedom allows sole proprietors to run their company as they wish.

Economics & YOU

Sole Proprietorship

A clothing store owner takes pride in the quality of her customer service, wanting to make sure you get what you need. *You appreciate the personalized attention.*



The store owner is on vacation. *You are inconvenienced.*



The illustration is divided into two panels. The top panel shows a woman in a red jacket (the owner) smiling and assisting a customer in a pink dress. In the background, there are four mannequins wearing different colored dresses. The bottom panel shows the same woman in the red jacket looking thoughtful and slightly annoyed while talking on a mobile phone. A customer in a purple top and white pants is looking at a red sign on a store window that says 'SORRY WE'RE CLOSED On Vacation Back August 1'. The store window displays a mannequin in a long orange dress.



Disadvantages

- Checkpoint: What are the disadvantages of sole proprietorships?
 - Unlimited liability - sole proprietorships are fully and personally responsible for all their business debts
 - Limited access to resources
 - Sole proprietorships must buy all the necessary resources they need to run their business, which can be very expensive.
 - They may lack in human capital.
 - Demands on a sole proprietorships can be personally and financially exhausting.



Lack of Performance

- Sole proprietorships often have trouble finding and keeping good employees.
 - Many sole proprietorships do not have the ability to offer fringe benefits.
 - How does this cartoon show a major disadvantage of a sole proprietorship?



Review

- Now that you have learned the risks and benefits of a sole proprietorship, go back and answer the Chapter Essential Question.
 - Why do some businesses succeed and other fail?

