Non-Corporate Business

by Sophia

WHAT'S COVERED

Have you ever thought of opening your own business? And if so, what kind of business would it be? How would you organize it? How many people would be involved in the business? This tutorial will cover the topic of non-corporate business, including a comparison of sole proprietorship and partnerships. Our discussion breaks down as follows:

1. Sole Proprietorship

A **sole proprietor** is simply a business which is owned and operated by one person. Now, just because a sole proprietorship starts off that way, doesn't mean it has to stay that way forever. In fact, Ford Motor Company, Walmart, and some of the other biggest companies in the world today began life as a sole proprietor.

DID YOU KNOW

There over 21 million sole proprietorships in the United States alone. How many can you think of? If you think about it, you could probably think of a half dozen simply in your town, where you do business every day.

There are advantages and disadvantages of being a sole proprietor.

Sole Proprietor	
Advantages	**Disdvantages**
It's easy to start up and close down; it's as simple as saying you want to be in business, or you don't want to be in business	The workload can be daunting because you have to do everything associated with the business.

The owner retains all the profits generated by the business.	Funding can be an issue, especially when you're starting out. You're considered a risky investment, and people may not want to invest in you.
Taxes are simple, because you, as the owner, are simply taxed on the profits that you take from the business.	It's difficult to attract employees, especially starting out, because there's not a lot of money to go around. Attracting employees with a salary that they would be willing to accept can be difficult.
There is pride in a job well done. You are the business, so all of its successes come back to you.	You have unlimited liability in the business, which means if the business is sued, they're actually suing *you*, and you're putting your personal assets at risk.
You can build great customer relationships with folks. If you're one of those people who loves building a relationship with a customer, this is probably the business model for you.	Continuity is a significant issue, because very rarely will a sole proprietorship survive past the death of its owner. Once the owner dies, the business dies with him or her.

HINT

Liability is simply a legal obligation or responsibility. Being a sole proprietor, having that unlimited liability means that if someone sues the business--because you *are* the business--they're actually suing *you*.

TERMS TO KNOW

Sole Proprietor
A business which is owned and operated by one person.

Liability
A legal obligation or responsibility.

2. Partnerships

A **partnership**, on the other hand, is defined as a business that's owned by two or more people. These are both folks who are actively involved in the business. If, for instance, you and I wanted to start a business, we would be partners in a partnership.

There are several different types of partners:

- General Partner: A member of a partnership that plays an active role in the business.
- Limited Partner: Someone who enters the partnership by investing capital, but they don't play any active role.

EXAMPLE Suppose you and I are general partners, and we have someone come along and invest money to help us grow or expand the business. That person would be a limited partner. They're shielded from some liability, and they can take a portion of the profits for the investment that they made, but they don't play an active role in the decision making.

- Master Limited Partnership: Similar to a limited partnership, but in this case the company issues units of ownership to attract a larger number of limited partners.

  EXAMPLE Suppose you and I are running the business, but we can't find one big investor to give us the capital that we need. So, we sell units of ownership that represent limited partnership in our business. We sell this to lots of different people, so more people can get in for less money. They each have a piece of ownership of the business, and we are able to attract the capital that we need to run the business, or cover operating expenses.

Partnership agreements are absolutely vital in any partnership. This document details how final decisions are made: who gets to make them, and how. It defines who has what responsibility in the business, or who does what job. It documents the percentage of ownership for each partner, and how much each partner has invested. It also has the profit and loss breakouts, so it defines how much of the profit goes to each of the partners--general or limited--and how to handle any losses that arise from the operating of the business.

Partnership agreements also help define what happens in a disagreement, because if you're in a partnership, eventually there's going to be a disagreement. Therefore, having a plan in place for dealing with that is a very good idea.

There are advantages and disadvantages of a partnership.

Partnership	
Advantages	**Disdvantages**
It's easy to start	The general partners have an unlimited liability, just like the sole proprietor does.
More people initially means more access to skills, and initial access to money and credit.	There will be partnership disagreements, which is why a partnership agreement is a very good idea to help smooth them over.
Profits go directly to the partners, just like with a sole proprietorship.	Continuity can be an issue. Once a partner dies or decides to leave the business, continuing the business can be very difficult for the remaining partners.
Partners are each taxed individually. The business itself is not taxed as a separate entity, so each partner will simply be responsible for their share of the profits.	There are frozen assets, especially at the beginning. When money gets tight, any investment that a general or limited partner made into the business can be next to impossible to get back out again, because the assets simply are not there. You can't use this investment like liquid assets--like a bank account--to draw money in and out.

TERM TO KNOW

Partnership

A business which is owned and operated by two or more people.

3. Sole Proprietor vs. Partnership

To compare the sole proprietor versus the partnership, let's take a look at some real-life examples.

IN CONTEXT

Henry Ford was the sole proprietor to begin with, and he had complete control over all of his processes. In fact, when Henry Ford started the Ford Motor Company, that was the third automotive business that he'd started. He would not let a car leave the line unless it met his exact specifications, and that became quite a problem for him and his investors. They wanted to move product out of the line, and Henry Ford wanted something that was perfect.

In addition, there was the issue of frozen assets. Now, when Henry closed his second automotive business, he basically left with simply his name, and that's about it. He used that name to attract investors and start what we now know as the Ford Motor Company. Of course, he had an incredible workload, and because he was such a perfectionist, this served as a big detriment and source of contention between him and his investors.

Larry Page and Sergey Brin started a small company called Google out of their dorm room in Stanford. Before they were partners, and before they incorporated the company, they were able to split the workload quite effectively. As a result, one was able to market the product while the other one worked on coding. This created a large customer base that was already in place before they ever incorporated the business and took it to a national level.

It also helped them to attract capital. On day one, when they started the business, they had an uncashed check for $100,000 of capital, simply because of the work that they had done prior to incorporation.

Sole Proprietor	Partnership
Henry Ford	**Larry Page and Sergey Brin**
Sole owner to begin	Began as partnership before incorporation
Complete control over processes	Created large customer base
Frozen assets	Access to capital
Incredible workload	Split workload

4. Co-op

A co-op, which is short for cooperative, is another type of non-corporate business. It's owned and operated by its members. It is organized around a common goal. Profits are distributed among members based on their contribution or use of the co-op's services, not based on investment.

> EXAMPLE You may have heard of a farmer's co-op. Farmers are members of the co-op, and they're able to order supplies in greater numbers, so as to get a better price for the individual members of the co-op. Another good example of this type of organization is a credit union.

SUMMARY

Today we learned about the **characteristics of a sole proprietorship**. We discussed the different **types of partnerships** that exist, as well as the different types of partners: general and limited.

Next, we compared a **sole proprietor versus a partnership**, in this case, Google versus the Ford Motor Company. Each one had its advantages and disadvantages starting off, but both turned out to be extremely successful. Lastly, we learned about **co-ops**, the organizations that are owned and operated by the members.

Good luck!

Source: ADAPTED FROM SOPHIA INSTRUCTOR JAMES HOWARD

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A business which is owned and operated by one person.