

Could I succeed with a business of my own?

# Chapter 6

## A Business of Your Own

### Key Terms

*entrepreneurship*  
*retail business*  
*franchise*  
*service business*  
*working capital*  
*wholesale*  
*sole proprietorship*  
*partnership*  
*corporation*  
*stockholder*

### Chapter Objectives

After studying this chapter, you will be able to

- **give examples** of retail and service businesses.
- **decide** whether you are the right type of person to own your own business.
- **summarize** the financial considerations of starting a business.
- **name and describe** three types of business organizations.

### Key Concepts

- Entrepreneurs own their own retail or service businesses.
- Being an entrepreneur has advantages and disadvantages.
- The first step to entrepreneurship is forming a business plan.
- There are three basic types of business organizations.

## Your Own Business

Does the idea of being your own boss appeal to you? Have you ever thought about starting a business of your own? If so, entrepreneurship may be right for you. See 6-1. **Entrepreneurship** means starting and owning your own business. A person who starts a business is called an *entrepreneur*. Being an entrepreneur is not easy, but it can be very rewarding. Entrepreneurs need to have good imaginations. They look for business ideas and new and better ways to solve problems. They work to successfully sell their new products and services to others.

Entrepreneurs generally start with small businesses, but their businesses may grow to be quite large. Gas stations, restaurants, and beauty salons are examples of small businesses that are often owned by entrepreneurs. Most small businesses are involved in retail sales or providing services.

All businesses, even those owned by entrepreneurs or Internet entrepreneurs, depend on customers for their success. The customer is the reason many entrepreneurs stay in business or go out of business.

### Retail Businesses

Entrepreneurs who own a **retail business** sell products, such as food, clothing, and cars, to consumers. Many retail

#### entrepreneurship

The starting and owning of a person's own business.

#### retail business

A business that sells products, such as clothing or cars, to consumers.

#### Sam's Wash 'N Shine Service

Sixteen-year-old Sam is an entrepreneur. He began last summer when a neighbor asked if he would like to make some money by washing and waxing her car. He agreed and spent a full day working on the car. When he finished, the car looked like new.

Sam's neighbor was so pleased that she told a friend. The friend called Sam to see if Sam would wash and wax his car. Sam agreed and did another excellent job. The word got around, and soon Sam had more cars to wash and wax than he had days left in his summer vacation. Sam called a friend and hired her to help with the work.

Sam now has two people working for him. This summer he and his two employees plan to work full-time washing and waxing cars. Sam has enrolled in an auto body repair program that starts at the local career/ technical school next fall. Someday Sam wants to have his own auto body repair shop.

#### 6-1

Some people become entrepreneurs by turning part-time work experiences into full-time businesses.

**franchise**

The right to sell a company's products in specified areas.

businesses are located in shopping malls and business districts.

Some entrepreneurs own one-of-a-kind shops. Others own franchises. A **franchise** is the right to sell a company's products in a specified area. Many of the regionally known chains of stores and restaurants are franchises.

Some entrepreneurs who own retail businesses make the products they sell. Others sell products that are made by others. For example, someone who owns a bakery may make the pastries he or she sells. However, someone who owns a clothing shop probably buys clothes from manufacturers and resells them to the public.

## Service Businesses

The service industry makes up a large portion of the businesses in the United States. Entrepreneurs who own **service businesses** perform tasks for their customers. Their businesses may involve such services as hair styling, cleaning houses, landscaping, or dry cleaning. See 6-2.

**service business**

A business that performs tasks for its customers.

**6-2**

Hairstylists provide the service of washing, cutting, and styling hair for their customers.



### Your Reading

Why do entrepreneurs need to have good imaginations?



## Do You Want to Be an Entrepreneur?

Entrepreneurs often start their own businesses to achieve certain goals. You may want to become an entrepreneur some day if you have some of the following goals:

- making more money
- developing a new idea
- being your own boss, setting your own working hours, and making your own decisions
- gaining recognition in the community
- doing a better job than anyone else

Not everyone is the right type of person to start a business. Your answers to the following questions may help you decide if entrepreneurship is for you:

- Do you have unlimited ambition and drive?
- Are you self motivated?
- Do you have a good knowledge of the product or service you want to provide?
- Do you make good decisions quickly?
- Can you manage time, energy, and resources wisely?
- Can you supervise people well?
- Can you motivate people to do their work well?
- Are you comfortable around strangers?
- Do you have strong people skills?

Starting a business can present some disadvantages. Knowing some of these may help you decide whether you want to become an entrepreneur. One disadvantage is the amount of work to do. Small business owners often work many more hours than people who work for others. See 6-3.

Another disadvantage is the financial risk. Opening a business can be very expensive. Business owners must pay rent,



### Community Connections

Invite two or three entrepreneurs from the community to class. Prepare questions for the guests about how they started their businesses, what the special challenges are, and why they like owning their own businesses. Ask the speakers for advice for initiating any business ideas you may have.

**6-3**

Entrepreneurs often spend weekends and late weekday hours doing paperwork for their business.



## Your Reading

Why is opening a business a financial risk?

wages, and taxes. They must buy equipment and supplies, too. If a business fails, the owner risks losing the entire financial investment.

For these and other reasons, entrepreneurs must deal with more stress than average workers feel. This is another disadvantage of entrepreneurship.

## Planning a Business

After evaluating your goals and deciding to become an entrepreneur, your first step to entrepreneurship is forming a business plan. What type of business do you want to start? Will you provide a service or a product? Who will your customers be? How will you service them?

Decide what you are capable of doing. It is not wise to start a business doing something you have never done. Most business experts recommend working in a field for a few years before starting your own business. In that way, you will be better prepared to handle problems that arise. See 6-4.

**6-4**

Working in an established business for a few years can prepare a person for starting his or her own business.

People in the Small Business Administration (SBA) office in your area can help you as you make plans to start a business. They can tell you what legal steps must be followed. They can help you register with the proper state and federal agencies. They can provide detailed information on how to plan your firm, advertise, and manage operations. There are also volunteer organizations, such as SCORE (Senior Core of Retired Executives), that provide information and guidance in starting and operating a business.

The SBA can also help you get *working capital*. This is the money needed to start and maintain a business. Government-funded small-business loans are available to entrepreneurs who qualify.

## Financial Considerations

One of the biggest mistakes entrepreneurs make is not planning for business expenses. Some businesses, particularly retail businesses, require a great deal of money to open. To open a clothing shop, for example, you must first buy the clothing.

Service businesses may cost less to start. For instance, you only need yourself and a lawn mower to begin a lawn maintenance service. The following questions and comments can help would-be entrepreneurs realize what business expenses they may have. The answers to these questions will become part of your business plan.

### working capital

Money needed to start and maintain a business.



## Community Connections

Invite a speaker from the Small Business Administration to discuss starting a business. Find out what the agency provides. Ask the speaker why so many new businesses fail. Prepare questions that would help you get started in a business of your own.

**wholesale**

A large quantity of items packaged in bulk with a per-item cost below the retail price.

- **Must equipment be purchased?** Equipment may include anything from a computer to many pieces of expensive equipment. See 6-5. Sometimes entrepreneurs can rent equipment instead of buying it. Another alternative might be to lease equipment with the option to buy. This type of lease allows payments to apply toward the purchase price of the item.
- **What kind of supplies are needed?** Paper, pencils, computers, gasoline, and food may be some of the supplies needed for different businesses. Sometimes a business owner can purchase supplies *wholesale*. This is a large quantity of items packaged in bulk with a per-item cost below the retail price.
- **What kind of advertising should be done?** Many businesses cannot survive without advertising. Through advertising, customers learn about businesses and the goods or services they offer. Many small businesses advertise by using direct mail leaflets, newspapers, radio, and cable television. Advertising can be expensive, so it is important to spend advertising dollars wisely. Business owners must reach the people who are most likely to buy their products or services.

**6-5**

Many small restaurants are owned and operated by entrepreneurs.



- **At what price should the goods or services be sold?** Business owners must think about many things when setting prices. The cost of providing the goods or services is a chief consideration. Generally, the lower the business owners' costs are, the lower the selling prices can be. Another factor to consider is the price charged by competitors offering similar goods or services.
- **Are employees needed?** Sometimes one or two people are enough to run a small business, particularly when it is just opening. Later, a few employees may need to be hired to help with the work. Each added employee increases the company's expenses. The value of what a new employee produces must be greater than the extra labor costs.
- **What type of work space is needed?** Some people can run their businesses from an apartment or home. This is usually cheaper than renting office or store space. As a business grows, space can be rented as needed. Sometimes the type of work involved requires a particular type of space.



## Your Reading

Why do most business experts recommend working in a field for a few years before starting your own business?

## Types of Business Organizations

When you start a business, decide how you will organize it. The following businesses are the three basic types of organization:

- sole proprietorship
- partnership
- corporation

### Sole Proprietorship

One person owns a *sole proprietorship*. It is the easiest type of business to start and dissolve because no other owners are involved. The owner makes all business decisions, does most of the work, and earns all the profits.

Being a sole proprietor also has disadvantages. Being the owner means you are responsible for all bills and expenses. If the business fails, the owner's personal property may be taken to cover any outstanding debts. Many people are good at

**sole proprietorship**  
A business owned by one person.



making a product or providing a service. However, not all of these people have the skills to successfully run a business.

## Partnership

### partnership

A business owned by two or more people.

Two or more people own a **partnership**. The partners combine their money and energy. They often share the work, responsibilities, debts, and profits.

An advantage of a partnership is having one or more partners with whom to share ideas and discuss problems before making decisions, 6-6. If the business fails, the losses are shared with the partners. Partnerships may have problems, too. One of the partners may feel that he or she is being treated unfairly. Partners may disagree on how to run the business. Such feelings can cause partnerships to fail.

## Corporation

### corporation

A business that can legally act as a single person, but may be owned by many people.

A **corporation** can legally act as a single person, even though many people may own it. To *incorporate* means to organize a business as a corporation. People buy a part of the company by purchasing stock. The owners of the stock are called **stockholders**. Selling stock in a company provides a greater amount of money to the business. Stockholders risk the amount of their original stock investment if the business fails.

### stockholder

A person who owns a share or shares of stock in a corporation.

Although they are the owners, stockholders have little responsibility for business decisions. Those decisions are left to the board of directors. The directors, elected by the stockholders, make most of the decisions for the company.

Corporations can be publicly held or privately held. *Publicly held* corporations are corporations in which the public can buy stock. They are generally very large, having thousands of stockholders. In a *privately held* corporation, the stock is held by a few individuals, usually family members or the people who started the business. These corporations can be a very small company of one or two people who have chosen to incorporate their business. This type of organization offers some different legal and tax advantages than a partnership or sole proprietorship.



## Your Reading

Name the three basic types of business organizations.



**6-6**

Business partners must consult each other about important decisions.

A circular graphic with a purple background and a white glow effect. The word "Chapter" is written in a light blue, cursive font at the top, and the number "6" is written in a large, bold, orange font in the center.

## Chapter 6

### Summary

Entrepreneurs are people who own and operate their own businesses. Most entrepreneurs begin by opening small retail or service businesses. The businesses may stay small, or they may grow.

If you are thinking of starting your own business, you should look at both the pros and cons. You should also take a good look at the type of person you are. Most successful entrepreneurs share certain characteristics.

Once you decide to start a business, plan carefully. You may want to contact the nearest Small Business Administration office for help. Entrepreneurs must decide what type of organization is best for their businesses. They may choose to run their businesses as sole proprietorships, partnerships, or corporations.

### Reviewing Key Concepts

1. What is the difference between retail businesses and service businesses? Give an example of each.
2. The right to sell a company's products in a specified area is called a \_\_\_\_\_.
3. List five goals entrepreneurs often have for starting their own business.
4. Name two disadvantages of entrepreneurship.
5. How can the Small Business Administration help entrepreneurs get started?
6. List five financial considerations when planning to open a business.
7. Describe an advantage and a disadvantage of organizing a business as a sole proprietorship.
8. Describe an advantage and a disadvantage of a partnership.
9. True or false. Selling stock in a company provides a greater amount of money for operating a business.
10. True or false. Although stockholders own a corporation, they have little responsibility for business decisions.

### Building Academic Skills

**Math.** Conduct research and calculate the percentage of start-up business money that should be allocated to tools, equipment, other supplies, utilities, rent, wages, and so forth. Make a chart of the costs.

### Building Technology Skills

1. Conduct an Internet search using *starting a business* as the search words. Find at least three good references to write a report on the helpful hints found. Also, cite your sources.
2. Interview teenagers or young adults who have become entrepreneurs. What businesses have they started? How is technology used in their businesses? What do's and don'ts can they offer about their experience? Share your findings with the class.
3. Research the stock market online. Compile a list of do's and don'ts for stock investors. Report your findings to the class.

### Building Career Knowledge and Skills

1. Conduct a brainstorming session. List types of businesses that might have a market in your community.
2. Design a bulletin board that shows various opportunities for entrepreneurs.
3. Research the success of an entrepreneur. Write a report about how the business was started and how it grew.
4. Interview three entrepreneurs in your community. Ask them what they did to get their businesses started. Find out if they think they should have done anything differently. What advice would they give to a young entrepreneur?
5. Contact the nearest Small Business Administration office. Find out what it takes to qualify for a government loan for working capital.

### Building Workplace Skills

Imagine yourself as an entrepreneur and determine the type of business that might interest you. What product or service would you offer? Research who your competitors are by checking library and Internet sources. If you prefer a neighborhood business, learn about your competitors through conversations with friends and family members. What are the strong points of your competitors? What would you do to offer a better product or service than your competitors? Which of the three basic ways to organize a business would you choose? Indicate whether you feel well-suited to entrepreneurship. Give a brief oral report to the class, citing the references you used.