

Identify the Advantages and Disadvantages of Sole Proprietorship

MANY PEOPLE say they want to be their own boss. The advantages seem to be unlimited. Yet when you consider the liabilities, the time, and the stress involved, being your own boss can be a real burden. Like any business decision, it pays to do the research before jumping in with both feet. The responsibilities may be overwhelming for some people.



Objective:



Describe a sole proprietorship as well as its advantages and disadvantages.

Key Terms:



sole proprietorship
unlimited liability

Sole Proprietorship

Do you know anyone who owns his or her own business? What stories does the person share? If he or she only tells you stories about carrying loads of money to the bank, you are only getting half the story. When you are the boss, owner, and sole proprietor, the responsibility falls on you for everything. That responsibility can mean long nights and early mornings. A **sole proprietorship** is a business owned by one person. It is the easiest and most popular form of business to create and open.

ADVANTAGES AND DISADVANTAGES OF A SOLE PROPRIETORSHIP

There are some major advantages and disadvantages of owning your own business.

Advantages

A sole proprietorship is simpler to start and is, therefore, easier to begin. You might only need a license or a permit to open your doors for sales. The government regulation of a sole proprietorship is limited, and the initial costs are relatively low compared to other types of ownership. As your own boss, the decisions are made by you. As a result, you can come and go as you please. And best of all, you get to keep all the profits. Taxes are usually low, providing an edge in the profit-making sector.



FIGURE 1. As a sole proprietor, you make all of the decisions.



ON THE JOB...

CAREER CONNECTION: Sole Proprietorships

The Bureau of Labor Statistics (BLS) Web site has some interesting information on sole proprietorships. No two sole proprietorships are the same and, therefore, no median salary conclusions can be drawn.

Among the more important findings from the Survey of Income and Program Participation data is that business owners accounted for 11.9 percent of people working in nonagricultural industries; this is 60 percent more than the percentage reported as self-employed. Of existing businesses, approximately 70.8 percent are sole proprietorships and 18.3 percent are incorporated businesses.

It is possible to estimate the percentage of workers employed by privately owned businesses. At a minimum, 26.4 percent of all workers (28.5 million workers) were employed in such firms. When government workers and paid workers in private nonprofit organizations are excluded, the proportion increases from 26.4 to 40.1 percent.

To read the full article, visit the following Web site:

<http://www.bls.gov/opub/mlr/1987/05/art3full.pdf>

Disadvantages

The biggest of the disadvantages is that you have to pay for everything yourself, including start-up costs, advertising, payroll, supplies, etc. As the boss, you will need to possess numerous business skills and talent sets. You will need to be knowledgeable of record keeping, tax preparation, management, finance, and human resource management. You have **unlimited liability**—full responsibility—for your company's debts. If you lose more money than you make, you have to make up the difference.

SUCCESSFUL SOLE PROPRIETORSHIPS

It is important for the owner of a sole proprietorship to possess specific skills and characteristics. Possession of these skills will determine the success of the business.

- ◆ Hard work and perseverance
- ◆ Commitment and dedication
- ◆ Technological skills
- ◆ Communication skills
- ◆ Management skills
- ◆ Marketing and advertising skills
- ◆ Finance and accounting skills



FIGURE 2. One disadvantage of being self-employed is additional paperwork.

Summary:



A sole proprietorship is a business owned by one person. It is the easiest and most popular form of business to create. A sole proprietorship is simple to start and is, therefore, easier to begin. You might only need a license or a permit to open your doors to sales. Also, you make all of the decisions without needing approval from anyone. Finally, taxes are usually low, offering a terrific financial advantage.

The biggest of the disadvantages is that you have to pay for everything yourself, including start-up costs, advertising, payroll, supplies, etc. There are also lots of risks and long days. It is important for the owner of a sole proprietorship to possess specific skills and characteristics. Possession of these skills will determine business

success. These skills include hard work and perseverance, commitment and dedication, technological skills, communication skills, and management skills.

Checking Your Knowledge:



1. List and explain some of the advantages of a sole proprietorship.
2. List and explain some of the disadvantages of a sole proprietorship.
3. Name some of the skills and characteristics indicative of a person cut out for a sole proprietorship.
4. Define the term “sole proprietorship.”
5. Define the term “unlimited liability.”

Expanding Your Knowledge:



Schedule a time to visit a sole proprietorship and to interview the owner about the advantages and disadvantages of being his or her own boss. Share the covered list of skills and characteristics with the owner. Then ask what his or her strongest skill set is and where he or she would like to strengthen skills.

Web Links:



Considering Self-Employment

<http://www.bls.gov/opub/ooq/1999/summer/art02.pdf>

Sole Proprietorship

<http://www.sos.state.ia.us/business/sole.html>

Sole Proprietorship

<http://www.ehow.com/sole-proprietorship/>

Sole Proprietorship

<http://www.entrepreneur.com/encyclopedia/term/82652.html>

Benefits of a Sole Proprietorship

http://www.associatedcontent.com/article/436147/the_benefits_of_a_sole_proprietorship.html?cat=3