



Theme: Types and Forms of Business

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Business



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- A business entity is an organization that uses economic resources or inputs to provide goods or services to customers in exchange for money or other goods and services.
 - Business organizations come in different types and different forms of ownership.



3 Types of Business

- There are three major types of businesses:



1. Service Business

- A service type of business provides intangible products (*products with no physical form*). Service type firms offer professional skills, expertise, advice, and other similar products.
- Examples of service businesses are: salons, repair shops, schools, banks, accounting firms, and law firms.



2. Merchandising Business

- This type of business buys products at wholesale price and sells the same at retail price. They are known as "buy and sell" businesses. They make profit by selling the products at prices higher than their purchase costs.
- A merchandising business sells a product without changing its form. Examples are: grocery stores, convenience stores, distributors, and other resellers.



3. Manufacturing Business

- Unlike a merchandising business, a manufacturing business buys products with the intention of using them as materials in making a new product. Thus, there is a transformation of the products purchased.
- A manufacturing business combines *raw materials, labor, and factory overhead* in its production process. The manufactured goods will then be sold to customers.

Hybrid Business



Hybrid businesses are companies that may be classified in more than one type of business. A restaurant, for example, combines ingredients in making a fine meal (manufacturing), sells a cold bottle of wine (merchandising), and fills customer orders (service). Nonetheless, these companies may be classified according to their major business interest. In that case, restaurants are more of the service type – they provide *dining services*.



- Forms of Business Organization
- These are the basic forms of business ownership:

1. Sole Proprietorship

A sole proprietorship is a business owned by only one person. It is easy to set-up and is the least costly among all forms of ownership.

The owner faces *unlimited liability*; meaning, the creditors of the business may go after the personal assets of the owner if the business cannot pay them. The sole proprietorship form is usually adopted by small business entities.

2. Partnership

A partnership is a business owned by two or more persons who contribute resources into the entity.


The partners divide the profits of the business among themselves.

In *general partnerships*, all partners have unlimited liability. In *limited partnerships*, creditors cannot go after the personal assets of the limited partners.

3. Corporation

A corporation is a business organization that has a separate legal personality from its owners. Ownership in a stock corporation is represented by *shares of stock*.

The owners (stockholders) enjoy limited liability but have limited involvement in the company's operations. The *board of directors*, an elected group from the stockholders, controls the activities of the corporation.



In addition to those basic forms of business ownership, these are some other types of organizations that are common today:

- Limited Liability Company
- Limited liability companies (LLCs) in the USA, are hybrid forms of business that have characteristics of both a corporation and a partnership. An LLC is not incorporated; hence, it is not considered a corporation.
- Nonetheless, the owners enjoy limited liability like in a corporation. An LLC may elect to be taxed as a sole proprietorship, a partnership, or a corporation.



Cooperative

- A cooperative is a business organization owned by a group of individuals and is operated for their mutual benefit. The persons making up the group are called *members*. Cooperatives may be incorporated or unincorporated.
- Some examples of cooperatives are: water and electricity (utility) cooperatives, cooperative banking, credit unions, and housing cooperatives.