

Name _____

The One-Person Show: Understanding Sole Proprietorships

Open-Ended Response Answer Key

1. The simplicity of a sole proprietorship can be advantageous because it involves minimal paperwork and formalities to start and operate. This simplicity reduces administrative burdens, making it easier for someone starting a small business to focus on their core operations and decisions without the complexities associated with larger business structures.
2. Unlimited personal liability in a sole proprietorship means that the owner is personally responsible for all business debts and liabilities. This is a potential drawback because it puts the owner's personal assets, such as their home and savings, at risk. If the business faces financial difficulties or legal issues, the owner's personal assets could be used to cover the business's debts, leading to financial insecurity.
3. An example of a business that might thrive as a sole proprietorship is a small, home-based online store. The owner can enjoy the advantages of full control, ease of setup, and the ability to keep all profits. However, they also face the disadvantages of limited access to capital and potential challenges in expanding the business to a larger scale.
4. To mitigate the limitations of a sole proprietorship and enhance growth potential, a sole proprietor could consider the following steps:
 - Explore business loans or grants to access capital.
 - Invest in self-education or hire experts in areas where they lack expertise.
 - Consider converting to a different business structure like an LLC or partnership if the business grows significantly.
 - Develop a solid business plan to outline growth strategies and financial projections.
 - Explore opportunities for partnerships or collaborations to expand the business's reach and resources.

