

Executive Summary

'Best Blooms' understands the importance of having an attractive garden, and also understands that not everyone has the time and effort needed to build and maintain one. 'Best Blooms' is a nursery and offers a garden maintenance service. This service provides great convenience, considering that the large majority of the residents in the area own a house and garden. It is quite a unique service to the area also with very reasonable prices, the services range from lawn mowing to bonsai, practically anything to do with the garden.

'Best Blooms' is owned by Teresa Green and is located in Sydney's Northwest. She has 25 employees, and the business has been running successfully for 5 years. Due to the fact that they are providing an efficient & quality service, they have been in high demand and have been so successful that they are now looking to expand.

Legal Entities

A business' legal structure affects the ownership, tax structure, risks and future of that business. Choosing the legal structure that best meets the business' needs may:

- Protect owner from avoidable risks
- Help minimise your taxation liability
- Save time and minimise paperwork
- Help to avoid government regulation and unnecessary "red tape".

Business entities can be **incorporated**; privately and publicly owned co-operatives or **unincorporated**; sole traders and partnerships.

Incorporated refers to the process companies go through in order to become a separate legal entity from the owner/s. This means the business exists in its own right, its own legal entity. Regardless of what happens to the individual owners (shareholders) of the company, the business continues to operate. The business has taken on a life of its own.

An unincorporated business is a sole trader or partnership where the business entity and the owner are one and the same. When the owner dies then so too does the business entity.

The Options:

Sole Trader

Teresa Green's business is a sole trader. A sole trader is an individual who runs the business without partners or a company structure. This is the easiest and cheapest way of structuring a business. The sole trader has full control of the business including ownership of all profits and responsibility of all debts.

Partnership

A partnership involves two or more co-owners participating together in a business. A partnership requires an intention to share profits and an understanding that partners act on behalf of each other in business. Therefore a decision made by one partner automatically makes the other partner responsible also. Partners are wholly responsible for all business debts and also have full control of the business and any profits.

Company

A Proprietary Limited Company is a more complex form of business structure. It requires setting up under the Corporations Act, which states that Company Directors have legal obligations, which must be met. A business with a

Proprietary limited company structure is considered as a separate entity from the businessperson running it so it has different profit distribution, taxation and legal responsibilities than a sole trader or partnership.

Evaluation of Legal Structure Options:

Comparison of Different Entities - Company, Partnership & Sole Trader [Fig. 1]

Area	Company	Partnership	Sole Trader
Definition/Explanation	A body or association, incorporated or not, that does not include any partnerships. A company is also a separate legal entity from its owners.	Association of persons who carry on business as partners or who receive income jointly. You must register the partnership with the ATO, applying for a TFN.	Individual conducts the business and derives all the income from it. Your personal TFN should be used in all business dealings.
Cost to set up	Legal and/or accounting costs between \$940 & \$1040	No legal costs	No legal costs
Cost annually to register	\$200 to lodge an annual return with the ASIC	None	None
Business name registration	Optional, but compulsory if you don't use the company name	Must either trade in the names of the partners or register a business name, @ annual renewal cost of approx \$53.	Must either trade in your own name or register a business name, @ annual renewal cost of approx. \$53.
Other annual issues	Timing is critical. Fines are imposed by the ASIC if lodging & notification of changes is late.	Any changes to distribution of partnership income should be documented and advised to the ATO.	No other issues
Cost annually for tax/accounting	Minimum \$100. Normal rate for smaller companies is between \$300 and \$500, which includes company accounts.	Minimum \$85. Normal rate for smaller partnerships (Up to \$250K) is between \$190 and \$350.	Minimum \$75. Normal rate for most sole traders is around \$130, but depending on information provided, may vary between \$75 & \$150.
Tax treatment of income	Taxed at a flat 36%, and 34% after June 2000.	Distributed to partners and then taxed at partners marginal rates.	Taxed at the sole trader's marginal rates.
Tax treatment of losses	Company losses cannot be offset against Director's other income, but are	Partnership losses can be offset against	Sole Traders losses can directly decrease Sole

	brought forward if incurred from the 1990 financial year.	Partners other income. Losses incurred from the 1990 financial year are brought forward .	Traders other income. Losses incurred from the 1990 financial year are brought forward .
Group Employer Registration	Necessary if Company is employing labour.	Necessary if Partnership is employing labour.	Necessary if Sole Trader is employing labour
Workcover	Necessary if Company is employing labour.	Necessary if Partnership is employing labour.	Necessary if Sole Trader is employing labour.
Superannuation obligations.	May be necessary if Company is employing labour, subject to employee earnings. Rate is 7%, & 8% after 1/7/2000. Superannuation may be paid for Directors.	May be necessary if Partnership is employing labour, subject to employee earnings. Rate is 7%, & 8% after 1/7/2000.	May be necessary if Sole Trader is employing labour, subject to employee earnings. rate is 7%, & 8% after 1/7/2000.
Types of annual tax returns required	Form C & Form I	Form P & Form I	Form I
GST Registration Requirements	Compulsory if earnings exceed \$50,000	Compulsory if earnings exceed \$50,000	Compulsory if earnings exceed \$50,000
Legal Entity	Are separate legal entities, are regulated by the ASIC and must comply with the Corporations Act 1989. Can be formed by one or more persons.	Are not treated as a separate legal entity for tax purposes. Can be formed by 2 or more persons.	Are regarded as being one and the same legal entity as the business. Must be formed by one person.
Liability for Debts	Company Directors may be personally liable and responsible for all debts. Limited liability to some extent.	Each partner is personally liable for all debts of the partnership. Unlimited Liability	Individual is personally liable for any debts. Unlimited liability

Figure 1

Recommendation:

Of all the factors which influence the business owner when deciding upon the most appropriate legal structure the four most important are the:

1. Size of the business
2. Ownership Structure
3. Finances Needed
4. Process Privatisation

In reality these four factors will all be interrelated and act together influencing the choice made by the business owner.

The most feasible way to make a recommendation would be to realize the relationship between the size of a business and the most appropriate legal structure for that phase;.

- Establishment-Sole trader or partnership
- Growth- Partnership, private company
- Maturity- Public company (depending on rate of growth)
- Post Maturity
 - (a) Renewal – Public Company
 - (b) Decline – Could revert back to sole trader or partnership

By analyzing the business “Best Blooms” it is safe to say that Teresa Greens business is in the Growth phase of the business life cycle. Therefore it would be appropriate to recommend a partnership or a private company as the two best options for expansion.

If a decision has to be made between the two it would be most viable to choose a partnership over a private company. As this method of expanding to a private company would be expensive at establishment, when the capital is needed for expansion. This reason rules out the option of expanding by changing to a private company simply because the step from a sole trader to this particular entity is large and requires a large amount of capital. I recommend the change to a partnership as being the best option for expansion. This change of entity would not be as large of a step as changing to a private company would be. The establishment costs would be low and would be shared between the partners. This entity should bring more capital into the business after expansion. The expansion process would be much easier with this entity because the costs of expansion would be shared between the partners. The only problem is finding a partner. A recommendation for a partner would be Mrs. Green’s brother Leif. This would be an excellent choice as the two siblings would have less disagreements and communication will be simpler.

Description of how the POLC Model is used to Overcome Challenges of the Business Life Cycle:

As the manager of a business your prime role is the coordinating of resources to achieve the business’s objectives.

To help one achieve this is a guideline called the POLC model (*Planning, Organising, Leading, Controlling.*) [See Fig. 2]

Planning	Organising
<ul style="list-style-type: none"> • Establish Objectives • Develop plans to achieve these objectives. 	<ul style="list-style-type: none"> • Coordinate resources • Delegate tasks • Manage information • Manage flow of funds
Leading	Controlling
<ul style="list-style-type: none"> • Motivate employees • Direct and guide employees to achieve excellence • Inspire others to achieve the objectives 	<ul style="list-style-type: none"> • Evaluate performances • Monitor progress • Implement corrective action as to achieve objectives.

Figure 2

The above four functions of management apply directly to the business life cycle; Planning applies to the Establishment phase, Organising throughout the Growth phase, Leading during the Maturity phase and Controlling during the post-maturity phase.

As with everything in life, challenges will arise, but by implementing the above information correctly- It will help the owner/manager of the business overcome challenges that may arise during each phase of the life cycle.

Here is how the POLC model in connection with the business life cycle can be used to find strategies for the challenges that occur during the life cycle phases. [See Fig. 3]

Phase	Management Function (POLC)	Challenges	Strategies
Establishment	Planning	-Customer resistance - Technical problems - Negative profit margins.	- Marketing strategies focus on correcting product problems, establishing competitive advantage, developing product awareness
Growth	Organising	-Need for money caused by expansion. -High investment requirements	- Financial strategies will focus on investing. Finance should be more readily available as the business establishes a market
Maturity	Leading	-Competing for market share as more competitors enter the market. -Pricing competition becomes more severe	-Human resources strategy focuses on incentive schemes to increase efficiency. - Invest finances in new products, research and development, advertising.
Post-Maturity	Controlling	-Loss of market -Loss of profits -Market becomes obsolete.	-Elimination of products not returning profit. -Adopt lower pricing to attract sales.

Figure 3

Changes in external business environment:

No business operates in isolation. What happens in the larger business environment may have a direct influence on other businesses. The external business environment consists of a range of influences over which management has little or no control. What happens in the external environment may affect “Best Blooms”.

Four sources of possible changes include:

International Influences- International influences such as September 11th attacks have a profound affect on the world and especially all businesses around the world. Because of such a great tragedy, consumers are less likely to spend money. Some businesses suffer worse than others (i.e. airlines), but in the overall everyone is affected

Government Policy- although the premise is always for the good of society. These regulations affect business in horrendous ways. The recent GST policy affected every business in Australia.

Competitors- Competition between businesses to be the 'market leader' or to win customer loyalty can benefit the consumer, but when the smoke clears one business will suffer immensely. (E.g Another business similar to "Best Blooms" opens)

Environment- this change could very well ruin a business. If there was an environment change "Best Blooms" could loose a sufficient amount of business. Be it because their services are not needed, (because of environment changes such as floods, cold weather), or they can no longer provide their nursery service-due to lack of plant growth.

Conclusion:

This proceeding report has shown the best possible advice for Teresa Green's business 'Best Blooms' to assist with the expansion plans. It has shown the legal entities that could be used in the expansion. It has evaluated the various legal structure options. The report described how the POLC model could be used to overcome challenges of different stages of a business life cycle. It has analysed four sources of possible changes in the external environment that could affect "Best Blooms". The report has also recommended the most appropriate option for expansion

