Business Ownership (T1 A2 Task B)

Sole Trader

A sole trader is a business that is owned and managed by one person. Sole traders are common in simple businesses and they do not need many people workers. A sole trader can employ workers but the owner of the business makes all of the decisions. Sole traders can include hairdressers, corner shop owners and plumbers and it is the most common type of business in the U.K.

An advantage of being a sole trader is that the business is simple and cheap to start up. Also as the sole trader takes all the decisions, they can have full control over their business in all aspects. Another advantage is that the sole trader keeps all the profits made. Lastly sole traders do not need a large amount of capital (money invested into the business) to start up the business.

A major disadvantage of being a sole trader is unlimited liability. Unlimited liability means that the owner is responsible for all the debts of the business. Therefore if the business goes into debt, they will be forced to sell their possessions to pay it off. Another disadvantage is that sole traders have to work very long hours as they do most of the jobs themselves. Lastly the range of skills possessed by a sole trader can be limited as they do not have the skills to run the business.

Partnerships

Partnerships are businesses having more than two owners. The partners in the partnership normally all contribute capital to start the business and they all take a share of the profits. Partnerships include businesses such as estate agents and solicitors.

An advantage of being in a partnership is that it can be less stressful than being a sole trader. A partner will be available to cover if the other partner is ill. Also partnerships find it easier to raise capital than sole traders do. There are more owners to invest money, and banks are more willing to lend to partnerships. Lastly partners do not have to have sole responsibility for a business. Therefore partners can make decisions together.

The major disadvantage of a partnership is having unlimited liability. Just like a sole trader, if the business fails, the partners' possessions may be sold to cover the debts. Another disadvantage is that partners can often disagree and the disputes can often lead to a break up of the business. Some people enjoy complete control over a business and can find it difficult working with partners.

Co-operatives

Co-operatives are businesses that are owned and run by groups of people called members, who invest capital and make decisions together. Members of a co-operative share any profits that are made. Co-operatives has limited liability meaning that it restricts the financial responsibility of the owners of the business (normally shareholders) to the amount that they have invested. Co-operatives are democratic meaning that each member has a vote regardless of the size of their shareholding.

An advantage is that people are attracted by becoming members and receiving a share of profits. Also co-operatives give each member a say in business decisions. Lastly co-operatives allow small businesses some of the advantages of a larger business.

However a disadvantage is that co-operatives are short of capital as members only invest small amounts into the business. This makes it harder for co-operatives to compete against larger companies in the same market.

Franchises

A franchise is a business using the name, image and product of a larger, successful organisation. The franchisor makes all the decisions whilst the franchisee has limited control.

An advantage of being in a franchise is that if the franchisor has been successful elsewhere, then it is less risky for the franchisee to think of a new business idea. Also franchises have an established name so there is less advertising needed. Franchisors often provide training and further advice once the franchisor is trading. Lastly franchisors frequently develop new products to keep franchisees to keep ahead of competitors.

A disadvantage to the franchisee is that they are not really their own boss and they are under the control of the franchisor. Franchises can be an expensive way of starting a business and an initial payment is expected and the franchisor would expect a share of the profits made. Sometimes some franchises run their business badly and this can affect all the franchisees of the business as a result.

Private Limited Companies

Private limited companies tend to be smaller than public limited companies. All private limited companies have the word limited or LTD in their name. As private limited companies tend to be small, shareholders are often the founders, relatives or friends. Therefore the shareholders and directors are often the same people. Private limited companies cannot sell their shares on the stock exchange. The profits made are reinvested into the company and given as dividends to shareholders. An example of a private limited company is the Virgin Group.

The main advantage of being in a private limited company is limited liability. Therefore the owners (shareholders) do not put their possessions at risk. Also they benefit from continuity which means that if the shareholder dies, the shares are sold to someone else and the business carries on.

A disadvantage of forming a private limited company is that the company has to publish their financial information and therefore competitors will be able to study this information. Also it is much more expensive to start a company than being a sole trader because the company has to go through many legal issues.

Public Limited Companies

Public limited Companies tend to be larger than private limited companies. All public limited companies have the letters PLC in front of their name. As public limited companies tend to be large, they have many more shareholders than private limited companies. Public limited companies have more shareholders than private limited companies because they are allowed to sell their shares on the stock exchange. The profit retained is reinvested and given as dividends to shareholders. An example of a public limited company is Marks & Spencer.

Advantages of being a public limited company is having limited liability but also being able to sell shares on the stock exchange. This helps them to raise capital and therefore help them to develop new products or expand their company.

A major disadvantage is that they have their financial information published which is good for competitors and they are usually discussed in papers and television which can attract bad publicity to the business.