

Business Report

Write a report to Mustafa advising him on a possible solution to the problem of the best form of a business organisation if he were to expand his business

Your report should include:

- A brief summary of the problem
 - The advantages and disadvantages of different forms of business organisation, assuming Mustafa decides to expand
 - A conclusion comparing the alternative ways of solving the problem
 - Your recommendation of the best solution to the problem, based upon your conclusion
 - Reference to relevant business studies theory as and where appropriate
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TO: Mustafa Ali
FROM: Diego Rodríguez
DATE: 29th August 2002
REPORT ON: Forms of business organisation

You've asked me to report on the forms of business organisation most suitable for the needs of your business expansion. You've been a Sole Trader for 10 years, manufacturing a washing liquid for sell it to wholesalers. You have got 12 people working to you although you started on your own with very little money and now you get \$30000 of profits per year. If you want to expand your business you've to get \$500000 + \$50000. The only way of doing that is to ask for the money from the bank because you only have half of it. Being a Sole Trader and asking such a big amount of money is a waste of time because they won't give it to the business. These are the business forms of organisation that you could be:

1.- SOLE TRADER (Stay as you are):

- ADVANTAGES:
 - You get all the profits.
- DISADVANTAGES:
 - The risks are higher when it's a big business.
 - Remember you have limited liability.
 - The bank won't give you much money or if they do it, they would charge you a high interest rate.
 - The product must sell well if you want to pay the debt back to the bank, otherwise you'll lose everything.

2.- PARTNERSHIP: This way of business organisation means that you share everything: profits, problems and risks.

- ADVANTAGES:
 - You're able to share the risks and the problems.
 - It's a simply form of organisation.
 - You'd be able to use the partner's money to pay for the expansion.

➤ **DISADVANTAGES:**

- Remember you'd still have unlimited liability.
- You share the profits with the partners.
- It'd be easier to raise money as a Ltd. Company than as a Partnership or Sole Trader.
- You could have arguments with your partners and this could affect the business.

3.- PRIVATE LIMITED COMPANY:

➤ **ADVANTAGES:**

- You'd have limited liability, a very important point because then, you won't lose your personal possessions.
- It's easier to raise extra money from the banks by being a Ltd.
- Mr. Godfrey Richards would be able to buy shares in the Private Limited Company, this way the business could use his money to expand and still have limited liability.
- With this report I am enclosing an article from the Daily News (20-05-20002) about how cheap it's to make a Private Limited Company.
- If the company expands, you'd be able to employ people with different skills.

➤ **DISADVANTAGES:**

- There's a lot of working paper involved.
- You'd have to publish your accounts every year, this would make your competitors to be allowed to see how your business is doing.
- You couldn't raise as much money as being a Public Limited Company.

4.- PUBLIC LIMITED COMPANY:

➤ **ADVANTAGES:**

- You'd have limited liability.
- You'd raise a lot more capital through selling shares to everyone who wants to buy them.

➤ **DISADVANTAGES:**

- You haven't got total control of the business.

CONCLUSION:

I think you should make your business a Private Limited Company because then, you'd have limited liability and the bank would lend you more money than if you stay as a Sole Trader or you become a Partnership. Your future partners would be able to buy shares and to contribute with the expansion, investing their own money. The cost of being a Ltd. Company isn't too much, only \$500. You will have most of the control of the business but you'd have to consult your partners making before any change.

RECOMMENDATION:

I recommend that you should patent the formula of your new product because if you don't, another firm might copy it, patent it themselves and they'll make a new product with it. This would put your investment at risk because then, you'd be obligated to remove that new product and all the money you have spent on it to it would be in vain, useless. The expansion of the business as well and then, the business would have to close. I recommend that you should make your company a Public Limited Company if this product sells well because then, you'd have the advantage that everyone would be able to buy your shares so it's very difficult for the business to fail if the following product doesn't sell well.