The Sole Trader

The Sole Trader is the most common form of business ownership where personal services are provided; little capital is needed to start the business; large scale production is not a major feature or benefit. This form of ownership is therefore widely found in service areas such as hairdressing, plumbing and window cleaning. The owner runs the business and can employ any number of people. Setting up as a Sole Trader is simple as there are few legal formalities. However there are some restrictions such as paying income tax, National insurance and complying with legislation such as the health and safety at work.

Advantages

- Owner receives all the profit if there's any
- Simple and cheap to establish with few legal formalities
- Able to respond quickly to changes in the market
- Confidentiality is maintained as financial details do not have to be published
- Decisions can be made quick
- There are a variety of tasks
- The sole trader can offer a personal service that the customer is prepared to pay for
- If owner does not want to open one day he/she doesn't have to

Disadvantages

- The owner is likely to be short of capital for investment and expansion
- Few assets for collateral to support applications for loans
- Unlimited liability
- It can be difficult for sole traders to take holidays
- There is a lack of specialist skills
- The Sole Trader can choose there hours but it tends to be long
- When the owner dies the business is over
- Are often small, and any loss are borne by the sole trader
- Capital is not easy to raise and cannot be obtained from a share issue
- Little chance of holidays
- Decisions might have to be made without assistance

Partnerships

Partnerships are also unincorporated businesses with unlimited liability. Now that private limited companies are relatively easy and inexpensive to set up, the partnership as a form of business ownership has declined in popularity. Partnerships are traditionally associated with professions such as accountants and lawyers were capital outlay in small. The minimum number of partners is two and the normal maximum is twenty, though there are exceptions.

Partners normally draw up a written agreement, or partnership deed, which details the various rights and duties of each partner. The agreement covers:

- Profit sharing ratios
- The amounts of capital to be contributed by each partner
- Rules concerning withdrawals in anticipation of profits
- An outline of the partners business responsibilities
- Regulations concerning the introduction of new partners and dissolution(ending) of the partnership

In the absence of a written agreement, and in the case of a dispute, the rules of the 1890 Partnership Act apply. This Act states that, in the absence of any agreement to the contrary, profits and losses are to be shared equally, each partner has the to an equal say in how the partnership operates, and any loans made by partners to the partnership receive interest at 5 per cent. Examples of Partnerships are Doctors, Dentists, Accountants and Solicitors. One of the largest partnership is the John Lewis Partnership.

Advantages:

- Raise more cash than a Sole Trader
- For more expertise and knowledge eg.. one person technical the other manual
- Cover for holidays and sickness
- Accounts don't have to be made public

Disadvantage:

- Unlimited liability- like the sole trader
- Responsible- for the other partners actions, take equal blame
- Disagreements-should we expand or not. Can lead to a division between workers and potentially the business collapsing

Compared with Sole Trader:

- Partnerships can obtain capital more easily
- Individual partners can specialise in business functions
- Financial affairs can still be kept private
- A partnership is just as simple to establish

BUT

- Decisions can take longer
- Unlimited liability is still a draw back
- Difficulties are created if one of the partners dies or wishes to leave

Limited Companies
Some characteristics of a limited company are:

1. Limited companies have a separate legal identity from their owners i.e. the company can sue or be sued
2. The liability of the owners is limited to their initial investment
3. The directors are appointed at each Annual General Meeting(AGM) by the shareholders to run the business on their behalf
4. Limited companies pay corporation tax

Private Limited Company:
Private limited companies tend to be smaller than public limited companies and are often family businesses such as local brewer's ale. Other large examples are Little Woods and Mars. Private limited companies must have 'limited' or 'Ltd' at the end of the company name and shares can not be advertised. Any transfer of shares must be agreed by all the shareholders. The must be at least two shareholders, but there is no maximum number. The board of directors is a committee set up to protect the shareholders interests. The members of board choose the managing director, who is responsible for the day to day running of the business. The capital must not exceed £50,000 for private limited companies. The shares of a private limited company cannot be bought and sold without the agreement of other shareholders. This, and the fact that the company cannot be listed on the stock exchange, means that Private limited companies are likely to remain small.

Advantages:
- Shareholders have limited liability
- There are further increased sources of finance since the number of shareholders is unlimited
- The company is not subject to take over
- The company can continue after the owner dies

Disadvantages:
- They have to share out profits among share holders
- Cannot make decisions so quickly
- They cost more to set up

Public limited companies:
Public limited companies are registered through their memorandum association. They must have a minimum share capital of £50,000 and can sell their shares to the public and may be quoted on the Stock Exchange. Public limited companies must have 'Plc' at the end of their name. Public limited companies normally publish a protectus which advertises the company to potential investors. This type of company has to publish more details of their financial affairs than private limited companies. Going public is expensive because:

1. Lawyers are required to ensure that the whole procedure is correct
2. A merchant bank is often used to float the company
3. The share issue has to be over written (This means that if the shares are not sold the underwriter has to buy the remaining shares)
4. There are administration costs and glossy brochures to print

Public Limited Companies:

Advantages:
- Huge sums of money can be raised
- Can gain positive publicity as a result of trading on the Stock Exchange
- Stock Exchange quotation offers access to large amounts of capital
- Stock Exchange rules are strict
- Suppliers will be more willing to offer credit to public companies

Disadvantages:
- Public companies are required to publish a great deal of financial information
- Trading as a plc can result in hefty administrative expenses
- A Stock Exchange listing means emphasis is placed on shirt term financial results, not long term performance
- Setting up is expensive and cost millions of pounds
- Plc are subject to take over

Compared with sole trader and partnerships, a company;
- Offers limited liability to potential investors which encourages investments
- Has a separate legal existence from its owners and can own assets and sue or be sued in its own name
- Is not affected by death or retirement of its owners because of its separate existence
- Finds it easier to obtain extra(share or loan)capital
- Can more easily benefit from economies of scale

  BUT

- There are many more formalities in creating this form of ownership
- There is less privacy associated with its business affairs
- Its greater sides leads to
  Slower decisions
  Greater difficulty in adapting to market changes
  Diseconomies scale
  Employees feeling isolated from the main decision-makers
- The owners of private companies face difficulties in selling shares, especially where restrictions on this sale have been made by the company. The PLC's transfer of ownership (via the Stock Exchange) can take place without the support of the manager
- Many shareholders operate 'short term' policies in the hope of making profits through buying or selling their shares: this encourages takeover bids and leads to a greater feeling of instability.

Mutuals (or non-profit-making organisations):

Insurance companies and building societies are examples of this form of business, in spite of high profile demutualisations as in the case of the Norwich Union. Mutual organisations have no owners and they operate with the aim of providing the best possible service to their members (customers). Any surpluses earned are put back into the business.

Charity:

A charity is an organisation set up to raise funds and support other people or cause. The objectives of charities are to raise enough funds, or surplus, for use in helping others. A surplus is a balance from the income of a charity after all costs have been paid. The management of charity work is overseen by a group of trustees-volunteers with a reputation as responsible citizens. Many will have a variety of experience in both Charity and business activities. Charities have to register as such and must produce annual accounts that are available for anyone to see. Charities employ paid managers and workers (unlike voluntary organisations, which rely on the goodwill of their staff). Many large charities employ resources on a large scale in the same way as private business organisations. These resources need to be managed effectively and efficiently to ensure they are used in the optimum way to meet the needs of various stakeholder groupings. It is set up, organised, staffed and run by people who are working purely on a voluntary basis, usually for a 'good cause'.

Co-operatives:

Co-operatives are a form of business organisation that has become more popular in the UK but that are unlikely to make a major impact in the early years of the twenty-first century. The main purpose of a co-operative is to provide a service for its member-owners and customers. Although the large UK co-operatives are limited companies, capital ownership is not the dominating factor in the co-operative movement. Any trade surplus is distributed to the members in proportion to their 'trade' with the society. Consumer, retail, and producer forms of co-operative exist. Consumer co-operatives where customers collectively own the business are found particularly in Europe and Japan. There are many different types of co-operative. There are many different types of co-operative which include housing co-operatives and credit unions. (Which allow people to enjoy the benefit of collective saving and borrowing) These are owned by workers or customers. At one time they were to be found only in agriculture and retailing, but I n recent years the biggest growth areas have been in service occupations and in small –scale manufacturing. The basic idea behind a co-operative is that people join together to make decisions, to work and to share profits.

Advantages:

- Members(employees or customers) share in the success of the enterprise
- The UK government and European commission offer financial support to co-operatives

Disadvantages:

- Co-operatives suffer from a shortage of capital
- Co-operatives have a poor public image-often due to the lack of funds

Franchise:

In America, over 40% of all retail sales are made through firms operating under the Franchise system. It is a form of business organisation that has also become very popular in the UK. Franchising is really the hiring out or licensing of the use of good ideas to other companies. Franchise grants permission to sell a product and trade under a certain name in a particular area. If I have a good idea, I can carry out a business using my idea in your area. The person taking out the franchise puts down a sum of money as capital and is issued with the equipment by the franchising company. The firm selling the franchise is called the franchisor and a person paying for the franchise is called the franchise. The franchisee usually has the sole right of operating in a particular area. This type of trading is common in the fast food industry. These can be Pizza Hut, Mc Donald's and the Body Shop etc….Where materials are an important part of business (e.g. hamburgers, confectionery, hair conditioners), the franchisee must buy an agreed percentage of supplies from the franchisor, who thus makes a profit on these supplies. The Franchisor also takes a percentage of the profits of the business, without having to risk capital or become involved in the day-to-day management. The franchisee benefits from trading under a well-known name and enjoys a local monopoly. Training is usually arranged by the franchisor. The franchisee is his or her own boss and takes most of the profit.

Types of franchise arrangements include:

- Manufacturer-retail: petrol stations and car dealers
- Wholesaler-retail: spar and other voluntary groups
- Trademark-retail: 'fast food' outlets

The franchisor:

- Allows the trade name to be used
- Gives support through
    a) Local/national marketing
    b) Training
    c) Financial and other advice
- Supplies the décor and assists with layout
- Provides the product

The franchisee:

- Agrees to follow rules and to meet set standards
- Invests the capital required
- Purchases only from the franchisor or other recognised suppliers
- Pays royalties to the franchisor