

Types of ownership

There are many different types of ownership of business ranging from the simple to the complex. Here I will cover the main types, outlining the advantages and disadvantages of each leading to a decision on which type of ownership is most appropriate for my business.

Sole Proprietors

A sole proprietor, or sole trader, is the name given to someone who runs the business by themselves. This is usually someone who is particularly skilled in one area or had a very good and marketable idea. There are many advantages and disadvantages to setting up a sole proprietorship.

Advantages

Sole proprietorships often require less capital to start up than the bigger businesses. This is because they are usually smaller and have less staff to start with. This cost is minimal and often only a few hundred pounds. Sole proprietorships are easy to set up, few forms and licenses need to be obtained and the business can start almost straight away, resulting in less time being unemployed. The only official form you need to fill in is a inland revenue form for use when calculating income tax, it also entitles you to many tax advantages outlined later. Of course you need to write a business plan, complete with cashflow forecasts etc but this was it.

These businesses are easy to maintain and run. This is because the owner has little or no opposition for her ideas and plans. Also, it is possible for the owner to act as their own accountant, saving them lots of money.

The owner has an increased level of control, they have the right to change the business whenever they feel like it and have the advantage of not having to call shareholder meetings.

One of the largest advantages is the allocation of profits. Unlike larger companies sole proprietorships don't need to distribute profit amongst it's shareholders. All profit goes directly to the owner, who does with it as he or she sees fit.

Because of the owner's status as a sole trader, she does not need to publish her accounts. Therefore she can keep her business private which can be a big advantage if she doesn't want to let competitors see how she is doing. Because sole proprietorships are generally smaller in scope than ltd or plc companies the emotional ties between the work force are a lot greater. This leads to better motivation (see Maslow's Pyramid of Needs). It also means that there is less room for communication breakdown as messages don't have to travel over such a far distance.

There are a few tax advantages associated with a sole proprietorship, namely you do not have to pay national insurance on your own profit and you can save hundreds of pounds because you are not officially an employee of the company.

Disadvantages

The most dangerous disadvantage of a sole proprietorship is unlimited liability. This means that if the owner were to build any bad debts that needed to be immediately recalled she could lose all her possessions e.g. house, car to repay the debt. This can be catastrophic.

It would be very hard to continue the business if the owner decided to retire or was suddenly unable to perform her job. However she could sell it to someone else on such an occasion or even pass it on to her family.

If the owner were taken ill for long periods of time there would be no one to carry on the business and it would have to shut down. At this point her income and profits would stop completely.

Sole traders often have to work extremely long hours and therefore have very little free time, which can be detrimental to both physical and psychological health.

For some people raising capital to start a sole proprietorship can be a tough job. For most people earning the type of money involved is almost impossible. Fortunately most people manage to secure a loan or second mortgage in order to start their business, however this leads to a few liabilities even before the business takes off.

Because the owner has to perform so many tasks within the business, ranging from truck driver to accountant, there is very little specialisation in this area of ownership. This may increase costs because the owner can't take advantage of "division of labour".

Because the business is so small it can't gain as many benefits as the large companies who tend to get advantages through large -scale productions. This means that the owner will find that some of his costs are higher in comparison with larger businesses.

Suitability

Although this business would be fairly suitable for me there is one big problem with it, unlimited liability. Because I'm not sure if my business will be a success or not I do not want to risk my livelihood on this business venture. There are a few advantages, e.g. Tax advantages etc but, for me, they do not outweigh the huge disadvantage of unlimited liability.

Partnerships

A partnership is a business run by a group of people, usually between 2-20. The legal bindings of a partnership are drawn up in what is called a "deed of partnership". There are numerous advantages and disadvantages of a partnership.

Advantages

The advantages of a partnership are very similar to those of a sole trader. A partnership is easy to set up, with very little in the way of official forms,

with the exception of the deed of partnership. Partnerships can choose to keep their affairs private as only the IRS need to know how well the business is doing financially. They require less money to start up than the larger companies such as ltd or plc.

Profits are split amongst the partners in order of who put the most money into the partnership e.g. someone who paid 60% of the starting capital would receive somewhere approaching 60% of the profits. This process is not necessary and can create fractures between partners.

Partnerships don't have to employ accountants or lawyers to help run the business although they often do to save time.

These advantages are pretty similar to those that can be taken advantage of in a sole proprietorship. However there are some advantages only a partnership can receive.

It is usually easier for two people to raise starting capital than it is for one person on their own. This is extremely advantageous at the start up of the business.

Partners often offer a range of skills to each other, which are quintessential to the running of the business. For example one man might be a trained engineer or technician whilst the other might be an excellent salesman. In these cases they rely on each other's skills to run the business.

Partnerships can have sleeping partners. Partners who invest capital into a business but don't wish to take any part in the running of it. This is good for people who want to run their own business but need added support, whilst it is good for people looking in a sound investment.

Disadvantages

Partnerships rely on people working together as a team, and when this is not done it can have disastrous effects on the partnership. A lot of partnerships end up failing because of disagreements in the way a company is run.

Then there's also the case of "who will carry on the partnership". In this case the deed of partnership would have to be rewritten and the partnerships passed on into new hands.

Of course, like sole proprietorships, partnerships still suffer from unlimited liability. Unlike sole proprietorships however this liability is spread out evenly among the partners.

Suitability

Again this is similar to the sole proprietorship although I would be more inclined to work solo as I am very disagreeable, which would lead to arguments and bad business decisions. For these reasons I would NOT want to start a partnership agreement.

Cooperatives

A cooperative is very similar to the PLC in many ways. It is a separate legal entity and has limited liability. Despite these there are a few important differences. Plcs share their profits among shareholders and each

shareholder is given status in the business equivalent to the number of shares they hold. In a cooperative however the shareholders get 1 vote each regardless of how many shares they hold. The profits are distributed among their consumers according to how much they spend in the stores. This is a great incentive to get customers spending money at one of your stores. Other than this main difference cooperatives hold pretty much the same advantages and disadvantages of public limited companies and, for this reason, I am not considering this type of ownership for my business. Also the idea of handing out all my profit to the consumers does not sit well with me.

Franchising

Franchises are large companies that sell their names and products to smaller companies in order to make a profit. A very successful example of a franchise would be McDonalds. Franchises usually rely on very good products/recipes, a wide customer base and a good sense of brand recognition. Popular franchises are more likely to be successful than a similar company starting anew. Franchises are a very good way to start out in the business world as the new owner is given plenty of support and advice; this is especially helpful to first time managers.

For example If I were to start a new McDonalds in Winchester I would approach the McDonald's HQ and ask for a franchising opportunity. This would cost me a certain amount of money, the more popular the franchise the more it would usually cost to buy. With this franchise comes a host of advantages including:

- Help and Advice
- Discounts on buying in products/materials
- Discounted wares
- Recipes/Products
- Equipment/services
- Cheap Loans
- Brand recognition

Although this is a dream deal to some business owners the franchisee does not gain as much freedom as he could have. This can affect the way he does business and prevents him from doing what he wants to do. For these reasons I would not start a franchise.

My choice

None of these four types of ownership appeal to me too much. This is because I am not too keen on the idea of having unlimited liability. Although the tax advantages of the two types are good I am just too scared of losing my house and possessions to start a company with unlimited liability. However there is another option one might take. By opening up a limited

company (ltd) or a public limited company (plc) one can avoid unlimited liability. Because of this I have decided to make my company a limited company. I will now go on to describe this type of company.

Limited Company (ltd)

Unlike a partnership or sole proprietorship limited companies are owned by shareholders or investors. This means that there are often hundreds of owners who all have a vote in the running of a business. The number of votes is proportional to the number of shares, so people investing more money have a greater say in the running of the business.

A limited company has its own separate legal identity, not connected to its shareholders. This means, for example, that if someone wanted to sue the business, they would sue the company and NOT the owners.

Advantages

If a business becomes a limited company it means that it has limited liability. This means that investors and owners only stand to lose what they invest into the company, not the personal possessions etc. For example if a company ran up large amounts of debt then the owners would not be obliged to pay off any of that personally. This is a big bonus to the company as it is much easier to attract potential investors who are not willing to risk unlimited liability. These are the main advantages of becoming a limited company, and while they don't seem much they are actually a huge bonus.

Disadvantages

A limited company has to display information to the public at the end of every fiscal year. Some companies may not want so much information released. It can also be fairly expensive, costing a minimum of £700 a year to prepare a report.

Complying with the rules of the London stock exchange is also a big disadvantage to any limited company and very costly. However companies can list themselves in the alternative investment market (AIM). This is quite a lot cheaper but is seen as more risky by prospective employers. This can make it quite hard for a business to attract new shareholders.

Suitability

Overall I think this is the most suitable choice for my business. This way I am likely to attract more investors plus I would not have to suffer from unlimited liability.