

The Types Of Business Ownership

TO:

Mrs. Cowern

FROM:

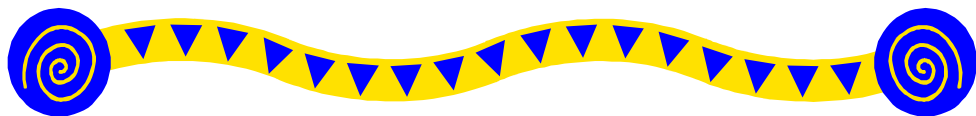
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DATE:

17th September 2004

TERMS OF REFERENCE:

*This report is about the advantages and disadvantages
of different types of
business ownerships.*



Introduction

I am going to write about the advantages and disadvantages of different business ownerships including:

- + Sole Trader
- + Partnership
- + Franchise

I will include the definitions of some of the business ownerships.

Main Body

SOLE TRADER

Sole trader, as the name suggests, is where an individual is the sole owner of a business. The business is often quite small in terms of size (as measured, for example, by sales generated, or number of staff employed) however the number of these businesses is very large indeed. Examples of these businesses can be found in most industrial sectors but particularly in most service sectors. Hence services such as electrical repair, picture framing, photography, diving instruction, retail shops, and hotels have a large proportion of sole trade business

Advantages

- + A sole trade business is easy to set up. No formal procedures are required and operations can often commence immediately (unless special permission is required because of the nature of the trade or service, such as running licensed premises).
- + The owner of a sole trader business can decide the way in which the business is to be conducted and has the flexibility to restructure or dissolve the business whenever it suits. The law does not recognise the sole trader as being separate from the owner and so the business will cease on the death of the owner.
- + Other advantages include having complete control over the business and its profits; you are able to use any money the business brings as you deem fit without having to justify you're spending. However, as the expansion of the business depends on the amount of capital you are personally able to inject, you may find as a sole trader that investing in the growth of the business very difficult, as capital is often not easy to find.

DISADVANTAGES

- ✚ As a result of the inability to assist expansion, your competitors would have the edge over your sole trader business; for example, businesses with greater access to investment would be able to adapt more quickly to market demands leaving you struggling to compete.
- ✚ The pressure put upon the sole trader must not be ignored, and if you are thinking of becoming self-employed as a sole trader you must address this issue as it could ultimately threaten the survival of your business.
- ✚ Apart from the pressures placed on the sole trader by the larger organisations, you are also fully liable financially, and the need for your business to examine the implications and consequences of bankruptcy or loss of personal possessions due to the individual accepting unlimited liability must also be considered. The larger your business becomes the great risk will be undertaking in operating as a sole trader.

PARTNERSHIPS

A partnership is a relationship existing between two or more persons who join together to carry on a trade or business. Each partner contributes money, property, labour, or skill to the partnership and in return, expects to share in the profits or losses of the business. A partnership is usually based on a partnership agreement of some type, although the agreement need not be a formal document. It may even simply be an oral understanding between the partners, although this is not recommended.

ADVANTAGES

- ✚ Having partners can be less stressful than being a sole trader. Partners are available to cover for holidays and during periods of illness.
- ✚ Partnerships normally find it easier to raise capital than sole traders do. There are more owners to invest money, and banks may be more willing to lend to partners. Some partnerships have sleeping partners, who invest money but take no part in the management of the business.
- ✚ It can be comforting for partners not to have sole responsibility for a business, especially when major decisions have to be made.
- ✚ Partnerships are less likely to suffer from a lack of specialist skills than a sole trader.

DISADVANTAGES

- ✚ Most partnerships have a really big unlimited liability as with sole traders, if the business fails, the partners' personal possessions may be sold to settle its debt.
- ✚ Partners often disagree. Discussions may be helpful when new ideas are being considered, but disputes can be disruptive and lead to the break-up of the business. Some people enjoy having complete control over a business and find it difficult to work with partners.
- ✚ Many partnerships still find it difficult to raise the capital they need. Because of unlimited liability, it can be hard to attract new partners.

FRANCHISES

A franchise is essentially a replica of an existing business. When you purchase a franchise, you buy the rights to use the parent company's name and to sell its product or service in exchange for an up-front franchise fee (prices vary between industries) and ongoing royalties, usually 3 percent to 6 percent of sales. While buying a franchise does have certain disadvantages, the right franchise can provide a measure of security that is often missing from new ventures.

ADVANTAGES

- + The business has been successful elsewhere and is less risky than a new business idea
- + Many franchises such as the British school of motoring already have an established name so less advertising is needed
- + Franchisors often provide initial training and advice

DISADVANTAGES

- + A franchisee is not really his or her own boss they are under control of the franchisor
- + If some franchises run their branch badly then they may all suffer as a result.

Evaluation

In conclusion I think the best business that I have analysed I think the partnership business is the best for financial gain. I think the sole trader ownership is the best for being your own boss and is the easiest to set up. The franchise is the best for having a good image and has the added security that the business is going to be a success unlike starting a new idea which can be risky and may fail. The overall best business that I have studied in my opinion is the franchise less advertising is needed and is the safest to set up.

