Types of ownerships with advantages and disadvatages

There are a variety of options that you could use in setting up in business, each of which has advantages and disadvantages. It is important that you determine which business type is most suitable for you bearing in mind the number of people involved and the objectives of the business.

The main types of business are:

- Unlimited Companies
- Limited company
- Partnership
- Sole Trader

Sole Trader:

Sole trading is when a single person owns the business, which is very a familiar type of business in the United Kingdom. Sole trading is used mainly by 'one man bands' although you are able to employ others in your company. A sole trader usually has no formal or legal processes to set up the business. The Inland Revenue and Social Security authorities must be notified when you set up. It is advisable to set up a business bank account. A sole trader operates the business on his or her own. He or she:

- controls, manages and owns the business
- is personally entitled to all profits
- is personally liable for all business taxes and debts.

Sole traders are able to use a trading name but all contracts, even though they may be in the name of the business, will in fact be between the sole trader and the other party and property will be held by the sole trader himself. Sole traders have complete independence over how the business is to be run and have no statutory compliance issues to contend with (unless any are imposed in relation to the type of business which the sole trader carries out).

Remaining as a sole trader has many advantages, mainly being that you are able to give a more personal service to your customers and you are able to make changes within your business very quickly due to there is little or no bureaucracy there being only one person to make the final decision. 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.

Advantages:

- The firms are usually small, and easy to set up.
- Generally, only a small amount of capital needs to be invested, which reduces the initial start-up cost.
- The wage bill will usually be low, because there a few or no employees.

- It is easier to keep overall control, because the owner has a hands-on approach to running the business and can make decisions without consulting anyone else.
- You are able to respond quickly to changes in the market.
- Privacy is maintained as financial details do not have to be published.
- Due to the small size of the business, sole traders can put forward a personal service to their customers.
- Some sole trading businesses can be permitted to government support.

Disadvantages:

- The sole trader has no one to share the responsibility of running the business with. A good hairdresser, for example, may not be very good at handling the accounts.
- Sole traders often work long hours and find it difficult to take holidays, or time off if they are ill. Illness can cause the stoppage of the business, which leads to a loss of income in the short term and could even cause the loss of customers in the long tem.
- Developing the business is also limited by the amount of capital personally available.
- There is also the risk of unlimited liability, where the sole trader can be forces to sell personal assets to cover any business debts.
- The owner is likely to be short of capital for investment and expansion.
- Few assets for security to support applications for loans.
- Sole traders can be sued by customers, due to a disagreement because sole traders are unincorporated businesses.
- The business depends and is determined by one person. If that one person looses interest or dies then the business will come to a close.

Partnerships:

Partnerships are businesses owned by two or more people. A contract called a deed of partnership is normally drawn up. This states the type of partnership it is, how much capital each has contributed, and how profits and losses will be shared. Doctors, dentists and solicitors are typical examples of professionals who may go into partnership together. They can benefit from shared expertise, but like the sole trader, have unlimited liability. Partnerships are best when partners share a common vision and bring complementary skills and experience to the company.

Partnerships share the control, responsibility and finances; this could be one other or several people, thus reducing the overall input one individual will give to the business. This can be a distinct advantage to that of a sole trader.

A partnership adopts a different strategy, instead of one person owning the company; a partnership can consist of between two and twenty people. In essence, this would mean that you would need to consider finding one or several people who you could trust unconditionally to take on joint or shared responsibility for the running of your business. Although this would mean that the profits and liability would be shared, a

partner or partners would be able to inject fresh capital, as well as skill and ideas into your business enabling you to use this for further expansion and development.

When you decide to look for a partner for your business, you would need to consider if an ordinary or limited partnership would be the best for you business as the two roles indicated the level of liability and responsibility

Ordinary:

The partner or partners would take on unlimited liability for any debts incurred by the business and all profits would be shared equally. Ordinary partners also take on equal responsibility and decision-making in the running of the business.

Limited:

Limited partnerships accept limited liability to the amount invested, and whilst profits are shared equally the responsibility and control of the business lies with the ordinary partners. Sometimes partners don't directly involve themselves with the company they are in partnership with.

The things that I personally think that partners should consist towards the company are:

- The partner or partners' abilities to drive the business forward.
- Leadership qualities and management experience.
- Level of specialist knowledge and expertise.
- The level of trust associated with the partner.

Advantages:

- The main advantage of a partnership over a sole trader is shared responsibility. This allows for specialisation, where one partner's strengths can complement another's. For example, if a hairdresser were in partnership with someone with a business background one could concentrate on providing the salon service, and the other on handling the finances. This can develop the running of the business, as partners can carry out the tasks they do best at.
- More people are also contributing capital, which allows for more flexibility in running the business.
- There is less pressure of time on individual partners. This means that partners can get time for holidays or even cover illnesses.
- There is someone to consult over business decisions.
- There are no legal rules and regulations to complete when setting up the business.
- Normally this type of business is larger than sole trader which gives partnerships a stronger position to raise money from outside of the company.

Disadvantages:

- The main disadvantage of a partnership comes from shared responsibility.
- Disputes can arise over decisions that have to be made, or about the effort one partner is putting into the firm compared with another.
- The distribution of profits can cause problems. The deed of partnership sets out who should get what, but if one partner feels another is not doing enough, there can be dissatisfaction.
- A partnership, like a sole trader, has unlimited liability.
- Any decision made by one partner on behalf of the company is legally binding on all other partners.
- Partners can be sued by customers because partnership businesses have unincorporated status.

Private Limited Companies and public limited companies:

There are two types of limited companies in the UK, which are private or public. All limited companies are incorporated, which means they can sue or own assets in their own right. Their owners are not personally liable for the firm's debts (limited liability). The ownership of a limited company is divided up into equal parts called shares. Whoever owns one or more of these is called a shareholder.

A Public Limited Company (PLC) can sell its shares on the Stock Market, while a Private Limited Company (LTD) cannot. Unlike a sole trader or a partnership, the owners of a Limited Company are not involved in the running of the business, unless they have been elected to the Board of Directors.

Both types of company must audit their accounts, and have them available for inspection. They must indicate their status in their name, usually by using the abbreviation PLC or LTD. This warns their traders that their liability is limited and that debts cannot be recovered from the personal funds of the company shareholders.

Advantages for Private:

- Easy and inexpensive to set up.
- Ownership and control are closely connected, e.g. Board of Directors are usually the main shareholders.
- Small and less fussy than PLCs, e.g. decisions can be taken more quickly.
- More capital is gained and there is no limit on the number of shareholders.
- If there is an incident of death of the owner then the business will continue. The shares will be just passed on to another owner.

Advantages for Public:

- Raise large amount of capital from share issue.
- Benefit from economies of scale, e.g. bulk buying, cheaper borrowing.
- Produce goods at lower unit cost.
- The size of the company can sometimes control the market.

Disadvantages for Private:

- Lack of capital due to no share issue.
- No benefit from economies of scale**,** e.g. bulk buying, cheaper borrowing.
- If one shareholder makes a decision to sell shares, it many take time to find a buyer.
- There is a legal procedure to set up the business which takes time and money.
- Profits have to be shared with other members in the company.

Disadvantages for Public:

- Become too large resulting in poor labour relations.
- Conflict of interest between shareholders and the Board of Directors.
- Possibility of takeover or merger because shares can be bought by anyone.
- Setting up the business is very expensive.
- The size of the company doesn't let them deal with their customers at a personal level.
- The company's competitors can use their accounts to their advantage. The public can also use this information.

Co-operative:

Co-operative is an organization owned and operated democratically by its members. These popular business organizers often refer to their businesses as a "group," "collective" or "co-op" but these are usually informal rather than legal labels. For example, a consumer co-op could be formed to run a food store, a bookstore or any other retail business. Or a workers' co-op could be created to manufacture and sell arts and crafts.

Advantages:

- Employees or customers share in the success of the enterprise.
- The U.K. government and European Commission offer financial support to cooperatives.
- Cooperative has limited liability

Disadvantages:

- Cooperative suffers from a shortage of capital.
- Cooperatives have a poor public image because of the shortage of funds.
- Shares are not transferable; they can only be bought from or sold to the society.

Non-profit Corporations:

A non-profit corporation is a corporation formed to carry out a charitable, educational, religious, literary or scientific purpose. A non-profit can raise much-needed funds by receiving public and private grant money and donations from individuals and companies. The federal and state governments do not generally tax non-profit corporations on money they make that is related to their non-profit purpose, because of the benefits they contribute to society.

Advantage:

- Non-profit corporation can make a profit and can pay its employees a reasonable compensation.
- Limited personal liability
- Ownership can be transferred through stock sales
- Unlimited life
- Usually it is easier to obtain money
- Should have a larger pool of talent and expertise
- Gives an impression of credibility to potential and current customers

Disadvantage:

- It may not have shareholders or pay Dividends.
- Your business activity may be restricted by the charter
- Lack of representation of minority stockholders
- Extensive record keeping may be required
- Organizing expenses to become a corporation can be high
- Double taxation

Franchise :

A franchise is a business relationship in which an owner (the franchisor) licenses others (the franchisees) to operate outlets using business concepts, property, trademarks and trade names owned by the franchisor. Franchise relationships are regulated by each state and by the Federal Trade Commission and are often quite complex.

A contract known as a franchise agreement should spell out the details of each particular venture. The franchisor often provides the initial capital for the franchise and, in turn, typically takes in a larger share of future profits. In addition, a franchisor usually provides:

- A proven business concept
- Name recognition
- Business know-how
- Experience
- Advertising support

The franchisee provides:

- Supplemental capital
- The effort to make the business concept work

The franchisor and the franchisee both share in the risks and returns of the business, although each agreement is structured differently. Typically, the franchisee is his or her own boss on a daily basis. The franchisor also has a say in the business. For instance, the franchisor is usually responsible for quality control and for maintaining a uniform image among all franchisees. If the quality is not up to par, the franchisor may direct the franchisee to make changes.

Advantages:

- Training and guidance is available
- There may be brand name appeal
- Often there is a proven track record
- Financial assistance may be available

Disadvantages:

- Franchise fees
- Franchisor maintains a fair amount of control
- Promises may not be realized