**TYPES OF BUSINESS**

**Sole Trader**- A business in which one person provides the permanent financing and has full control of the business and is able to keep all of the profit.

Advantages

1. Easy to set up
2. Little capital is needed
3. Owner keeps all the profit
4. Owner choose times and patterns of work
5. Business is based on skill and interest.

Disadvantages

1. Unlimited liability
2. Often faces intense competition from bigger business
3. Difficult to raise capital
4. Long hours
5. Lack of continuity – when the owner dies the business dies.
6. Owner accepts all the losses

**NOTE: Unlimited liability is where the debts of the business extends the owners personal assets.(unlimited)**

**Partnership** – A business formed by 2 -20 people to carry on a business together with shared capital investment and shared responsibility.

Advantages

1. Partners may specialize in different areas of management
2. Decision making is shared
3. Additional capital can be raised
4. Business losses are shared
5. Responsibilities are shared.

Disadvantages

1. There is unlimited liability for all partners
2. Profits are shared
3. All partners are bound by the decisions made
4. Conflicts may arise

**Note : A partnership deed is an agreement among all partners which sets out the rights and responsibilities of all partners including how profits are shared.**

**Cooperative** – A business that is owned, controlled and operated by a group of users for their own benefit.

Types of cooperatives

1. Consumers’ cooperatives – Places in which consumers pool their money and buy in bulk.
2. Marketing cooperatives - this is where mostly small business pool their money to buy stock and raw materials in bulk.
3. Producer cooperatives – This is where farmers pool their resources such as equipment to produce products.
4. Financial cooperatives – This is a credit union in which people pool their money to receive low interest loans.

Features of a cooperative

1. Open membership – any person over 16 can join for a small fee although in certain cooperatives only people of a certain job or skill can join such as teachers credit union or police credit union.
2. Democratic controls – all ,members have 1 vote at important meetings
3. Distribution of profit – profits are shared equally among members in the form of dividends.

Advantages

1. Members work together to solve problems
2. Profits are shared in the form of dividends
3. Motivation levels are high because when members work hard they benefit from profits.

Disadvantages

1. Finance for expansion is often limited as member resources may be limited.
2. Management may be inefficient as members may not have the knowledge and experience.
3. Decision making can be slow if all members have to be consulted on major decisions.

**Company** - Is a business which has limited liability and is a separate legal entity.

Formation of a company

A company is formed when a business takes its total value and breaks it down into smaller pieces called shares which are then sold to raise capital for the business.

**A share is piece of a business. A shareholder is a person who own shares and is therefore part owner of the business.**

Types of shares

1. Ordinary shares – these are shares which earn dividends when the business makes a profit.
2. Preference shares – these are shares which earn a fix rate of interest when the business makes a profit.
3. Deferred shares – these are shares which are reserved for the owners of the business.

There are two types of companies

1. **Private limited liability company** – this is a business which has limited liability, is a separate legal entity and shares can only be sold to friends and family.
2. **Public limited liability company** – this is a business which has limited liability, is a separate legal entity and shares are sold on the stock exchange.

**NOTE : Limited liability is where the debts of the business is limited to the assets of the business. This means that the private assets of owners can not be used to settle debts of the business.**

**NOTE : The stock exchange is a type of market where shares are bought and sold.**

Documents used to start a company

1. Memorandum of Association – This document outlines the firms external activity. It includes the business name, name of its members, the number of shares etc.
2. Articles of Association - This is the internal rule book of the business it sets out the rights and duties of directors.
3. Articles of Incorporation – This document gives the corporation an independent existence as a separate legal entity.

Advantages of a Private Limited Liability Company

1. Shareholders have limited liability
2. The company is a separate legal entity
3. There is continuity- the business continues long after the owners die
4. The original owner is able to retain control
5. The company can raise capital quickly

Disadvantages of a Private Limited Liability Company

1. Legal formalities are involved in establishing the business
2. Capital can not be raised by selling shares to the general public
3. It is sometimes difficult for shareholders to sell shares
4. Accounts must be filed with the government

Advantages of a Public Limited Liability Company

1. There is limited liability for share holders
2. The company is a separate legal entity
3. There is continuity
4. Ease of buying and selling shares on the stock market encourages investment
5. Capital is ease and quick to raise because shares can be sold on the stock exchange to the general public.

Disadvantages of a Public Limited Liability Company

1. A lot of legal formalities to start the business
2. There is considerable cost for business consultants and financial advisors
3. Share prices are subject to fluctuation which is out of the control of owners/shareholders
4. Risk of take over due to the availability of shares on the stock exchange

**Franchise-** A business that uses the name, logo, processes and trading systems of an existing successful business.

Advantages

1. Lower chance of business failing as an establish brand and product is used
2. Advice and training is offered
3. National advertising is paid for by franchisor
4. Supplies are obtained from franchisor which has quality checks.

Disadvantages of a franchise

1. A share of the revenue has to be paid to the franchisor
2. Initial franchise licence is expensive
3. There is no choice of promotions
4. Owner can not change the products or product line
5. There are strict rules over standards and pricing
6. The licence can be pulled from the owner for breaches in the agreement.

Examples of franchises

1. KFC 2. Burger King 3. Subway