Chapter 26 forms of business

Key terms

1. Certificate of incorporation: a document that declares a business is allowed to trade as a limited company.
2. Co-operatives : owned by their members, who have equal voting rights.
3. Partnership : a business organisation that is usually owned by between 2- 20 people. such as accountants, doctors, vets.
4. Deed of partnership : a binding legal document that States the formal rights of partners.
5. Franchising: a business model in which a business(the franchisor) allows another operator(the franchisee) to trade under their name.
6. Limited companies: a limited company has a separate legal identify from its owners. the company can own assets, from contracts, employ people, sue people and be sued.
7. Limited liability: a legal status which means that a business owners is only liable entity from the original amount of money invested in the business.
8. Unlimited liability: a legal status which means that a business owners is personally liable for all business debt.
9. Mutual organisation : owned by their members who are customers not shareholders.
10. Partnership : a business organisation that is usually owned by between 2- 20 people.
11. Sole trader : It has only one owner e.g. web designer, tutoring

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1. Sole trader : It has only one owner e.g. web designer, tutoring
- have some legal responsibilities ; paying tax , register VAT, need license to trade, need planning permission (apply to local authority) g safe working condition.
- have unlimited liability ; if the business fails, a sole trader may lose money more than initially invested in the business.

Advantages	Disadvantages
• Owners own all profits. • Owners have power to control over business	• Owners have unlimited liability. • Owners may struggle to raise finance.

2. Partnership : a business organisation that is usually owned by between 2- 20 people. such as accountants, doctors, vets.

- **Deed of partnership**: a binding legal document that States the formal rights of partners.

  It covers 1) how much capital each partner will contribute
  2) how profit and losses will be shared among the partners.
  3) the procedure for ending the partner
  4) how much control each partner has
  5) rules for taking new partners.

- **Limited partnerships :** a partnership where some members contribute capital and enjoy a share of profit, but do not participate in the running of the business. At least one partner must have unlimited liability.
- **Limited liability :** if the business fails , the partner can only lose the original amount of money invested.
- **Sleeping partner :** a partner that contributes capital and enjoys a share of profit but takes no active role in running business

Advantages	Disadvantages
• Partners can help each other in decision making. • More owners can raise more fund.	• Partners have unlimited liability. • Partners have to share profit. • It can cause disagreement among partners.

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3. Limited companies

- A limited company has a separate legal identify from its owners. the company can own assets, from contracts, employ people, sue people and be sued.

Features of limited companies.

1) capital is raised by selling shares. Shareholders have right to vote in business decision and get dividend paid from profit. (More share ⇒ more power, get more dividends)

2) Limited liability ; If the business fails, the owner will lose money originally invested.

3) Limited companies are run by directors who are elected by the shareholders.

4) Limited companies pay corporation tax, while sole traders and partnerships pay income tax.

- **Forming a limited Company:** to form a limited company, it is necessary to follow legal procedure. This involves sending some important documents to the Registrar of companies: there are the memorandum of association and the articles of association.
- **Certificate of incorporation:** a document that declares a business is allowed to trade as a limited company.

3.1 Private Limited Companies

Features
1. Their name ends in Limited or Ltd.
2. shares can only be transferred privately. All shareholders must agree on it.
3. There are often family business owned by family members or close friends
4. Directors of private limited companies tend to be shareholders and running the business.

Advantages	Disadvantages
• Shareholders have limited liability. • More capital can be raised by issuing share.	• Private limited companies have to publish their financial information. • Profits are share among shareholders.

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4. Franchising

- A business model in which a business(the franchisor) allows another operator (the franchisee) to trade under their name.
- e.g. Pizza HUT, SUBWAY, Marriot.

Franchisor provides a variety of service to its franchisees.

- a license to make a product that is tied and tested in the recognised brand name
- a start-up package including help and advice about setting up.
- raw materials and marketing support.
- brand should be developed by the franchisor.

Franchisee has to pay a variety of fees

- an initial start-up fee.
- franchisors charge a percentage of sales.
- franchisors make profit from supply of raw materials.
- there may also be one-off fees charged for management services such as training.

Advantages and disadvantages to Franchisee

Advantages	Disadvantages
• Franchisees get support from the franchisor. • Brand is already recognized by customers so it does not need to build new customer base.	• A franchisee's profit is shared with franchisors. • Franchisees have to follow rules created by franchisors.

Advantages and disadvantages to Franchisor

Advantages	Disadvantages
• Franchising is a fast method of growth. • Franchisees take some risk of growth as the growth of business is funded by the franchisee.	• Potential profit is shared with franchisees. • If franchisees creates bad reputation it can damage brand image.

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5. Social enterprises

- Organisations trade with the aim of improving human and environment well-being, rather than making profit for external owners.

- Referred to not-for-profit organisation.

↳ have a dear social / environmental mission.

↳ generate most of their income through trade or donations.

↳ reinvest most of their profits.

↳ majority controlled in the interests of the social mission.

↳ accountable & transparent.

- Forms of Social enterprise.

1) Co-operatives : owned by their members, who have equal voting rights.

2) Worker co-operatives : jointly owned by their employees. e.g. farmers cooperative

3) Mutual organisation : owned by their members who are customers not shareholders.

4) Charities : raise money for various causes and draw attention to the needs of disadvantaged groups in society

6. Lifestyle businesses.

- aims to make enough money and provide the flexibility needed to pay for a particular lifestyle.

7. Online businesses e.g. eBay, Facebook.

- Features 1. Customers access the business via the internet. The company's website provide information about their products.

2. Online businesses collect payment electronically.
3. No formal procedures to follow or legal requirement
4. Low set up cost.

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