

Business structure, organisation Sole Traders and control.

- ✓ Easy to set up
- ✓ Less capital needed
- ✓ decisions can be taken quickly
- ✓ few legal regulations
- ✓ complete control
- ✓ customers - close contact
- special service.
- ✓ keep all the profits
- ✓ Business affairs are private.
- ✓ Incentive to work hard.

Partnerships

- ✓ Capital from partners
- ✓ Larger scale than sole traders
- ✓ Members of family can join
- ✓ Affairs can be private
- ✓ risks and responsibilities spread among partners

Joint ventures

- ✓ Sharing of costs
- ✓ Local knowledge
- ✓ Shared risks and responsibilities

- ✗ Unlimited liability
- ✗ difficult to raise finance
- ✗ limits discounts
- ✗ prices could be higher.
- ✗ narrow range of skills
- ✗ mistakes - higher chances
- ✗ if owner ill/holiday - no one to take control of business.
- ✗ can not pass on the business to children as business doesn't legally exist after owner's death.

- ✗ Unlimited liability
- ✗ Disagreement between partners
- ✗ Limitation of number of partners
- ✗ if one partner is inefficient or dishonest, others might lose
- ✗ business does not have separate legal identity.

- ✗ Shared profits
- ✗ Disagreements might occur
- ✗ partners may have different ways of running a business.

Franchising

To the franchisor

- ✓ franchisee buys licence
- ✓ Expansion of the business is faster.
- ✓ Management is franchisee's responsibility.
- ✓ All products got from franchisor.
- ✗ Poor management can lead to a bad reputation.
- ✗ Franchisee keeps profits from that outlet

To the franchisee

- ✓ Chances of business failure is less
- ✓ Franchisor pays for advertising
- ✓ All supplies from franchisor
- ✓ fewer decisions to make
- ✓ Training provided by franchisor
- ✓ Banks willingly lend.
- ✗ Less independence
- ✗ Unable to make decisions to suit the local area.
- ✗ Licence fee must be paid to the franchisor
- ✗ percentage of annual turnover paid to franchisor.

Private Limited Company

- ✓ Shares can be sold to a large number of people.
- ✓ All shareholders have limited liability
- ✓ This encourages people to buy shares.
- ✗ Legal matters to deal with.
- ✗ Shares can not be sold or transferred without agreement of other shareholders.
- ✗ Accounts are not secret
- ✗ no shares for general public.

Limited liability: the liability of the owners of the business is limited to the owner's investment.

Public limited company

- limited liability
- incorporated business
- separate legal unit
- can raise very large capital
- no restriction on shares
- high status for business - attracts supplies, banks.

- legal formalities are complicated
- more regulations and control.
- difficult to control & manage if business gets too large.
- expensive to sell shares
- original owners may lose control.

Internal finance

Retained Profit (ploughed back)

- no repayment.
- new businesses will not have
- small firms - low
- reduces payment to owners

Owner's Savings

- Available quickly
- No interest
- Might be too low
- Increasing risk.

Sale of existing assets

- Better use of money
- might take time
- not for new businesses

Running down stocks to raise cash

- Reduces opportunity cost & storage cost
- must be done carefully so not to disappoint customers.

External finance

Overdraft

SHORT TERM

- money can be overdrawn
- can be used to pay wages/supplies
- flexible borrowing
- interest only on amount overdrawn
- cheaper than loans
- interest rates vary
- bank might ask to be paid in short notice.

Trade Credit

- interest free loan for a delayed time
- supplier might refuse discounts or goods the next time.

Factoring of Debts

- immediate cash
- risk of collecting money is factor's
- firm does not get 100%.

Bank loans

- Available quickly
- can be for different length of time
- Large companies borrow large sums at low rate of interest
- has to be repaid with interest
- Security or collateral required

Leasing

- No large sum needed
- Care and maintenance is done by leasing company
- total leasing cost is higher than purchasing the asset.

Issue of shares

- permanent capital.
- no interest
- Dividends are paid after tax
- Balance of ownership can be affected by a large share issue.
- Shareholders expect dividends
- only for ltds.

MEDIUM-TERM Hire purchase

- buy a fixed asset over a long period of time with EMI and interest charge.
- No large sum needed
 - cash deposit is paid at the start
 - interest can be higher.

Grants and Subsidies from Government or other agencies

- No repayment
- often strings attached.

LONG-TERM Long term loan (debt finance)

- Long time.
- interest paid before tax
- must be paid every year
- must be repaid
- often secured against assets

Selling debentures

- long term finance
- must be paid back along with interest.