Cambridge National in Enterprise & Marketing
R064 Learning Outcome 5 Knowledge Organiser

Forms of Ownership for Business Start-ups…

Sole Trader

✪ **Number of Owners**: 1 (one owner, but can have employees working there)

✪ **Legal Requirements to Start**: Register as self-employed with HMRC; (HMRC is the Government department in charge of collecting tax).

✪ **Liability**: Unlimited Liability – the debts are the responsibility of the owner (disadvantage).

✪ **Decision Making**: The owner is responsible for all the business's decisions (advantage).

✪ **Distribution of Profits**: The owner chooses what to do with any profits made (advantage).

Partnership

✪ **Number of Owners**: 2 minimum

✪ **Legal Requirements to Start**: Register with HMRC. A Deed of Partnership is also usually drawn up to state how the business will operate.

✪ **Liability**: All partners will have Unlimited Liability. They will all be responsible for any debt the business may have (disadvantage).

✪ **Decision Making**: Decision making is shared between partners; this is usually included in the Deed of Partnership. This can be a disadvantage if owners fall out over decisions.

✪ **Distribution of Profits**: % share will be agreed within the Deed of Partnership (shared profit is a disadvantage of this type of ownership).

Limited Liability Partnership (LLP)

✪ **Number of Owners**: 2 minimum

✪ **Legal Requirements to Start**: Register with HMRC and complete an LLP Agreement that outlines how the LLP will be run.

✪ **Liability**: Partners have Limited Liability. They only stand to lose what they have invested if the business gets into financial difficulty (an advantage of this type of ownership).

✪ **Decision Making**: This will be decided when the business is formed and written in the LLP Agreement.

✪ **Distribution of Profits**: Again, this will be in the LLP Agreement.

What is liability (in terms of Business Ownership)?

Liability means responsibility and it refers to whether owners will be responsible for the debt of a business, should it get into financial difficulty.

Limited Liability…

If an owner has Limited Liability, they will only lose what they have invested in a business. Shareholders in companies have limited liability – if they invested £500, and the business failed and owed money, they would only lose their £500 – they wouldn't have to cover any more of the debt, even if the business owned millions.

Unlimited Liability…

This is a risk for a business owner as, if they have Unlimited Liability, they are responsible for all the debts of a business. This means that if their business fails and owes people money, they will have to cover this debt, even if it means losing their personal possessions.

What is a franchise?

A franchise is when someone buys the rights to an existing business's name to run as their own business. Basically, they're setting up their own business but using the name and ideas of an existing business.

Benefits of owning a franchise…

The franchisee (who buys the franchise) will benefit from guidance and help from the franchisor (who sells the rights to their business name). The business idea is already a success, so they could be more likely to succeed than if setting up on their own. They will also benefit from any advertising the franchisor does.

Drawbacks of owning a franchise…

Franchisees have to pay the franchisor for the rights to their name – this is more expensive than setting up a new business. Franchisees must also pay royalties to the franchisor on a regular basis. It is also unlikely the franchisee can make changes to the business format.

What is Capital?

Capital is the name given to the money that is used to start-up a new business or to launch a new product.

Sources of Capital…

✪ **Own Savings** – This is the owners' own money. This method doesn't involve interest but are limited by how much savings they have.

✪ **Friends & Family** – Borrowing from friends or family may not include interest or paperwork but can lead to friction if not paid back.

✪ **Loans** – Loans from banks or other organisations can help raise capital quickly but will have interest added to the amount paid back.

✪ **Crowdfunding** – This is where lots of a people (sponsors) pledge small amounts of money, usually online. This can be slow to raise the amount of capital needed but doesn't involve interest payments.

✪ **Small Business Grant** – Sometimes Governments give grants to encourage businesses to set up. Grants often involve no interest payments but strict criteria needs to be met and funds are limited.

✪ **Business Angels** – Investors on the TV show 'Dragons Den' would be considered Business Angels. They invest in a business idea in exchange for a share of profits and/or part ownership of the business.

What is a Business Plan?

A Business Plan is a document that is drawn up before a business is launched to describe the new business idea.

What should a Business Plan contain?

- Business Aims and Objectives (what it wants to achieve/when)
- Business Strategies
- Business Operations (how will the business be run on a daily basis. Who owns the business? Who will make decisions?)
- Sales Plan
- Marketing Plan (marketing, promotions and advertising?)
- Financial Forecasts (cash flow forecasts – how much money is predicted to come in and go out each month? How much profit does the business predict it will make in the first year/over a longer period?)

Why is it important for new start-ups to have a Business Plan?

New businesses can be difficult to set up and, unfortunately, most will fail. Having a Business Plan *should* reduce the risk of failure, especially if the plan is detailed and realistic, as all eventualities will be planned for. A Business Plan is also used to share the business's ideas with third parties – it is unlikely, for example, that a bank will lend money to a new start-up without a detailed plan that includes financial forecasts.