LO5

Green Text = **Benefits**
Red Text = **Drawbacks**

Liability refers to who is responsible for any **debts** a business has.

Unlimited Liability means that owners are responsible for the business's debts if it cannot pay them. The owner's personal money/possessions can be used to cover the debts.

Limited Liability means that owners are **not** responsible for the business's debts if it cannot pay them - the owners just lose what they invested.

Businesses can be **owned** and organised in different ways.

- Sole trader
- Partnership
- Franchises
- Companies

A **sole trader** business is owned by one person. They can have workers…but they're the only owner.

Sole traders make all of their own decisions.

Sole traders choose what to do with the profit their business makes.

Sole traders can struggle to take time off or go on holiday.

Sole traders have unlimited liability.

Partnerships are businesses owned by two or more people.

Owners of partnerships find it easier to take time off.

Partnerships have more capital when starting up because partners' funds are combined.

Partners can bring different skills to the business.

Owners of **ordinary partnerships** have unlimited liability.

Decisions in partnerships are shared.

Owners of partnerships could disagree/fall out.

Limited Liability Partnerships also exist where owners have limited liability.

A **franchise** is the name given to a business that sells the rights to allow other people to run a business under the same name/format as theirs.

Franchisors are the businesses that sell their rights to others.

This means their business will grow quicker.

Franchisors could get a bad reputation is the franchisee runs their business poorly.

Franchisees are the people buying the rights to a business idea to run as their own.

Franchisees benefit from having a proven idea (less risk) and the experience of the franchisor.

Franchisees have to pay **royalties** on profits they make and cannot usually make their own decisions on how the business runs.

Businesses need money to start-up. This is called their **capital**. Where they get this money from is called their **source of capital**.

They could ask **friends or family**. This doesn't usually have interest but can cause friction if not paid back.

They could use their **own savings** to start their business. This means they won't have to pay interest but they'll be limited on how much money they have to start up.

Crowdfunding could be used - where lots of people donate small amounts (usually online). This can take a lot of time to get a large amount though.

They could go to the bank for a **loan**. This could mean they have more to invest than relying on their own money but they will have to pay back more than they borrow as **interest** is added on.

Business Angels is the name given to investors that can give businesses money to start up. They'll want a % of the business though.

Small Business Grants are sometimes offered to businesses. They can take time to apply for though and often specific criteria has to be met.

Before starting up, businesses often draw up a **Business Plan**.

<u>**Plans often contain:**</u>

- How the business will run (what it does/who owns it etc.)
- Financial data (cashflow, source of capital etc.)
- Objectives, strategies and other plans (like marketing)

Business plans reduce risk and allow businesses to foresee any problems before they happen.

Business plans are given to banks if applying for loans.

BP 2019