Types of retail business ownership

wjec cbac eduqas

Unlimited liability

Means that the owners of a business are responsible for all the debts of a business. Personal belongings may need to be given up paying the business' debts. Sole traders and partnerships have unlimited liability.

Sole trader

A business that is owned and run by one person. Other people can be employed but there is only one owner.

Sole traders usually finance the business through the owner investing their own savings, money borrowed from friends or family, or a bank loan.

Many sole traders will operate on a small-scale local level.

Advantages:

- can keep all profit / no need to share
- can making decisions without consulting others
- own boss
- independence – can work at own pace etc.
- easy to set up with few formalities.

Disadvantages:

- unlimited liability
- big responsibility to make decisions
- may work long hours and have limited holidays
- limited sources of resources
- lack of some business skills.

Partnership

A partnership is an agreement between two or more people to take joint responsibility for the running of a business, to share the profits and to share the risks.

A partnership is almost as easy to set up as a sole trader; if no formal agreement is drawn up everything is split equally between the partners.

However, it is advisable for partners to draw up a special agreement, called the Deed of Partnership, which will outline how profits or losses will be shared amongst the partners, how much money each partner invests, voting rights and the number of votes each partner has, arrangements for ending the partnership due to the leaving or death of a partner and the details of each partner's duties and responsibilities – who does what.

Advantages:

- partnerships are cheap and easy to set up
- there is no complicated paperwork to complete to set up the business
- extra capital is available, as more than one person is investing into the business
- the workload is shared between the partners
- there is less stress for the owners as decisions and workload are shared
- each owner will bring their own skills and ideas to the business, meaning that more expertise is available within the business
- partners can specialise in areas of the business.

Disadvantages:

- profits must be shared among partners
- there may be disagreements between partners when making decisions or over workload
- partners must share the control and work as a team; they will not be their own boss
- partners still have unlimited liability.