

# Choosing the right type of business

Mr. Fairbanks, the e-commerce manager from Netstake, agreed to meet Bea and told her that the first thing she needed to do was to choose a legal structure for her business. Here are some tips for her.

## TYPES OF BUSINESS

There are a number of different forms that a business can take and there is no prescriptive method by which you can decide which one is right for you. Most new businesses start in one of three forms:

### Sole Trader

This is the simplest way of starting a business with very few formalities. Control of the business will be entirely yours and you will be responsible for all management decisions. You will also be personally responsible for any debts that you **incur** and, should your business **fail**, any personal **assets** that you have can be used to repay those debts. On the plus side, any profits that

you make will belong to you. Typical *sole traders* include **tradesmen** such as plumbers, electricians, television repair people etc. Nowadays lots of people are setting up their own small web-based businesses.

### Partnership

If you are going to start your business with one or more other people you could form a partnership. This is the same as a sole trader with all the partners sharing responsibility for managing the business. The same applies to any

debts of the partnership, in that each partner is personally **liable**. You may also consider the option of establishing your business as a limited partnership. For that you will need to seek specialist advice from a **solicitor**. *Partnerships* are typically found in professional services such as accountants, solicitors, doctors, dentists etc, where the partners can share expertise and skills. They can also share the workload, organising work **rotas** to allow for time off and holidays. Partners also **pool** their capital.

### Company

There are four main types of company:

- Private company limited by **shares** - members' liability is limited to the shares they hold.
- Private company limited by guarantee - members'

liability is limited to the amount they have contributed to the company's assets.

- Private unlimited company - there is no limit to the members' liability.
- Public limited company (PLC) - the company's shares may be offered for sale to the general public and members' liability is limited to the shares held by them.

The most common limited company established by new businesses is a private company limited by shares. Companies are owned by shareholders that each contributes a stock of money into a central pool. Directors run the company on behalf of **shareholders** who receive a share of the profits as dividends. Private companies are typically small family businesses that want to keep the control of the business within the family. Public companies are the well known national and international companies.



## 10 VOCABULARY Read the text above and match each word with the right definition.

- 1  Incur a debt
- 2  Fail
- 3  Assets
- 4  Tradesmen
- 5  Liable
- 6  Solicitor
- 7  Rotas
- 8  Pool
- 9  Share
- 10  Shareholder

- a. Be unable to continue because of a lack of money.
- b. Combine your money with that of other people.
- c. Legally responsible for the cost of something.
- d. List that shows when each person in a group must do a particular job.
- e. One of the equal parts into which the ownership of a company is divided.
- f. To be obliged to pay money because of something you have done.
- g. People who work at a job or trade that involves skill with their hands.
- h. Someone who owns shares in a company or business.
- i. Things a company owns, that can be sold to pay debts.
- j. Type of lawyer in Britain who gives legal advice.

# It's always the right time to start a business

## 3 SPEAKING Discuss the following.

Is it a good idea to start a new business in a time of economic crisis? Why/why not?  
What advantages could a businessman have?  
What about disadvantages?

## 7 READING Read the interview and answer the following questions.

What do you know about the interviewee?  
Why is he in favour of starting new businesses in a recessing economy?  
How can prospective entrepreneurs get money?  
Is this any different in normal times? Why/why not?  
What general advantages does he point out for starting a business in a downturn?  
What can attract employees to work in small companies, according to the interviewee?  
Will marketing be cheaper or more expensive in economic downturn? Why/why not?

# Starting a Business in a Downturn

It might go against your instincts, but starting a business in a soft economy<sup>1</sup> has advantages.

To many people, the idea of starting a new business right now sounds about as attractive as going all in<sup>2</sup> on the stock market.

But Robert Busten, a serial entrepreneur and founder of a website, which provides online financial tools to small companies, says it just might make sense.

**Conventional wisdom these days advises entrepreneurs to hunker down<sup>3</sup> and wait out the financial storm. Why isn't that good advice?**

It's always a matter of perspective, and there's always a way to prosper during a downturn<sup>4</sup>. Years ago, I went to my first boss and complained that the market was bad and I couldn't sell anything. He told me: "Successful people joke and laugh it off<sup>5</sup>, and unsuccessful people complain about how bad the market is." I've never

forgotten that.

**Isn't this a terrible time to try to get funding for a start-up?**

Risky start-ups have never gotten funding, so what's changed? There are 27 million businesses in the U.S. and the vast majority of them are not credit dependent. Their credit line is a Visa card, savings, and friends and family. Good credit will get good loans<sup>6</sup> and that's how it should be. Those who don't have good credit need to be more creative.

**What are some of the advantages of starting up in a downturn?**

The real estate market is slowing in most regions of the country, which allows for small businesses to get retail, office, and warehouse<sup>7</sup> space at reduced costs. When it comes to setting up a business, you can find great deals<sup>8</sup> on copiers, fax machines, computers, and office fixtures<sup>9</sup> at auctions.

**Unemployment rates**

**continue to rise. Is this a good time to attract employees?**

I think there's a flight to safety<sup>10</sup>, and there's a certain comfort level with small companies. There isn't the job security in the big companies that there once was. In tough times, businesses lay off good employees who are willing to accept pay cuts for employment with a company that offers other benefits, like a shorter commute<sup>11</sup>, an improved lifestyle, or more interesting work.

**Isn't it tough to go it alone and be a business starting up when no one else is trying it?**

You're right that when the economy tightens<sup>12</sup>, fewer people are likely to start businesses. But what that means is that you can do a competitive regional analysis and know that your niche is protected, for a while at least.

**What about marketing?**

There's going to be some softening in ad rates, and

## Glossary

1. **soft economy**: when there are more sellers than buyers.
2. **go all in**: put all your energy or enthusiasm into.
3. **hunker down**: prepare yourself for a difficult situation.
4. **downturn**: period in which business activity is reduced and conditions become worse.
5. **laugh it off**: pretend that something is less serious than it really is by laughing about it.
6. **loan**: amount of money that you borrow from a bank.
7. **warehouse**: large building for storing goods.
8. **deal**: something at a good price.
9. **fixtures**: equipment, furniture.
10. **flight to safety**: escape from a dangerous situation.
11. **commute**: journey to work every day.
12. **tighten**: become smaller.

again, you can take advantage of that. There's also less advertising competition, so you'll get greater visibility. And, in a down economy, writers, designers, and ad agencies are looking for work and may offer reduced rates. The other thing we recommend is partnership marketing, where you co-market your products through someone else's database.