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Notes Overview

Business Management 1A Unit 3

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School

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CHAPTER 3

Location factors (factors that influence the location of a business):

1. Sources of raw material
2. Availability of labour
3. Proximity and access to the market
4. Availability and cost of transport facilities
5. Availability and cost of power and water
6. Availability and cost of site and buildings
7. Availability of capital
8. Attitudes, regulations and tariffs of local authorities
9. The existing business environment
10. The social environment
11. Climate
12. Central government policy
13. Personal preferences

Considerations when choosing a form of enterprise:

1. The entity's legal or juristic personality
2. The limited liability of owners or members when legal action is taken against the business
3. The degree of control that the management or entrepreneur can exercise
4. Potential for capital acquisition
5. Compliance with legal formalities and regulations
6. Taxation
7. The ease with which the business or entrepreneur's interest can be transferred

Aspects	Sole Proprietorship	Partnership	Close Corporation	Company	Business Trust	Co-operative Society

Number of owners, directors/members	one	two or more	less than ten	Non-Profit Company - at least 3 directors Private Company and Personal Liability Company - at least 1 director	Unlimited beneficiaries that may be natural or juristic persons	Unlimited
Legal Personality	no	no	yes	yes	separate entity from trustees and beneficiaries, but does not have a legal personality, but is considered to be a legal persona according to some legislation	yes
Capital acquisition potential	depends on owner's financial strength and creditability	usually better than sole proprietorship because more people can contribute	Higher than in a partnership - members may be more inclined to contribute because they do not stand to lose more than they contributed	Capital is made up of share capital, accumulated funds and loan capital. General public can be invited to invest capital and acquire shares in a Public Company	Limited Loan capital may be obtainable, usually in exchange for security provided by the parties to the trust	Financial support may be made available by the special Department for Co-operative Societies
Subscription to shares	no	no	Yes	no	no	no
Regulations regarding the name of the organisation	Members of the public are required to register the name of a sole proprietorship with the Companies and Intellectual Property Commission. A chosen business name must not infringe on the rights of already existing businesses	Members of the business are required to register the name of a partnership with the Companies and Intellectual Property Commission. A chosen business name must not infringe on the rights of already existing businesses	The name of a close corporation must end with the abbreviation "CC"	Private Company: (Pty) Ltd Public Company: Ltd State-owned Company: (SOC Ltd) Personal Liability Company: Inc.		

Aspects	Sole Proprietorship	Partnership	Close Corporation	Company	Business Trust	Co-operative Society

Legal regulations/ prescriptions	Consumer Protection Act (No. 68 of 2008) Business Names Act (No. 27 of 1960)	Consumer Protection Act (No. 68 of 2008) Business Names Act (No. 27 of 1960)	Close Corporations Act (No. 69 of 1984) Companies Act (No. 71 of 2008)	Companies Act (No. 71 of 2008) Companies Amendment Act (No. 3 of 2011) Securities Services Act (No. 36 of 2004) Auditing Profession Act (No. 26 of 2005) Business Names Act (No. 27 of 1960)	Management of the trust is in the hands of the trustees who have to exercise their duties in accordance with the trust deed under the supervision of the Master of the High Court	Co-operatives Act (No. 14 of 2005)
Liability of members/ shareholders	no limitation of liability	partners are jointly liable	limited liability	limited liability	trustee is liable, but it is limited to trust assets	limited liability
Tax liability	income is taxable in the hands of the owner as an individual taxpayer	each partner is taxed individually on his/her share of the income	a close corporation is a separate taxpayer: taxable income is taxed at a fixed rate of 28% or at a lower scale according to income if it's a micro business	A company is a separate taxpayer and is taxed at a fixed rate of 28% on taxable income. Small companies with a limited income are taxed on a sliding scale up to a specific limit. A withholding tax on dividends is payable by profit companies at a rate of 15% on the gross amount of the net dividends distributed.	A trust is a separate taxpayer. The trustee is seen as a representative taxpayer. Income tax on trust income is allocated according to the conduit principle. In other words, income that accrues to the beneficiaries is taxed in their hands, while income retained in the trust is taxed in the hands of the trustee as representative taxpayer.	

Aspects	Sole Proprietorship	Partnership	Close Corporation	Company	Business Trust	Co-operative Society
Distribution of the organisation's profits	Any profit of the business belongs to the owner in his/her personal capacity, even if it is kept in a separate business account or invested in business assets.	Each partner shares in the profit	A close corporation may not make any payments to members unless the solvency and liquidity tests are satisfied. The solvency test means that after payment, the corporation's assets must still exceed its liabilities, based on a reasonable valuation. A corporation meets the liquidity test if before the payment is made it can pay its creditors as payment becomes due and after the payment is made, it will still be able to pay its debts as they become payable in the ordinary course of business.	A shareholder's interest in the company is represented by the number of shares he/she holds in the company. Shareholders share in the profits of a company when a dividend is declared or a payment by virtue of shareholding is authorised. Distributions by the company are subject to compliance with the criteria of solvency and liquidity.	The distribution of profits to members will generally be left to the discretion of the trustees, affording the parties maximum flexibility with regard to retention or distribution of funds	

Transfer of ownership	The owner may at any time decide to sell the business, close down the business or transfer the business assets to someone else. It might be a problem to find a buyer. The business may be so closely associated with the personae of the proprietor that it may be difficult to place a value on the goodwill of the business. The proprietor or executor may have to sell the business assets individually at a price that compares very unfavourably to the value of the business as a going concern.	The stipulations or provisions of the partnership contract have to be complied with. It can be easier for a partner to sell his/her interest in a partnership than in a sole proprietorship because the remaining partners may opt to buy out the partner. Often partners take out life insurance policies that will enable the remaining partners to acquire a deceased partner's interest.	A member's interest can be transferred to another individual who will then become a member of the close corporation. New members can also acquire a member's interest directly from the corporation by making a contribution, followed by an adjustment to the percentages held by other members. Transfers or acquisition of a member's interest must be in accordance with the association agreement or, if there is no such an agreement, with the approval of all the members of the corporation.	Shares in a private company are not freely transferable. Transfer is usually subject to the approval of the board of directors. A shareholder who wants to sell his/her shares has to find a buyer who is acceptable to the board. The shareholder has to offer the shares to the remaining shareholders first in proportion to their existing shareholding. The shareholder may only transfer the shares to an outsider if the other shareholders are not prepared to acquire them at the same price. Shares in a public company are freely transferable	Transfer of the interest of a beneficiary can be achieved by a variation of the trust deed.	
Continuity of the organisation	The lifespan of the business is linked to the lifespan or the legal capacity of the business owner. If the owner dies, becomes insolvent or otherwise legally incapable, it usually means the end of the business	The continued existence of a partnership depends on the continued involvement of the partners and the legal capacity of the partners. Should a partner be declared insolvent or mentally incapacitated, the partnership would usually be terminated.	Existing close corporations will continue to exist indefinitely, but will have to comply with both the legal requirements of the Companies Act (No. 71 of 2008) as well as the remaining provisions of the Close Corporations Act (No. 69 of 1984)	A company exists independently from its members or shareholders and has the potential for perpetual existence.	A trust is not owned by anyone. It does not terminate unless by agreement or if it is sequestrated as a result of its inability to pay its debts.	
Advantages	Simple to create Least	Ease of formation Diversification	It has the advantages attached to a	Legal (juristic) and natural persons may	Ease of formation Natural and	

	expensive way of beginning a business The owner has total decision-making authority There are no special legal restrictions It's easy to discontinue	of skills and abilities of partners Juristic and natural persons may be partners Increased opportunity for accumulation of capital Minimum legal formalities and regulation	separate legal (juristic) personality Members have limited liability There is increased capital-acquisition potential Management is relatively simple It enjoys continuity	be shareholders/ members of companies There are no restrictions on the number of shareholders who may invest in companies Shareholders/ members have limited liability (except in personal liability companies where directors are personally liable for all contractual debts) The ability to raise large amounts of capital (especially in public companies where shares can be listed on the stock exchange and are freely transferable to the public Separation of ownership and control Continuity Transferability of shares	legal (juristic) persons may be parties to a trust, whether as a founder, trustee or beneficiary thereof Parties to a trust enjoy limited liability Extreme flexibility Absence of onerous legal regulation Continuity	
Aspects	**Sole Proprietorship**	**Partnership**	**Close Corporation**	**Company**	**Business Trust**	**Co-operative Society**
Disadvantages	The owner is personally liable without limitation Limited diversity in skills and capabilities is available The owner has limited access to capital Lack of continuity	Partners are personally liable The relative difficulty in disposing of an interest in the partnership (the partnership will terminate in any event if there is a change in the membership) The potential for conflict between partners Lack of continuity (succession is only possible	Membership is limited to ten Juristic persons may not be members No new close corporations may be registered Certain close corporations are subject to stricter accountability criteria under the Companies Regulations, 2011	A high degree of legal regulation High operational costs	Limited access to capital Potential for conflict between parties	

		through an agreement, however, a new partnership will be formed in any event after the previous partnership has disbanded				

Main objectives of a business plan:

1. It identifies the nature and content of the business opportunity
2. It explains how the entrepreneur will develop this opportunity
3. It attracts investors

Additional objectives:

4. The new venture's chances of success in the market are evaluated systematically and realistically
5. The key variables that will determine the success of the new venture, as well as the primary risks that may lead to failure are identified
6. It describes how to manage the business successfully; it includes a management and operating plan
7. It is a management instrument for comparing actual results against targeted performance. The business plan can act as a framework against which the performance of the business, once it is established, can be evaluated.

Overview of a business plan:	
Executive summary	1-3 page overview of the business plan Written last It highlights significant points and motivates the reader to read on
General company description	Explains the type of company and its history (if any) Explains the type of business and the type of legal organisation
Products and services plan	Describes the products/services Points out any unique features Explains why people will buy the product/ service
Marketing plan	Who are the customers What is the competition Outlines marketing strategy Specifies the company's competitive edge
Management plan	Identifies key players: active investors, management team and directors, cites their experience and competence
Operating plan	Explains the type of manufacturing or operating system Describes facilities, labour, raw materials and processing requirements
Financial plan	Financial needs and contemplated sources of financing Presents projections of revenues, costs and profits

Outline of a simple business plan	
General company description	Name and location Nature and primary product/ service of the business Current status and history Legal form of organisation
Products and/ or services	Description Superior features relative to competition Any available legal protection – copyrights, patents or trademarks Dangers of technical or style obsolescence
Marketing plan	Analyses of target market and profile of target customer How customers will be identified and attracted Selling approach, type of sales force and distribution channels Types of sales promotion and advertising Credit and pricing policies
Management plan	Management-team members and their qualifications Other investors and/ or directors and their qualifications Outside resource people and their qualifications Plans for recruiting and training employees
Operating plan	Operating or manufacturing methods Description of operating facilities Quality control methods to be used Procedures to control inventory and operations Sources of supply and purchasing procedures
Financial plan	Revenue projections for three years Expense projections for three years Necessary financial resources Sources of financing

Financial analysis: the entrepreneur's projections of a new venture's profits, its required assets and its financial requirements over the next one to five years should be supported by substantiated assumptions and explanations of how the costs, financial requirements and profits are determined

General description – 15 Questions:

1. Is it a start-up, buy out or expansion
2. Has the business begun operation
3. What is the firm's mission statement
4. Where was this business started
5. What is the basic nature and activity of the business
6. What is its primary product or service
7. What customers are served
8. What industry is the business in
9. What is the business's stage of development
10. What are its objectives
11. What is the history of the company
12. What is the current and projected status of the industry
13. What achievements have been made to date
14. What changes have been made in the structure or ownership of the existing business
15. What is the firm's distinctive competence