STEP 4

Your business structure

How will you structure your business?

Selecting the right business structure from the outset can spare you a lot of headaches later down the line. Whether you are going it alone or part of a group starting a business together, you need know the benefits and drawbacks of each structural type. Your options follow. (Under the new Companies Act of 2008, Close Corporations (cc) can no longer be registered and they will be phased out over time.)

1. Sole Proprietorship

A sole proprietorship is when a single person owns and runs the business. This is the simplest form of business entity because the business is not separate from you as owner.

Advantages:

- As no registration is required, it is quick and simple to set up, and you can give your business a trading name.
- You maintain 100% control and ownership of the business.
- You are entitled to all of the profits.

Disadvantages:

- You, as the owner, assume all the risk for the business. Your assets will be seized to pay for business debt, and you are personally liable for any obligations.
- If you wish to include another owner in your business, you must dissolve the sole proprietorship and form a new business entity.

2. Partnership

A partnership is when two or more co-owners run a business together.

Advantages:

- With more people comes more knowledge and expertise as partners share specialised skills and resources.
- Partners pool their money towards a common goal, so you'll have more capital and cash to work with. You share the financial burden and expenses of running the business
- Having partners means there is a distribution of labour, and you'll have a better work-life balance as there are others to assist you with the workload.

Disadvantages:

- Everyone is liable for debts whether they were caused by other partners or not.
- You have to share control of the business with your partner(s).
- Dealing with others is not always easy, there could be a falling out or an argument, which can strain the relationship between you and your partner(s).
- If you ever want to sell your business, this could prove difficult if others don't want to sell.

3. Pty Ltd - Proprietary limited company

A private company, Pty Ltd, or proprietary limited company, is a separate legal entity. So even if you launch your business single-handedly, this type of business is registered as a separate legal entity. There are many legal requirements when setting up a private company and it is highly advisable to use a professional.

Advantages:

- It gives you a professional image.
- It allows several people to share in the ownership of a business and makes it easier to sell portions or all of it to future buyers.
- Review by an accountant can help ensure that you are running things properly and following the law.
- Debts of the company belong to the company; your personal assets are safe. And anyone acting recklessly or fraudulently can be personally liable for all or any debts of the Pty Ltd.

Disadvantages:

- Administration and set-up costs are higher and will include annual fees payable to CIPC.
- Private companies have to comply with a large number of legal requirements.
- All your financial statements need to undergo annual auditing.

NB. If you are planning on starting a Non-Profit Organisation (NPO) the Companies and Intellectual Properties Commission (CIPC) can advise you on this business entity as it is a complex and lengthy process.

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