

Customer's and lender's perspectives

[Business](#), [Marketing](#)



The aim of this report is to advise Mrs. Lindsey Warner and Mr. Bryan Child (customers) with the most suitable business entity for their enterprise as well as the BCFS bank (lender) about the main considerations when lending money to the customer.

Mrs. Warner and Mr. Child plan to start up a business by opening cafe tea room, retail shop with online sales operations and B&B services in Canterbury, Kent. The total amount needed to start up business equals to 2, 500, 000. It is financed by BCFS bank, other creditors and privately by customers. Mrs. Warner plans to invest ½800, 000. Mrs. Warner's equity hold in private property equals to 850, 000 whereas Mr. Child's has an equity of 1, 600, 000 in his property. The business owners are married and possess private houses jointly with their partners.

After the comparison of different aspects of various business entities i. e. partnership, private limited company and limited liability partnership as well as consideration of customers' personal circumstances the report concludes: Limited liability company would be the most suitable business entity for Mrs. Warner and Mr. Child. From BCFS bank's point of view it would prefer partnership as owners' ultimate choice.

Investigation of a wide range of BCFS bank's services succeeded to identify services that are "vital" as well as "recommended" services which are not vital, but customers may want to consider them. The analysis of current trends of tourism, retail and leisure sectors certified that the level of disposable income among people is reduced. However business areas of Canterbury have shown a high number of visitors despite difficult economic times.

Moreover weakening pound against euro and US dollar makes this place more attractive to UK citizens as well as visitors from abroad.

Introduction

Preliminary Mr. Warner and Mr. Child plan to form either a partnership or a private limited company. This report aims to assist customers before making that choice by comparing characteristics of different business entities like ease of setting up, administrative costs, liability, control, share of profits and legal formalities. The first part of the report particularly evaluates characteristics mentioned above in conjunction with customers' personal circumstances. The second part of the report investigates what safeguards BCFS bank should put in place against the risk of not being repaid. The third section explores a range of financial services that are vital to business with addition of recommended services which owners may want to consider. The final part of the report looks at the current trends in retail, leisure and tourism sectors.

This report is prepared by Loans Clerk as a form of recommendation and is addressed to Area Commercial Manager of BCFS bank to support him/her when representing lender's position and advising customers. Business entity suggested to customers In order to recommend the best business entity, this report identifies and explains the following differences. A limited company is "incorporated" whereas a partnership is "unincorporated". That means limited companies exist as a separate body from its owners while a partnership does not. This difference has a direct implication to liability aspect.

If Mrs. Warner and Mr. Child would choose to form a partnership their liability would be unlimited. Moreover Mrs. Warner and Mr. Child would be responsible for their business debts as individuals and as a group. That would put Mr. Child in a greater disadvantage because if the business fails he could possibly lose $\frac{1}{2}$ 300, 000 more than Mrs. Warner. Even though their partnership agreement may state that losses are share equally it is the BCFS bank's discretion to decide how it would recover money lent to the partnership. So the lender could potentially approach the person with most equity (in this case Mr. Child) and repossess his house.

In case of a limited company owners' losses theoretically would be limited to the amount invested: $\frac{1}{2}$ 500, 000 in case of Mrs. Warner and $\frac{1}{2}$ 800, 000 in case of Mr. Child. However the lender may ask for their personal guarantee as an additional security. This idea will be explained in more detail in the next section called " Recommendations to BCFS bank". Though the bank may ask for a personal guarantee the main advantage of a limited company is limited liability as business debts may be huge. A partnership has unlimited liability. Partners are personally liable for all business debts which may be far above the amount of money borrowed.

Since time commitments and capital investments of business owners differ, a partnership agreement between them would determine how they would share profits. In the case of a limited company profit would depend on number of shares owned. Even though Mrs. Warner is devoting more time to an enterprise Mr. Child would end up with greater share of dividend (if business is profitable) as he has more personal capital to invest.