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The statements, findings, conclusions, and recommendations are those of the author(s) and do not necessarily reflect the views of the department or the Economic Development Administration.
## BUSINESS CONSULTANTS

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NOTE: Every effort has been made to ensure that the information contained in this booklet is comprehensive and accurate. However, this guide should only be considered as a reference. Proper legal counsel and other professional guidance should be obtained prior to starting a business.

BUSINESS CONSULTANTS
(SIC 8742, 8748)

GENERAL INDUSTRY INFORMATION

BUSINESS TYPE, INDUSTRY CHARACTERISTICS AND PROSPECTS

Nature of the Business

Business consultants have been assigned the Standard Industrial Classification (SIC) Numbers 8742 and 8748. SIC number 8742 is for establishments primarily engaged in providing operating counsel and assistance to management of private, nonprofit and public organizations. Their activities are varied and include strategic and organizational planning; financial planning and budgeting; marketing objectives and policies; information systems planning, evaluation and selection; human resource policies; practices planning; and production scheduling and control planning. SIC number 8748 refers to firms primarily engaged in providing miscellaneous business consulting services on a contract or fee basis.

In 1985, there were about 44,000 consulting firms in the nation. By early 1988, the number had increased to about 60,000. Many of these are large, with an average of 12 employees. Many of the smaller firms have from one to four employees, but the firms that operate with regional or national scope often employ more than 100 people among various offices located in several cities.

A consultant is an individual who receives any form of compensation from another party in exchange for advice and expert opinion. Primary research (interviews) and secondary research (data analysis) provide the factual basis for a consultant's expert opinion. The final result is usually a written or oral presentation made to the client. At this time, specific recommendations are offered to remedy the problem or situation.

Consultants may specialize in any technical or professional area such as business management, education, and government. Within each broad field, individuals practice their expertise in specific subcategories such as financial management, time and motion study, career counseling, or computer system design. The key to success in consulting is the ability to specialize and
develop an image as an expert in the field.

Consultants are often used to analyze situations from an objective, unbiased viewpoint. Management and staff members will more easily accept recommendations when suggested by an outsider. Consultants play an important role in service and support functions such as accounting and legal matters. Hiring additional personnel for a company is more expensive than using consultants for specific short-term projects. Consultants also are needed at all levels of government, business and education.

Trends in the Industry

The trend in the latter 1980s was toward mergers of large public accounting and electronic data processing (EDP) firms with specialty consulting firms. Mergers generally result in some staff reduction in both firms. Many of these people find their way into the consulting ranks. In the U.S. alone, employment in consulting businesses gained more than 25 percent from 1985 to 1987. The U.S. Department of Labor does not expect this phenomenal rate of advancement to continue, but some successful firms have been able to increase from a few dozen to a few hundred employees in a period of two or three years.

MARKET OPPORTUNITIES IN VARIOUS SIZED COMMUNITIES

Market Data

On a national basis, one consultant exists for each 4,000 people. Even in small communities, local or regional chapters of SCORE (Service Corps of Retired Executives) or ACE (Active Corps of Executives), sponsored by the U.S. Small Business Administration, may provide opportunities to meet groups of business people willing to hire a consultant.

Market potential and demographic data (e.g., average household income, number of households, and number of businesses) may be obtained by contacting the local chamber of commerce, from the public library, or from the city and county governments. Existing consulting firms may be contacted to determine what services they offer and what they charge. Before setting up a consulting office, a survey should be made of the competitors, including their location and office layout. The major types of firms that provide consulting services include a few large firms such as McKinsey and Company and Arthur D. Little that usually concentrate their resources in large cities; the management consulting division of the major public accounting firms (Arthur Andersen is the largest in terms of consulting revenues); general consulting firms; specialist consulting firms; small consulting firms; and sole practitioners (often part-time consultants).
Marketing Plan

Before starting a consulting firm, the owner(s) should develop a marketing plan. A marketing plan is basically a blueprint for the business and should include important information about the venture. Topics that should be addressed include: whether or not the area can support the proposed venture; the existence of an unidentified market niche that may be exploited; the level of competition in the area; the current customer base population, income, and growth trends; competitive pricing strategies; and a variety of other facets of the business that owners or managers need to know to develop a viable and profitable business.

Assistance in developing a marketing plan may be obtained from many sources--some at cost, others for free. A few sources for assistance and information are local chambers of commerce, banks, accounting firms, local and state governments, the Illinois Department of Commerce and Community Affairs (DCCA), the U.S. Small Business Administration (SBA), small business development centers (located at colleges and universities throughout the state), private consultants, and public libraries.

FRANCHISING

Franchising Opportunities

Franchise opportunities exist for business consultants and offer an alternative to starting a business from the ground up. Franchising gives the entrepreneur an opportunity to use the mass buying power, training programs, specific territory, experience, and name recognition of the franchisor to build a viable and profitable business. The Source Book of Franchise Opportunities, by Robert E. Bond (published by Dow Jones-Irwin), is one of several reference books that lists information on franchise opportunities, franchise fees, and investment requirements.

Franchisee Assistance

Most of the franchising firms provide training at their home offices for key officers of franchise businesses. Video cassettes may also be used to illustrate correct techniques for performing certain types of assignments. Ongoing training is also generally provided, especially as new equipment or improved products are developed.

COSTS/FINANCIAL CONSIDERATIONS

COSTS AND TYPES OF ASSETS NEEDED TO START THE BUSINESS
Average Expenses

The Internal Revenue Service does not provide a separate breakdown for expenses for the consultant classification. However, the firm is operated much like a small-or intermediate-sized accounting firm, and the breakdown of those expenses might be useful as a guide. These are as follows.

<table>
<thead>
<tr>
<th>EXPENSE ITEM</th>
<th>PERCENT OF EXPENSES</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cost of operations</td>
<td>13.0%</td>
</tr>
<tr>
<td>Compensation of officers</td>
<td>22.5</td>
</tr>
<tr>
<td>Repairs</td>
<td>1.0</td>
</tr>
<tr>
<td>Bad debts</td>
<td>0.5</td>
</tr>
<tr>
<td>Rent on business property</td>
<td>5.5</td>
</tr>
<tr>
<td>Taxes (exc. Federal taxes)</td>
<td>4.5</td>
</tr>
<tr>
<td>Interest</td>
<td>1.5</td>
</tr>
<tr>
<td>Depreciation/amortization</td>
<td>3.5</td>
</tr>
<tr>
<td>Advertising</td>
<td>0.2</td>
</tr>
<tr>
<td>Pension/benefit plans</td>
<td>4.0</td>
</tr>
<tr>
<td>Other expenses</td>
<td>44.0</td>
</tr>
<tr>
<td>Net profit before taxes</td>
<td>5.0%</td>
</tr>
</tbody>
</table>

Average Balance Sheet Data

An analysis of average costs for typical firms in an industry can be helpful in determining whether to start a new business. Initial investment factors to consider include: the amount of capital required for wages, six months of working capital, unforeseen expenses, supplies and equipment inventories, insurance coverage and building remodeling or improvements.

The breakdown of assets, liabilities, and net worth for a typical consulting firm according to Dun and Bradstreet, follows.

<table>
<thead>
<tr>
<th>ASSETS</th>
<th>DEBTS AND NET WORTH</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash and near cash</td>
<td>27.0% Accounts payable 11.0%</td>
</tr>
<tr>
<td>Accounts receivable</td>
<td>31.0 Bank loans 1.0</td>
</tr>
<tr>
<td>Notes receivable</td>
<td>2.0 Other notes payable 4.0</td>
</tr>
<tr>
<td>Inventory</td>
<td>6.0 Other current debts 17.0</td>
</tr>
<tr>
<td>Total current assets</td>
<td>66.0 Total current debts 33.0</td>
</tr>
<tr>
<td>Fixed assets</td>
<td>17.0 Long-term debts 12.0</td>
</tr>
<tr>
<td>Other noncurrent assets</td>
<td>17.0 Net worth 55.0</td>
</tr>
<tr>
<td>Total assets</td>
<td>100.0% Total credits 100.0%</td>
</tr>
</tbody>
</table>

"Nearcash" refers to checking or savings accounts that may be liquidated easily. "Other noncurrent assets" generally refers to intangible assets such as leaseholds or leasehold improvements.
"Fixed assets" are a mixture of land and buildings, equipment, and vehicles. "Accounts payable" are amounts owed to suppliers of inventories and equipment. "Loans" are amounts owed to suppliers of open market notes or equipment installment notes. Other "long-term debts" include both equipment and mortgage notes.

Revenues and Profitability

An average size consulting firm should generate annual revenues of roughly $500,000. A breakdown of average revenues into dollars and percentages for the average firm in the SIC 8742 and 8748 designations during recent years, according to Dun and Bradstreet, is shown below.

<table>
<thead>
<tr>
<th>ITEM</th>
<th>DOLLARS</th>
<th>PERCENT</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sales/revenues</td>
<td>$500,000</td>
<td>100.0%</td>
</tr>
<tr>
<td>Gross profits</td>
<td>$227,500</td>
<td>45.5%</td>
</tr>
<tr>
<td>Net profit after taxes</td>
<td>$36,500</td>
<td>7.3%</td>
</tr>
</tbody>
</table>

There appear to be few economies of scale in consulting. However, the hourly charges are usually higher for consulting firms operated in large cities than those charged by firms in smaller communities. Hourly billings normally fall in the range of $50 to $150 per hour of time for senior consultants, with lower rates charged for assistants' time. Extra billings are not ordinarily made for secretarial time or out-of-pocket office expenses. Mileage may be billed for auto travel, as well as expenses for lodging and meals for related overnight, out-of-town travel.

TYPICAL BUSINESS RATIOS FOR OTHER FIRMS IN THE INDUSTRY

The comparison of actual operations with typical, industry-wide ratios can be helpful in making decisions concerning service charges, budgeting and realistic profit expectations. These ratios are also helpful in preparing projected financial statements (cash flow projections, income statements and balance sheets) for loan purposes.

According to Dun and Bradstreet, the median key financial ratios for business consultants during 1985 were as follows.

Solvency Ratios

Quick ratio
(cash plus accounts receivable/current liabilities)  1.6 to 1
Current ratio (current assets/current liabilities)  2.1 to 1
Total debts to net worth                           69.0%
The quick ratio expresses the degree to which a company's current obligations (expenses) are covered by the most liquid current assets, i.e., cash and customer payments due the company. The current ratio is a rough indication of "cushion" between current obligations and a firm's ability to pay them from current assets. Total debts to net worth compares total liabilities in the form of debt with owners equity, which for small firms usually does not exceed 100 percent. Thus, owners have more at stake than creditors.

Efficiency Ratios

Collection period (accounts receivable/sales x 365)  47 days
Sales to inventory (net sales/inventory)             32 times
Assets to sales (total assets/annual net sales)      37.0%

The quality of the receivables (degree to which customers pay their bills on time) of a company can be determined through the collection period, with allowances made for possible variations in selling terms if the company differs from the industry. The sales to inventory relationship is a guide to the rapidity at which merchandise is being moved, which has a direct effect on the flow of funds into the business. The assets to sales ratios in sales and the total investment that is used to generate those sales. A firm can be "overtrading" (handling an excessive volume of sales in relation to investment) or "undertrading" (not generating sufficient sales to warrant the assets invested).

Profitability Ratios

Return on sales (profit after tax/annual net sales)     7.3%
Return on net worth (profit after taxes/net worth)     21.7%

Return on sales reveals the profits earned per dollar of sales and, therefore, measures the efficiency of the operation and is an indicator of the firm's ability to withstand falling prices, rising costs and declining sales. Return on net worth (return on equity) is used to analyze the ability of the firm's management to realize an adequate return on the capital invested by the owners of the firm. Generally, a relationship of at least ten percent is regarded as a desirable objective for providing dividends plus funds for future growth.

MANAGEMENT CONSIDERATIONS

DEVELOPMENT AND SITE LOCATION
Location

A consultant who wants to work with another person, perhaps someone with complementary strengths, might locate in a small suite of offices in a commercial building. For example, a retired middle-or top-level corporate executive with an MBA might form a consulting firm with a retired industrial engineer. Each would want their own private office for meeting prospective clients and for doing routine analytical work. A part-time or full-time staff member would be hired to handle secretarial duties, bookkeeping, and other office tasks. A conference room, restroom, and coffee area may also be included. A modest four room office suite, located in a commercial building, is a good site.

Zoning

When selecting a location and a specific site for the consulting firm, consideration must be given to local zoning requirements. Many communities forbid, through zoning ordinances, the establishment of home-based businesses. It is essential to check these local restrictions prior to contracting to rent, lease or buy a property for the consulting firm.

EXPERIENCE AND TRAINING NEEDS

Management/Owner Training

The manager/owner of a consulting firm should ideally have several types of skills and abilities, including diagnostic skills and the ability to determine objectives and apply logic and intuition to the challenges presented. The prospective consultant should be able to use imagination and conceptual skills to create viable answers to problems. Communication skills, sales and marketing abilities, and general management talents are needed. The potential consultant should have one or more areas of general expertise that are in demand by paying clients.

People who manage or supervise groups of consultants should have expertise in their field of activity, experience, leadership qualities, perspective (open-mindedness), and good interpersonal relationships with the client's staff. The supervisor of a consulting project needs to be a generalist in order to see the broad picture, but specialists are sometimes brought in where a specific problem area exists.

Employee Training

Many large consulting firms expect their staff to work at least 50 hours weekly, with some of this time spent in workshop
training sessions. Turnover for the industry is about 15 percent annually, with many people leaving to start their own consulting firms.

Besides having the necessary skills and experience to offer to others, consultants must possess certain personal attributes. These include empathy, inner security, high ethical standards, tact, and marketing ability. Empathy relates to how effectively the consultant can put himself/herself in the client's shoes. Inner security means working without the supervision or motivation or a supervisor. Finally, an extremely important attribute is the ability to retain a very high degree of ethical standards even in the face of adversity and the potential of loss of a contract.

KEYS TO SUCCESSFUL MANAGEMENT

Starting Out

Statistics reveal that it is unwise to go into business alone. Nearly 90 percent of these firms fail in less than two years. As an alternative, start the firm on a part-time basis until a client base is established.

Markets

In order to be successful, the management of a consulting firm must know its competition, have a vision as to the markets that it can cultivate, promote a helpful atmosphere for both clients and employees, and strive for profitable clients. Management of a consulting firm should be able to gauge the approximate saturation point in a given market area. Markets should be developed where growth potential exists and where the firm has a price or some other advantage. Effective labor and supplies cost controls should be followed by the owners and employees. The firm's operating objective should be to develop a good reputation in the industry for quality services at a fair price.

Specialization

A well-focused field, such as pension or tax planning, estate planning, engineering, product marketing, office operations or plant management should be targeted. Larger firms, with more specialty staff, may diversify into broader categories.

Reputation

Consulting usually involves numerous activities, including: providing information to clients, diagnosing a situation, suggesting solutions to problems, assisting in implementing
action in the client's firm, providing education to a client's staff, and improving the organizational effectiveness of the overall operation. While the last two tasks seem to appear to eliminate potential future work from a client, they are the strategic areas that will most often earn an outstanding reputation for the consulting firm and promote it, by word of mouth, to other clients.

The consulting staff must be able to prepare and present an effective proposal, showing background, objectives, work plan, staff needs, and proposed budget. Not all of these proposals will result in a contract, but proposal development is also an effective type of advertising.

Generally, the benefits to the client must be at least two times the cost of the consulting in order for the contract to appear to be worthwhile. This might be a short-range target in pricing business consulting services.

Visibility

Consultants often volunteer to write an article or regular column about their specialty for a trade publication. Once an article appears, reprints should be made for promotional use. Copies should be sent to business associates, clients, and prospective clients. Another positioning device is the presentation of a technical paper or results of a survey. The consultant's services may be offered to radio shows, TV talk shows, or workshop panels. This exposure continues to reinforce the business consultant's position as an expert in his or her field.

Advertising

Some experts suggest that one day a week be devoted to marketing the consultants through personal contacts, civic work, writing/publishing, seminar or association participation or similar activities. Spot radio ads, newspaper ads, telephone directory yellow pages listings, and direct contact (telephone or mailings) are other methods which can be used to promote a consulting firm.

GENERAL START-UP ISSUES

FINANCING METHODS

The ability to raise initial capital is critical for business start-ups. According to a survey conducted by Western Illinois University, one-half of entrepreneurs reported difficulties in obtaining financing, including both initial and working capital. The survey also found that entrepreneurs relied heavily on
personal funds, in addition to investments from family and friends. In fact, the survey indicated that approximately one-half of initial funds came from these sources. On the average, bank loans accounted for nearly one-third of initial capital. Other private lenders, government agencies, venture capital and stock placements only rarely provided initial capital for businesses.

About one-half of both goods and service-producing firms surveyed had applied to lending institutions for credit. Only five percent of goods-producing firms had been denied credit more than once, while approximately 18 percent of service-producing firms reported credit denials. The most frequent reasons for credit denial included lack of adequate collateral and a policy of not lending to the type of business applying for credit. Since obtaining credit is difficult, many entrepreneurs find it necessary to finance a business through a combination of sources of funds. Following are descriptions of several common types of financing.

Equity Sources

Equity sources of funds are the entrepreneur's personal funds or assets or the funds or assets of other investors in the business. Banks often require a minimum equity investment of 20 to 25 percent.

Personal Savings or Insurance -- Individuals with bank passbooks, certificates of deposit, U.S. savings bonds, permanent life insurance (with a cash surrender value), or other savings should view these as a source of financing. Conversion of these savings (or borrowing funds using these savings as collateral) should be explored carefully to determine the effect on the family if funds are not repaid.

Personal or Family Investors -- Next to personal assets, this is the most commonly used source of equity financing and perhaps the one source most abused. A business owner who secures equity funds from family members or friends should enter the relationship on a strictly professional business basis. Potential family conflicts which might result from the business might be avoided by preparing a simple contract to designate the details of the business arrangement.

Personal Assets -- An individual may have accumulated some equity in personal assets such as a vacation home, a second vehicle, or recreation equipment such as a boat, camper, etc. People starting a new business and trying to finance the business could sell these assets to generate funds to capitalize the business. This offers the advantage of not having loan debt to repay during
the early years of a business and also shows potential investors and lenders the commitment of the owner.

Debt Financing

Entrepreneurs should be aware of typical lending practices, sources of funds and different types of credit (and their respective costs) before approaching lending sources.

Institutional Investors -- Banks, savings and loans, and commercial credit companies expect the small business owner to make a significant personal investment (equity) in the business prior to any lending activity. The lack of personal investment is viewed as a sign of greater risk and less commitment on the part of the owner. Smaller loans can sometimes be obtained through a bank's consumer loan division. Security in the form of a second mortgage on the borrower's house or a lien on property such as an auto is usually required.

Leasing Agents -- Leasing companies allow small start-up firms to obtain needed equipment with a small cash down payment and regular monthly payments. Leasing has advantages and disadvantages both for the leasing agent and the small business that rents equipment. Leasing companies may be able to use favorable federal tax advantages (such as depreciation allowances), and thus lease terms are often only slightly higher than if the asset were financed with a bank note. However, if the lease is an operating contract (not a lease to purchase), the leasing company retains ownership.

Factoring Companies -- Another mechanism for assisting business owners is improving cash flow through factoring, or the sale of their accounts receivable. Factoring companies purchase accounts receivable from business owners. The business owner generally pays the factoring company a fee or percentage of the invoice (based on the strength of the receivable) for the transaction as well as interest costs of borrowing money, but can obtain cash without waiting the normal 60 to 90 days for payment.

Public Sources

Public sources of funds include federal, state or local governments which may loan money to small or emerging businesses at relatively low rates of interest as a method to improve the economy. Public sources also generally take a second position on the collateral so that the bank has first claim to the assets if the loan defaults. Although public funds have their limitations, entrepreneurs should explore such funds. Most public sources of funds require 20 to 25 percent owner equity, additional private bank financing, and some guarantee that job
creation will occur.

Federal Sources -- An example of a public source of funds is the U.S. Small Business Administration (SBA), which offers a variety of loan programs to eligible existing and start-up small businesses which cannot borrow on reasonable terms from conventional lenders without government assistance.

Local Revolving Funds -- Many communities in Illinois use available economic development funds to establish revolving loan pools to promote business and industrial growth.

State Loans -- The Illinois Department of Commerce and Community Affairs offers several important financing programs to help start-up businesses. Each of these should be considered, along with their associated requirements. For more information on financing programs, contact the Illinois Small Business Hotline 1-800-252-2923.

FORM OF ORGANIZATION

There are three basic forms of business organization, each of which offers distinct advantages and disadvantages for a prospective business owner. The main considerations in selecting a form of organization include:

- Cost and complexity of formation;
- Tax and securities law implications;
- Need for attracting additional capital;
- Investors' liability for debt and taxes; and
- The goals and purpose of the enterprise.

Each of these should be thoroughly discussed with an attorney and an accountant prior to selecting one of the following forms of business.

Sole Proprietorship -- A sole proprietorship is owned and operated by an individual. Advantages of this form of organization include ease of formation and relative freedom from government controls and restrictions. Disadvantages include less access to capital and financial resources. Also, this form of business organization provides less protection with regard to personal liability. For instance, the owner may be required to sell personal property, including home, car, etc., to repay debts resulting from the business.

Partnership -- Generally, a partnership is defined as two or more
individuals carrying on an association as co-owners of a business for profit. Typical partnership agreements are in writing and are prepared by an attorney. The agreement defines how much owner equity each partner must contribute, the extent to which each partner will work in the company and the share of the profits or losses to be received by each of them. It is desirable to have the agreement prepared by an attorney. As with sole proprietorship, a general partnership exposes the owners to personal liability. If the business is not successful and the partnership cannot pay all it owes, the general partners may be required to do so using their personal assets. Limited partners are exposed only to the extent of their investment in the partnership.

Corporation -- A corporation is a distinct legal entity and is the most complex form of organization. A corporation may sell shares of stock, which are certificates indicating ownership, to as many people as is desirable. The shareholders then elect a board of directors, which selects a president and other officers who run the company on a day-to-day basis. Among the advantages of corporate formation are limited liability of the shareholder and ease of transferring ownership. Electing S Corporation status is another option when starting a business. In general, an S Corporation does not pay a tax on its income. Instead, the income and expenses of the corporation are divided among its shareholders, who then report this data on their own income tax returns. To qualify for S Corporation status, a corporation must meet several requirements, one of which limits the number of shareholders to 35. All shareholders must also consent to the S Corporation status.

For further information regarding S Corporations, contact the Internal Revenue Service (IRS) at 1-800-424-1040 or request a copy of Publication 589, Tax Information on S Corporations, by calling 1-800-424-3676.

LICENSE/REGISTRATION

Assumed Names Act -- Once a decision has been made regarding the form of organization for the business, it must be registered to legally conduct business in Illinois. Under the Illinois Assumed Name Act, sole proprietorships and partnerships must register with the county clerk if the name of the business will operate under a name other than the owner's full legal name (e.g., "John Doe" would not need to file; "John Doe's Cleaners" would). Limited partnerships and corporations are required to register with the Illinois Secretary of State's Office. More detailed information on business registration is contained in the "Starting a Small Business in Illinois" handbook, which can be obtained by contacting the Department of Commerce and Community
Affairs' Small Business Hotline at 1-800-252-2923.

Certificate of Registration -- Most businesses must register with the appropriate state agency to submit tax or informational returns or to collect and remit sales taxes. In Illinois, business owners must contact the Department of Revenue to determine if an Illinois Business Taxpayer Certificate of Registration (Business Tax Number) is required for the business. Contact the Department of Revenue at either of the addresses listed under Information Sources.

Unemployment Insurance Liability -- Businesses that hire employees may be required to make unemployment insurance contributions to the state. Liability is determined by the Illinois Department of Employment Security (DES). The form, "Report to Determine Liability," and instructions for completion are available through the Small Business Hotline or by contacting either of the DES offices listed under Information Sources.

Local Regulations -- Most local jurisdictions require that business operation licenses be applied for and renewed annually. Where crowds of people are in attendance, fire codes concerning rest rooms and fire exits are in effect. Fire and safety inspections may be made periodically by the local fire and safety inspector. Contact the city or county clerk for information on licensing, inspections, sign restrictions, and other local regulations.

Federal Employer Identification Number (FEIN) -- Every partnership, corporation and S Corporation must have a FEIN to use as its taxpayer identification number. A sole proprietorship must also have a FEIN, if it pays wages to one or more employees or files any excise tax returns, including those for alcohol, tobacco or firearms. (Otherwise, a sole proprietor can use his or her social security number as a business taxpayer identification number.) To apply for a FEIN, use form SS-4, Application for Federal Employer Identification Number. To receive a FEIN application contact the IRS Hotline at 1-800-424-3676. The application is also included in the One Stop Business Start-Up Kit and can be obtained by calling the Illinois Small Business Hotline at 1-800-252-2923.

TAXES

Taxation for small businesses can be quite simple or very complex, depending on the size and type of operation. The following list outlines the major taxes which may impact a business. Of course, the tax liability of each business will be different, based on sales volume, form of organization, etc.
Business Taxation

Income Tax -- Every individual, corporation, trust, and estate residing in Illinois or earning or receiving income in Illinois must pay an income tax based on net income. A sole proprietor must pay individual income taxes on earnings from the business. In a partnership, each partner must pay taxes on the distributive share of partnership income. Corporations must pay a corporate income tax.

Franchise Fees -- In addition, corporations are assessed a franchise tax each year. Corporate franchise taxes are administered and collected by the Secretary of State's Office.

Replacement Tax -- Illinois does not have a personal property tax, but does have a personal property replacement income tax. The replacement tax is also applied to the net income of partnerships, corporations, and trusts. S Corporations are subject only to replacement tax.

Sales Taxes

Four categories of taxes comprise the state and local sales taxes. These are the Retailers' Occupation Tax, the Use Tax, the Service Occupation Tax and the Service Use Tax. State, county and municipal governments, and certain mass transit districts may levy Retailers' Occupation, Use and Service Occupation taxes, subject to criteria and rate limits established by Illinois law. Additional information regarding the various types of sales taxes may be obtained by contacting the Illinois Department of Revenue at 217-782-2972 or 1-800-732-8866.

A list of items which are exempt from Illinois Sales Tax is contained in "Starting a Small Business in Illinois" which can be obtained through the Illinois Small Business Hotline, 1-800-252-2923. For further information on Sales Tax regulations or the Illinois Retailers' Tax Booklet (NUC-19), contact the Department of Revenue at 217-782-2972 or 1-800-732-8866.

Real Estate Taxes

All for-profit real estate owners are required to pay property taxes. The property tax rate is determined by local taxing districts and taxes are paid to the township or county tax collector in the year following assessment.

Withholding Taxes

Certain taxes, including state and federal income taxes and FICA (Social Security), must be withheld from employee wages and
remitted to the government. You may be required to register with both the federal government and the State of Illinois for tax withholding purposes.

Federal Withholding -- To register with the federal government, contact the Internal Revenue Service at 1-800-424-3676 and request: Your Business Tax Kit (YBTK) for either a sole proprietorship, partnership or corporation; Tax Guide for Small Business (Publication 334); and Employer's Tax Guide (Publication 15).

State Withholding -- To register with the State of Illinois, contact the Illinois Department of Revenue Hotline at 1-800-732-8866 or write to the department at:

100 W. Randolph, Concourse 300
Chicago, Illinois 60601
312-814-5258

101 West Jefferson Street
Springfield, Illinois 62794
217-785-3707

BUSINESS SERVICES

Legal Counsel

Attorneys can provide services fundamental to the success of the business. A competent attorney can advise on such issues as choosing the most appropriate type of business organization; complying with local, state and federal regulations; obtaining licenses and permits; preparing contracts; and resolving tax questions. Attorneys also can provide professional help when dealing with other, parties such as financial institutions, owners of possible business locations, union officials, governmental bodies, franchising companies, suppliers and customers. In addition, problems may arise requiring the services of an attorney, including collection problems with customers, disputes with creditors or employees, or expansion opportunities.

There are several methods for selecting an attorney. An initial course of action might be to seek recommendations from other business owners. Another method of finding an attorney is to contact the Illinois State Bar Association Lawyer Referral Service at 1-800-252-8916. The Martindale-Hubbel Law Directory may also be helpful. It contains a listing and rating of attorneys in your city; a copy may be found at the local library. The public library is also a source for reference books on legal topics. One such book is Small Business Legal Advisor by William A. Hancock, published by McGraw-Hill.

Bookkeeping
Access to proper information is provided by a sound bookkeeping system. Functions of a good system include:

Receipts and Expenses -- Creating and maintaining an accounting system for the accurate and timely recording of the company's cash receipts, disbursements, sales and operating expenses.

Financial Statements. -- Preparing periodic financial statements (balance sheet and profit and loss statement) and establishing systems that track accounts receivable and payments due.

These responsibilities may be undertaken from within or outside of the business, depending on the size and nature of the business and the owner's experience and available time. An accountant, attorney or banker can help determine a firm's needs for a bookkeeper or bookkeeping service.

Accounting

In addition to bookkeeping requirements, a need may arise for the services of a certified public accountant (CPA), an accountant who has passed a written examination prepared by the American Institute of Certified Public Accountants and who has received a state license for the public practice of accountancy. Most CPAs provide the following services:

Auditing -- Although a bookkeeper employed by the firm may maintain accounting records and prepare financial statements, banks and other lenders frequently require an independent audit prior to granting a loan and during the loan repayment period.

Tax Preparation -- The tax services provided by CPAs include planning transactions for the lowest present and future tax liabilities, preparation of tax returns, conferences with taxing authorities who are examining prior years' tax returns and estate planning.

Consulting -- Some CPAs provide assistance in reducing costs, improving reports, installing or upgrading accounting systems, budgeting and forecasting, conducting financial analyses, controlling production, controlling quality, compensating personnel, and managing records.

The Independent Accountants Association of Illinois (IAAI), established in 1949, can refer a competent accountant to the potential Illinois small business person. Many of the IAAI accountants are "Enrolled Agents," licensed to represent a client before the IRS should the client's tax return be audited. For more information, write the Independent Accountants Association of Illinois, P.O. Box 1506, Galesburg, Illinois
Insurance Coverage

A well planned insurance program is essential for protecting a business from unforeseen losses and significant financial burdens. In organizing an insurance program, there are three basic considerations: recognize the perils facing the business and the potential loss from each; investigate the methods by which the cost of coverage can be reduced, which includes "shopping" for appropriate insurance plans; and prepare an insurance plan that is compatible with the operation and goals of the business. A qualified insurance agency or broker can explain options, recommend the best coverage and help save money. Four types of insurance coverage are essential: fire, liability, vehicle and workers' compensation. Other desirable types of insurance coverage include business interruption, crime, and key employee.

INFORMATION SOURCES

There are a variety of resources available to assist with starting a business. Local libraries, chambers of commerce, community colleges, and universities are excellent sources of information.

SMALL BUSINESS HOTLINE

In Illinois, many of the forms needed to start a consulting firm may be obtained from the Illinois Small Business Hotline, a program of the Illinois Department of Commerce and Community Affairs Small Business Assistance Bureau. State business forms, permit and license information, and general business information, such as the "Starting a Small Business in Illinois Handbook", are available from the Small Business Hotline 1-800-252-2923.

BUSINESS DEVELOPMENT CENTER NETWORK

The Illinois Business Development Center Network and Service Corps of Retired Executives (SCORE) offices can provide technical assistance, business plan development, finance, marketing, management, international trade, government procurement, energy management, and commercialization of technology-related products. Additional information on these services is available through the Small Business Hotline.

SMALL BUSINESS RESOURCE CENTER

The Small Business Resource Center is a Chicago-based center that provides information on area Small Business Development Centers and other state and local service providers. Contact the Small
Business Hotline for more information.

The U.S. Small Business Administration offers many publications for a minimal fee. A list of these management aids (SBA 115) is available from the Small Business Hotline.

Several sources of information are useful for improving the level of profitability of a consulting firm or for learning more about this type of operation. These include trade associations, reference books and directories, periodicals, ratio studies, investment services, and government assistance. A list of these for the consulting firm industry is given below.

TRADE ASSOCIATIONS


DIRECTORIES AND REFERENCE BOOKS


PERIODICAL

Consultants News. James H. Kennedy, Templeton Road, Fitzwilliam, NH 03447. 603-585-6544.

FINANCIAL RATIOS

800-922-0579 or 201-592-2000.


GOVERNMENT PUBLICATIONS


Information Services Program for Census Statistical Inquiries, Department of Commerce, Bureau of the Census, 175 West Jackson Boulevard, Chicago, IL 60604. 312-353-6251.

Small Business Information Bibliography. Illinois Department of Commerce and Community Affairs, 620 E. Adams St., Springfield, IL
62701. 217-785-6193.

U.S. County Business Patterns, Department of Commerce, Bureau of the Census, 175 West Jackson Boulevard, Chicago, IL 60604.
   312-353-6251, or Government Printing Office Bookstore, 219 South Dearborn, Dirksen Federal Building, Room 1365, Chicago, IL 60604. 312-353-5133.

GOVERNMENT ASSISTANCE


For more detailed information about the sources listed in this section, contact your local library for the following publications by category:


