HOUSEHOLD FURNITURE MANUFACTURERS
BUSINESS AND INDUSTRY PROFILE

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Economic Development Administration

SOUTHERN ILLINOIS UNIVERSITY AT CARBONDALE
College of Business and Administration

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HOUSEHOLD FURNITURE MANUFACTURERS

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HOUSEHOLD FURNITURE MANUFACTURERS  
(SIC 251)  

GENERAL INDUSTRY INFORMATION  

BUSINESS TYPE, INDUSTRY CHARACTERISTICS AND PROSPECTS  

Nature of the Business  

In 1987, U.S. Census Data (County Business Patterns) listed 2949 wood furniture makers and 1153 upholstery furniture makers in the U.S. In Illinois, there are 72 and 14 respective manufacturers. Household manufacturers are assigned to the Standard Industrial Classification (SIC) of 251. Wood furniture manufacturers are SIC code 2511, while 2512 is assigned to upholstered furniture makers.  

The U.S. furniture manufacturing industry had annual 1987 sales of nearly $15 billion (at manufacturers' wholesale prices). The value of retail sales of household furniture is about two times this
level, as the markup from wholesale to retail sales is about 50 percent based on selling prices.

Ten to twenty years ago, the wood furniture industry in the United States was composed of many medium-sized, family-owned, furniture-making companies. At that time, the ten largest companies in the industry accounted for 21 percent of the sales. By 1987, the ten largest companies had expanded, either through mergers or acquisitions of smaller firms, increasing their market share to 32 percent of U.S. sales. Some well-known furniture lines include Thomasville, Ethan Allen, Bassett, and Broyhill. Some of the larger companies include Interco (St. Louis), Masco (Detroit) and their subsidiaries (i.e., Lane, Drexel Heritage, and Henredon).

Industry Growth

While the level of furniture sales virtually stagnated from about 1980-1986, in 1987 sales began to grow more rapidly. The growth in furniture sales in the nation was expected to be about five to six percent in 1988, according to The Industrial Outlook Handbook. So long as sales of electronic equipment (televisions, personal computers, video cassette recorders, etc.) remain strong, sales of wooden tables and desks are likely to remain strong. Covered furnishings (i.e., chairs, couches, etc.), however, are tied strongly to the sale of new homes, and thus when interest rates are lower and new home sales are high, furniture sales also boom.

Homebuyers usually purchase some furniture for their new home. Surveys of new homebuyers indicate that about 83 percent purchase some furniture within three months of buying a new home. Approximately 66 percent buy some furniture within three to six months after buying their home, and 41 percent buy some furniture within six to 12 months after the purchase.

The annual export sales of U.S.-made wood and upholstered furniture is not large, amounting to about $400 million in 1987, but rose by about 30 percent in 1988, indicating that the popularity of such furniture in Europe and Japan has been rising in recent years. This contrasts to furniture imports of about $1.9 billion in 1987.

In fact, Japan has attempted to increase imports of U.S. wood and upholstered to furniture in recent years. Types of U.S. furniture exported into Japan are primarily desks, tables, and carts for electronic products such as TVs, VCRs, PCs, etc., according to trade literature.

Industry Trends

Although furniture makers have complained of losing sales to foreign makers, the trend seems to be turning in favor of U.S. makers in the
latter 1980s. The primary reason for this is the very short delivery date for many lines of products. Historically, furniture manufacturers have found it difficult to forecast the specific level of sales or the demand for certain types of products. Often these manufacturers attempt to respond to orders as they come in, which forces them to maintain large finished goods inventories so that products may be shipped to customers within a few days of receiving an order.

Larger firms have tended to stock larger amounts of finished goods inventories to promise very rapid delivery response time to their customers, reducing delivery time from a standard of about eight weeks in the 1970's to two weeks in many instances in the 1980's. Large inventory stocking by the manufacturers was largely forced upon them by customer demands and the discounters of such items. Many of the makers pre-assemble only the frames for certain sizes of chairs and can complete the manufacture of a custom order within a few weeks.

Many furniture makers' raw materials suppliers have begun using "just-in-time" management techniques to speed up their deliveries. This cuts down on transit time, reduces funds commitment to this type of inventory, and speeds up the work-in-process cycle for the furniture makers. Suppliers of fabrics often ship furniture upholstery fabric orders within 24 to 48 hours after receiving an order. Moreover, there has been a general upgrading in the quality of the fabrics, that are sold by U.S. suppliers. Thus the makers of furniture have been able to hold down costs while improving quality. These factors help speed up delivery and have resulted in a slowdown of purchases from foreign suppliers with a correspondent increase of buying from American makers.

MARKET OPPORTUNITIES IN VARIOUS SIZED COMMUNITIES

Marketing Plan

Before starting a furniture manufacturing business, the owner(s) should develop a business plan. A business 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.

Market Data
Assistance in developing a business plan may be obtained from many sources--some at cost, others for free. A few sources for assistance and information are:

- The Illinois Department of Commerce and Community Affairs (DCCA), which publishes a helpful reference guide, "A Business Plan Outline,"

- The U.S. Small Business Administration (SBA) which has volunteers available through the Service Corps of Retired Executives (SCORE) in most major Illinois cities, and

- State and private colleges and universities through their business management programs and Small Business Development Centers.

COSTS/FINANCIAL CONSIDERATIONS

COSTS AND TYPES OF ASSETS NEEDED TO START THE BUSINESS

Capital Requirements

Starting a manufacturing facility for furniture can be an expensive endeavor. Consideration must be given to the amount needed for working capital (especially inventories and receivables); purchase or lease and renovation of the structure and the transportation and storage facilities; operating expenses of the firm such as labor, supplies, unforeseen costs, etc. until it can reach the break-even level; and machinery and equipment.

Average Expenses

The Almanac of Business and Industrial Financial Ratios by Prentice-Hall, Inc., provides expense breakdowns for corporations representative of major SIC industry groups using IRS Income Tax Return information. The following expenses, listed as a percentage of revenues, were provided in 1989 for firms with under $100,000 in assets and for those with assets ranging from $100,000 to $250,000.

For an ongoing concern the comparison of actual operations with these typical, industry-wide ratios can be helpful in making decisions concerning service charge mark-up, expense category allocations, and profit expectations. For a start-up firm, these ratios are also helpful in preparing projected financial statements, cash flow projections, income statements, and balance sheets for loan purposes.

<table>
<thead>
<tr>
<th>EXPENSE ITEM</th>
<th>COMPANIES WITH ASSETS OF UNDER $100,000</th>
<th>COMPANIES WITH ASSETS OF $100,000-$250,000</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
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</tbody>
</table>

http://www.sbaer.uca.edu/Publications/pub00071.txt  6/18/04
The larger furniture makers tend to be somewhat more profitable than smaller ones, although this statement does not necessarily hold true for those with below $1 million in assets. Moreover, the gross profit mark-up tends to be higher on the very small firms than for those of somewhat larger size.

Average Balance Sheet Data

Industry-wide composite balance sheets and income statement items for SIC 2511 and 2512 are available from a number of sources. Dun and Bradstreet, Inc. information is shown in the table below. The data lists the average percent of assets, debts, and net worth items for wood household furniture makers and upholstery household furniture manufacturers for 1987:

<table>
<thead>
<tr>
<th>ASSETS</th>
<th>FURNITURE</th>
<th>FURNITURE</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash and near cash items</td>
<td>10.1%</td>
<td>10.0%</td>
</tr>
<tr>
<td>Accounts receivable</td>
<td>21.5</td>
<td>23.9</td>
</tr>
<tr>
<td>Notes receivable</td>
<td>0.5</td>
<td>0.4</td>
</tr>
<tr>
<td>Inventories</td>
<td>27.1</td>
<td>30.4</td>
</tr>
<tr>
<td>Other current assets</td>
<td>4.5</td>
<td>6.0</td>
</tr>
<tr>
<td>Total current assets</td>
<td>63.7</td>
<td>70.7</td>
</tr>
<tr>
<td>Fixed assets</td>
<td>22.4</td>
<td>18.0</td>
</tr>
<tr>
<td>Other non-current assets</td>
<td>13.9</td>
<td>11.3</td>
</tr>
<tr>
<td>Total assets</td>
<td>100.0%</td>
<td>100.0%</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>DEBTS AND NET WORTH</th>
<th>FURNITURE</th>
<th>FURNITURE</th>
</tr>
</thead>
<tbody>
<tr>
<td>Accounts payable</td>
<td>13.2%</td>
<td>15.9%</td>
</tr>
<tr>
<td>Bank loans</td>
<td>1.3</td>
<td>1.1</td>
</tr>
<tr>
<td>Notes payable</td>
<td>5.7</td>
<td>4.4</td>
</tr>
<tr>
<td>Other current debts</td>
<td>16.2</td>
<td>15.1</td>
</tr>
</tbody>
</table>
Total current debts            36.4            36.5
Other long term debts               16.0            14.4
Deferred credits                     0.3             0.3
Net worth                           47.3            48.8
Total debts and net worth     100.0%          100.0%

TYPICAL BUSINESS RATIOS FOR OTHER FIRMS IN THE INDUSTRY

Typical business ratios are used by management to gauge changes in the firm's financial well being and for preparing credit report information or projected financial statements. According to the data published by Dun & Bradstreet, Inc., the median solvency ratios, efficiency ratios and profitability ratios for the two major types of household furniture businesses in 1987 were as follows:

Solvency Ratios
WOODUPHOSTERED

<table>
<thead>
<tr>
<th></th>
<th>FURNITURE</th>
<th>FURNITURE</th>
</tr>
</thead>
<tbody>
<tr>
<td>Quick Ratio</td>
<td>0.9:1</td>
<td>0.9:1</td>
</tr>
<tr>
<td>Current Ratio</td>
<td>1.9:1</td>
<td>2.1:1</td>
</tr>
<tr>
<td>Total Debts to Net Worth</td>
<td>90.5%</td>
<td>86.5%</td>
</tr>
</tbody>
</table>

The Quick Ratio expresses the degree to which a company's current obligations (expenses) are covered by the most liquid assets, (i.e., cash and customer payments due the company). Generally, larger ratios are preferable and any value of less than 1 to 1 implies a dependency on inventory or other physical assets to liquidate short-term expenses. The current ratio is a rough indication of the "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 to owner net worth (equity). This is rarely greater than 100 percent since in such cases creditors have more at stake than owners.

Efficiency Ratios

<table>
<thead>
<tr>
<th></th>
<th>FURNITURE</th>
<th>FURNITURE</th>
</tr>
</thead>
<tbody>
<tr>
<td>Collection Period (days)</td>
<td>31.4 days</td>
<td>27.2 days</td>
</tr>
<tr>
<td>Sales to Inventory (times)</td>
<td>8.7 times</td>
<td>8.8 times</td>
</tr>
<tr>
<td>Assets to Sales (%)</td>
<td>37.7%</td>
<td>30.5%</td>
</tr>
</tbody>
</table>

The Collection Period shows the quality of the receivables, that is the degree to which customers pay their bills on time. (Allowances should be made for possible variations in selling terms.) Comparing the Sales to Inventory ratio with industry norms 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. By comparing a company's Assets to Sales ratio with industry norms it can be determined whether a firm is overtrading (handling an excessive
volume of sales in relation to investment) or undertrading (not generating sufficient sales to warrant the assets invested).

Profitability Ratios

<table>
<thead>
<tr>
<th>Ratio</th>
<th>Median</th>
<th>3.0%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Return on Sales (%)</td>
<td>4.8%</td>
<td></td>
</tr>
<tr>
<td>Return on Net Worth (%)</td>
<td>19.4%</td>
<td>14.3%</td>
</tr>
</tbody>
</table>

Return on Sales (profit margin) reveals the profits earned per dollar of sales and therefore measures the efficiency of the operation. This ratio is an indicator of the firm's ability to withstand adverse conditions such as 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.

MANAGEMENT CONSIDERATIONS

DEVELOPMENT AND SITE LOCATION

Zoning

A manufacturer of furniture is an industrial firm, and the property on which it is to be located should be appropriately zoned. Some communities will permit only light manufacturing (a low level of noise, dust or other air pollutants, etc.) in certain areas and limit heavy industry to others. The makers of furniture use noisy equipment and produce significant amounts of dust, so their locations should be appropriately zoned.

Location

Selection of the location should optimize (minimize) the cost of operation (capital commitment to assets), labor costs, transportation costs, utility expenses, selling expenses, and the like. The site selected should be adequate to meet current operating needs and allow for expansion. Nearness to inventory suppliers is desirable, and an adequate rail or truck transportation system is essential. The operating territory for sales and delivery may be dictated by the proximity to competitors and demand by furniture retailers or ultimate consumers.

Furniture makers tend to locate in an area near the supply of hardwood (such as oak, hickory, or walnut) or soft wood (such as pine, redwood, or cedar). Many such plants are located in North Carolina and Mississippi, although other lumber-producing states have them as well.

In most instances, economies of scale, an abundant supply of skilled
workers, proximity to suppliers of raw materials, and good transportation facilities to final customers dictate that manufacturers be located near a large city. High transportation costs depress the profits from firms located in areas away from the final customer or key raw materials.

EXPERIENCE AND TRAINING NEEDS

Management/Owner Training

Management of a small manufacturing operation requires the same skills of most small businesses including general front office administration, manufacturing, marketing, and accounting areas.

Furniture making firms must stay abreast of changing market conditions. These key employees responsible for marketing and in charge of production often attend trade fairs for furniture, review trends in sales of certain items, and note changing price levels, supplies and demand for raw material components and the items that they manufacture.

Employee Training

The sales staff should be adequately trained, believe in their products, and be enthusiastic. A salary plus commission schedule may encourage greater sales performance than salary alone. Certainly training sessions should be held at regular intervals for introducing new products, new selling techniques, sharing direct and indirect advertisement campaign approaches with salespeople, etc.

The furniture makers must have skills in wood crafts, upholstery and finishing. New workers are often trained on the job, especially in the appropriate usage and need for safety precautions in using power equipment. Certain office workers, material handlers and packers may be unskilled when first hired by the manufacturers.

Generally speaking, the average size of the labor force is 45 at wood furniture makers and 70 at upholsterers. The average wage/salary paid to the workers is about $16,200 for upholsterers and $15,000 for wood furniture makers.

KEYS TO SUCCESSFUL MANAGEMENT

Advertising

Newspaper and magazine ads are used to a greater extent by the makers of wood and upholstered furniture than are radio and TV ads. While some firms continue to market directly to U.S. and foreign retailers, others depend on contacts made at international trade shows for marketing to the retailers.
Spot radio ads, newspaper ads, telephone directory yellow pages listings, and direct contact (telephone or mailings) are some methods of advertising. Delivery vans often bear company logos and a brief listing of services offered on their sides, along with a business telephone number. Billboards are used by some firms in the industry.

Typically, about $10 to $12 million will be spent annually on advertising of wood and upholstered furniture by the industry. Furniture makers often depend on direct salesperson contact with their customers in order to sell their product lines, but more of them have recently begun to sell directly to customers through mail orders than in the past.

Cost Control

Rather than borrow heavily on a seasonal or short-term basis from commercial banks, most intermediate-sized furniture makers factor (sell) their accounts receivable.

Many independent furniture makers depend heavily on the factoring of their accounts receivable for obtaining operating cash. Forecasting sales and collections of accounts receivable for this type of firm is not extremely effective; so having a standby line-of-credit with a bank and being able to factor accounts receivable to meet accumulation of inventory and accounts receivable are important to furniture makers.

Allocation of direct costs to product lines is very important so that the management of the companies will know what items are earning a profit and which ones are not paying all of their direct costs. Using inventory models to stock appropriate amounts of raw materials is only somewhat helpful toward minimizing inventory holdings due to unpredictable demand. Instead, many of the firms merely attempt to stock enough raw materials and/or finished products of the most widely sold items and respond as quickly as possible to filling orders.

Bar coding different types of items is helpful in maintaining a computerized listing of raw materials, finished goods, and finished goods inventories. Many of the more progressive furniture making firms and retailers of furniture have moved to this electronic accounting system.

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.

Trade Credit -- Although it is often overlooked, trade credit is a frequently used means of debt financing. Trade credit is extended from suppliers who accept deferred, rather than immediate, cash payment. Trade credit conceivably could be generous enough to allow use or resale of the product, so that the customer's cash can be used to pay the supplier.

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 20-25 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.

LICENSING/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 Doets 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 any 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 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, IL 61402, or call 309-342-5400.

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 business 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 through the Small Business Hotline (1-800-252-2923).

BUSINESS DEVELOPMENT CENTER NETWORK

The Illinois Business Development Center Network 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 also 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. For more information, call the Small Business Hotline.

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

Several sources of information are useful for improving the level of profitability of a household furniture manufacturing 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 household furniture manufacturing industry is given below.

TRADE ASSOCIATIONS

American Furniture Manufacturers Association. 223 South Wrenn Street, P.O. Box H.P.7, High Point, NC 27261. 919-884-5000.

Chicagoland Home Furnishings Association. 1190 Merchandise Mart, Chicago, IL 60654. 312-321-0563.

National Home Furnishings Association. P.O. Box 2396, High Point, NC 27261. 919-883-1650.

DIRECTORIES AND REFERENCE BOOKS


PERIODICALS


Furniture - Today's Manufacturing - Today or Furniture Today. Communications - Today Publishing Ltd., 200 S. Main St., Box 2754, High Point, NC 27261. 919-889-0113.


FINANCIAL RATIOS


GOVERNMENT PUBLICATIONS


GOVERNMENT ASSISTANCE


Chicago, IL  60661.  312-353-5428.

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


