

EXERCISE SALONS AND HEALTH CLUBS

BUSINESS AND INDUSTRY PROFILE

Published by the

ILLINOIS DEPARTMENT OF COMMERCE AND COMMUNITY AFFAIRS
620 East Adams Street
Springfield, Illinois 62701
217-785-6193

In Cooperation With

U.S. DEPARTMENT OF COMMERCE
Economic Development Administration

SOUTHERN ILLINOIS UNIVERSITY AT CARBONDALE
College of Business and Administration

This publication was authored by Lynn Anderson Lindberg, Business Research Management Services Institute and Donald Vaughn, Professor of Finance, both of Southern Illinois University. The publication was edited by Doug Hlad, Office of Urban Assistance, Department of Commerce and Community Affairs.

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.

EXERCISE SALONS AND HEALTH CLUBS

TABLE OF CONTENTS

CHAPTER ONE -GENERAL INDUSTRY INFORMATION

Business Type, Industry Characteristics and Prospects.....	1
Market Opportunities in Various Sized Communities.....	2
Franchising.....	3

CHAPTER TWO -COSTS/FINANCIAL CONSIDERATIONS

Costs and Types of Assets Needed to Start the Business...	4
Typical Business Ratios for Other Firms in the Industry...	5

CHAPTER THREE -MANAGEMENT CONSIDERATIONS

Development and Site Location.....	6
Experience and Training Needs.....	7
Keys to Successful Management.....	8

CHAPTER FOUR -GENERAL START-UP ISSUES

Financing Methods.....	9
Form of Organization.....	11
Licensing/Registration.....	12
Taxes.....	12
Business Services.....	14

CHAPTER FVIE -INFORMATION SOURCES

Small Business Hotline.....	16
Business Development Center Network.....	16
Small Business Resource Center.....	16
Trade Associations.....	16
Directories and Reference Books.....	16
Periodicals.....	17
Financial Ratios.....	17
Government Publications.....	17
Government Assistance.....	18

NOTE: Every effort has been made to ensure that the information contained in this booklet is comprehensive and accurate. However, this is not a legal document and should not be used exclusively to determine legal liability.

EXERCISE SALONS AND HEALTH CLUBS
(SIC 7991 and 7997)

GENERAL INDUSTRY INFORMATION

BUSINESS TYPE, INDUSTRY CHARACTERISTICS AND PROSPECTS

Nature of the Business

Exercise salons and health clubs have been assigned the Standard Industrial Classification (SIC) Industry Numbers 7991 and 7997. Types of firms included under these classifications are: aerobic dance and exercise classes; health clubs; exercise salons; fitness salons; gymnasiums; physical fitness centers; reducing facilities; slenderizing salons; health fitness spas; and related membership sports and recreation clubs.

Membership in an exercise salon normally includes an initiation fee with a monthly payment. The monthly payment may range from \$10 to \$100 for each member. Most people join exercise salons with the idea of becoming a regular participant, visiting the salon two to three times weekly. However, nearly 80 percent of the members effectively drop out within three months of joining.

Health clubs are often located near large employers. They usually draw a crowd of people before plant or business normal working hours, during lunch breaks, and after closing. With this type of operation, initiation and membership fees are usually inexpensive.

Some not-for-profit corporations such as churches, YMCAs, and other groups offer organized health club facilities. To be considered a part of their not-for-profit operations, the membership must be open to the community rather than to a select group.

Health spas are the most expensive since their staff may include a variety of medical and health professionals who work with patrons on a full-time basis to revitalize muscle tone (through exercise and diet) and to change ways of thinking or outlook on life (through classroom participation). Fees usually run from \$1,000 to \$2,500 for each week of participation with a stay averaging two to three weeks. Spas are usually located several hours from a large metropolitan area and frequently cater to wealthy patrons. About 300 such health spas are thought to operate in the United States.

Industry Growth

The employment levels for exercise salons and health clubs grew by about thirty percent from 1979 through 1986. However, most clubs and salons were returning a very small profit on their investment. The rate of growth in the number of such outlets is expected to be about two percent annually for the balance of the century.

Trends in the Industry

In recent years, several motel and hotel chains have opened on-site exercise facilities and swimming pools to serve patrons as well as individuals and family members residing in the immediate area.

The trend in this industry in recent years has been for large industrial or commercial building owners to offer health facilities as amenities for the workers, emphasizing regular exercise and physical fitness. This has led to fewer absences among workers because overall health usually improves for workers who are in good physical shape and are healthy.

MARKET OPPORTUNITIES IN VARIOUS SIZED COMMUNITIES

Market Data

Market potential and demographic data (e.g., average household income, number of households, and number of businesses) may be obtained from the local chamber of commerce, public library, or city and county governments. Existing exercise salons or health clubs may be contacted to determine what services they offer and what they charge.

Statistics for 1987 suggested that about 235,000 people were employed by exercise salons, health clubs, and related recreation facilities. The average number of employees for these firms was four, although some were extremely large in size. Nearly 15,000 of these businesses were in operation at that time. People born from about 1949 to about 1960 use these facilities nearly twice as much as younger or older adults.

Marketing Plan

Before starting an exercise salon or health club, the owner(s) should develop a marketing plan. A marketing plan is basically a blueprint for outlining potential customers for the business and includes 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:

- small business development centers located at colleges and universities throughout the state;

- professional service companies such as accounting firms, private consultants, legal firms, etc.;
- service organizations such as chambers of commerce or the Service Corps of Retired Executives (SCORE);
- other public sources such as public libraries, college and university classes, etc.

FRANCHISING

Franchise opportunities exist for both exercise salons and health clubs 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.

Most of the franchising firms provide training at their home offices for key managers of franchisee businesses. Training methods may include video cassettes that illustrate correct techniques for performing certain types of activities. Ongoing training should also be provided as new equipment or improved service products are made available.

Some franchisors may require that an annual fee or percentage of sales be paid by the franchisee. A representative list of franchises in the exercise salon and health club industry, including minimum investment requirements, are as follows.

FIRM/HOME OFFICE LOCATION	MINIMUM INVESTMENT
Diet Centers, Inc., Rexburg, ID	\$35,000
Fitness Concepts, Independence, MO	15,000
Health Clubs of America, Waterville, CT	25,000
Health Force, Hempstead, NY	50,000
Jazzercise, Inc., Carlsbad, CA	2,500
Lean-Line, Inc., South Plainfield, NJ	Varies
Maclevy Products Corp., Flushing, NY	10,000
Nutri-System Weight Loss Centers, Willow Grove, PA	89,000
Our Weight, Memphis, TN	Varies
Physicians Weight Loss Centers of America, Akron, OH	54,000
Slender Centers, Madison, WI	25,000
Sportastiks, Inc., Champaign, IL	120,000
Thin Line Center, South Plainfield, NJ	\$45,000

Financial or advisory assistance may be offered by franchisors in the following areas: site location, building design, and equipment purchase; management training; and grand opening assistance. Continuing service is often provided in advertising, accounting system design and operation, inventory control, and central purchasing. For such assistance, the owner or manager pays an initial franchise fee, from \$10,000 upward and from one to seven and one half percent of revenues, depending on the extent of services obtained by the franchisee and the level of competition in the industry.

COSTS/FINANCIAL CONSIDERATIONS

COSTS AND TYPES OF ASSETS NEEDED TO START THE BUSINESS

Capital Requirements

Initial investment factors to consider include: the amount of capital required to operate the business until the break-even point is reached; the amount of capital required for wages and six months of working capital, unforeseen expenses; supplies and equipment inventories; types of insurance coverage; and building remodeling or improvements necessary.

Average Expenses

The Almanac of Business and Industrial Financial Ratios provides expense breakdowns for corporations representative of major SIC industry groups, using Internal Revenue Service (IRS) published data. The following expenses, broken down as a percentage of revenues, were provided in 1989 for exercise salons and health clubs with under \$100,000 in assets and for those with assets ranging from \$100,000 to \$250,000.

EXPENSE ITEMS	FIRMS WITH ASSETS UNDER \$100,000	FIRMS WITH ASSETS OF \$100,000 - \$250,000
Cost of operations	39.1%	25.6%
Compensation of officers	7.1	27.4
Repairs	1.7	2.1
Bad debts	0.4	0.0
Rent on business property	6.4	2.8
Taxes (exc. Federal taxes)	4.0	4.4
Interest	1.3	1.4
Depreciation/amortization	4.2	5.2
Advertising	1.7	1.1
Pension/benefit plans	2.4	1.8
Other expenses	27.3	24.6
Net profit before taxes	4.4%	3.6%

Average Balance Sheet Data

The assets and credit breakdown for SIC 7991 and 7997 organizations in 1989 according to Dun and Bradstreet, Inc. are as follows:

ASSETS		DEBTS AND NET WORTH	
Cash and near cash	10%	Accounts payable	5%
Accounts receivable	8	Bank and other notes	3
Inventories / supplies	3	Other current debts	9
Other current assets	4	Total current debts	17
Total current assets	25	Long-term debts	22
Fixed tangible assets	44	Deferred credits	1
Other non-current	31	Net Worth	60
Total assets	100%	Total debts/Net Worth	100%

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

Revenues and Profitability

A breakdown of average revenues in dollars and percentages for the average firm in the SIC 7991 and 7997 designations during recent years, according to Dun and Bradstreet, Inc., is shown below.

ITEM	DOLLARS	PERCENT
Sales / revenue	\$896,000	100.0%
Gross profits	\$563,584	62.9%
Net profit after taxes	\$ 29,568	3.3%

TYPICAL BUSINESS RATIOS FOR OTHER FIRMS IN THE INDUSTRY

The comparison of actual operations with typical, industry-wide ratios is frequently helpful in making decisions concerning service charge mark-up, expense category allocations, 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, Inc., the median key financial ratios for exercise salons and health clubs, for 1990, were as follows.

Solvency Ratios

Quick ratio (cash plus accounts receivable/current liabilities) to 1	1. 1
Current ratio (current assets / current liabilities) to 1	1. 6
Total debts to net worth	46.1%

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 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 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)	3.5 days
Sales to Inventory (net sales/inventory)	44 times
Assets to Sales (total assets/annual net sales)	13.52%

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 ratio ties 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)	3.1%
Return on Net Worth (profit after taxes/net worth)	16.0%

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.

Although the above ratios reflect a median for the return on sales of 4.2 percent, larger firms in this industry generally have a larger profit percentage due to economies of scale.

MANAGEMENT CONSIDERATIONS

DEVELOPMENT AND SITE LOCATION

Location

Exercise salons are usually located on the outskirts of a busy metropolitan area. They solicit membership from one or more nearby residential areas, nearby businesses and other target market groups. A city of approximately 20,000 people will support at least one exercise salon.

The exercise salon must be zoned commercial. It should have adequate parking, with good lighting for patrons who use the facility during evening hours. A neon sign helps call attention to the location. The inside should be spacious, well designed, and offer various types of recreational items that appeal to women and men, including weight training equipment, exercise bikes, aerobic class studios, locker rooms with showers, and an inside swimming pool. Some daytime hours can be designated for classes only.

For an additional fee, some exercise salons and health clubs add such as television or reading rooms, massage and sun lamp facilities, whirlpools, and dining facilities. Other extras include laundry facilities, hair care, a lap pool, an indoor track, treadmills, rowing machines, and yoga classes.

Recreation clubs frequently locate in large industrial parks or commercial buildings and attempt to attract, as members, persons working nearby. The facilities are frequently combined with a bowling alley, cocktail lounge, dance floor, and/or a restaurant to attract more customers to make the concern profitable.

As previously stated, many industrial firms and owners offer limited exercise facilities as amenities to their employees. For a successful operation of this type, there should be at least several hundred workers available. The most popular exercise options include: various types of exercise machines; bowling; hot tubs; and steam rooms.

The spacious health spas located in a country setting are sometimes housed in a renovated mansion and include such facilities as horseback and hiking trails, tennis courts, exercise equipment, indoor and outdoor swimming pools, and classrooms.

Zoning

When selecting a location and a specific site for the business, consideration must be given to local zoning requirements. Some 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 business.

Health and Safety Considerations

Health and safety requirements, many of which are mandated by the Occupational Safety and Health Administration (OSHA), are also important factors in the location of the business. Health and safety issues to consider include proper ventilation and fire extinguishing systems, well maintained equipment with adequate traffic flow patterns to prevent accidents, and well trained staff to assist and instruct patrons on proper equipment usage and exercise methods.

EXPERIENCE AND TRAINING NEEDS

Manager/Employee Training

Training for management should encompass the basics of the business, including the general management, marketing, financial, and accounting areas. Attention should be given to the philosophy (growth mindedness, risk reluctance versus risk taking) of the firm as well as to front office administration.

An exercise salon or health club should be managed and staffed by well-informed, competent, motivated, service-oriented employees. Several employees should hold advanced degrees in physical education, exercise physiology, or physical therapy. In 1989, there were over 100 certifying agencies, including some of the leading universities, the American College of Sports Medicine, the Institute for Aerobics Research, the International Dance-Exercise Association, and the Aerobics and Fitness Association of America.

The trade literature suggests that the more successful health organizations staff their positions with well-qualified people, paying them about 30 percent above market wage rates in order to attract and keep them. This fact, of course, should be used in the promotion of their services, as a sufficient number of paying clients (satisfied, repeat customers) would be needed in order to

pay the expenses of such an operation and leave an adequate return on net worth of at least 11 percent.

KEYS TO SUCCESSFUL MANAGEMENT

Markets

In order to be successful, the management of an exercise salon or health club 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 and accounts. Management of an exercise salon or health club should be able to gauge the approximate saturation point (at which the market is not profitable) 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 service and equipment at a fair price.

Organization

A well-run organization should have a clearly defined organizational structure with key personnel to work in the areas of management, marketing, and accounting/finance. In a small business, the responsibility for most of these roles ultimately rests with the owner/manager of the firm.

Customer Relations

All employees in an exercise salon or health club should be courteous to the clients. Outside of qualifications, this is the most critical issue for any business. If a firm is unable to maintain a friendly, courteous relationship with its customers, it will not be successful.

Employee Relations

Employee attitudes and perceptions play a great role in the success of a business. Poor employee morale can impact on all areas of the business, from customer relations to the quality of work. As a result, it is important to maintain a friendly, open relationship with employees at all times. In addition, it should be the policy of the firm to pay an adequate wage and to provide health care coverage, sick leave, promotional opportunities and other benefits. On the whole, these activities will help attract and retain well trained, high quality employees.

Advertising

Spot radio ads, newspaper ads, telephone directory yellow pages listings, and direct contact (telephone or mailings) are some methods of advertising. Company vehicles often carry company logos and/or a brief listing of services offered, along with a business telephone number.

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 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.

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 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 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 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 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 an exercise salon or health club 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 an exercise salon or health club industry is given below.

TRADE ASSOCIATIONS

American Institute of Nutrition. 9650 Rockville Pike, Bethesda, MD 20814. 301-530-7050.

National Nutritional Foods Association. 150 E. Paularino Ave., #285, Cosa Mesa, CA 92626. 714-966-6632.

DIRECTORIES AND REFERENCE BOOKS

Accident Prevention Manual. National Safety Council, 444 North Michigan Avenue, Chicago, IL 60611. 800-621-7619 ext. 6900 or 312-527-4800.

American Society of Bariatric Physicians--Directory. 5600 South Quebec Street, Suite 160D, Englewood, CO 80111. 303-779-4833.

Employment Safety and Health Guide Report. Commerce Clearing House, Inc., 4025 West Peterson Avenue, Chicago, IL 60646. 312-583-8500

Nutrition and Diet Therapy. Robinson, Lawler, Garwick and Chenowith, eds., Macmillan Publishing Company Inc., 866 Third Avenue, New York, NY 10022. 800-257-8247 or 212-702-2000.

PERIODICALS

American Dietetic Association Journal. American Dietetic Association, 216 W. Jackson Blvd., Chicago, IL 60606. 312-899-0040.

American Journal of Clinical Nutrition. American Society of Clinical Nutrition, 9650 Rockville Pike, Bethesda, MD 20814. 301-530-7038.

FINANCIAL RATIOS

Almanac of Business and Industrial Financial Ratios. Prentice-Hall, Inc., 1818 Ridge Rd., Englewood Cliffs, NJ 07632. 800-922-0579 or 201-592-2000.

Annual Statement Studies. Robert Morris Associates, 1 Liberty Place, 1650 Market Street, Philadelphia, PA 19103. 215-851-9100.

Industry Norms and Key Business Ratios. Dun and Bradstreet Credit Services, Diamond Hill Rd., Murray Hill, NJ 07974. 800-223-0141 or 908-665-5224.

GOVERNMENT PUBLICATIONS

CENDATA. U.S. Department of Commerce, Bureau of the Census, Washington Plaza, Room 315, Upper Marlboro, MD 20772. 301-763-2074.

County Business Patterns - Illinois. U.S. Department of Commerce, Bureau of the Census. Order from: Superintendent of Documents, U.S. Government Printing Office, Washington, DC 20402. 202-783-3238. In Chicago: Government Printing Office Bookstore, 219 South Dearborn, Chicago, IL 60604. 312-353-5133.

Nutritive Value of Food. U.S. Department of Agriculture. Order from: Superintendent of Documents, U.S. Government Printing Office, Washington, DC 20402. 202-783-3238. In Chicago: Government Printing Office Bookstore, 219 South Dearborn, Chicago, IL 60604. 312-353-5133.

Business Plan Outline. Illinois Department of Commerce and Community Affairs, Division of Program Development and Support, 620 East Adams, Springfield, Illinois 62704. 217-785-6193.

Business Financing Programs. Illinois Department of Commerce & Community Affairs, Business Development Division, 620 East Adams, Third Floor, Springfield, Illinois 62704. 217-782-6861.

Small Business Information Bibliography. Illinois Department of Commerce & Community Affairs, Division of Program Development & Support, 620 East Adams, 5th Floor, Springfield, Illinois 62704. 217-785-6193.

IRS Statistics of Income, Government Printing Office Bookstore, 219 South Dearborn, Dirksen Federal Building, Room 1365, Chicago, IL 60604 312-353-5133, or Department of the Treasury, Ill Constitutional Avenue, Washington, DC 20224. 202-566-2000.

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

GOVERNMENT ASSISTANCE

Illinois Department of Commerce and Community Affairs, Small
Business Assistance Bureau. Springfield Office: 620 East Adams,
Springfield, IL 61701. 800-252-2923 or 217-785-7546. Chicago
Office: 100 West Randolph Street, Suite 3-400, Chicago, IL 60601.
312-814-3263.

Illinois Department of Employment Security. Springfield Office:
1300 Ninth St., P.O. Box 5657, Springfield, IL 62705. 217-782-3846.
Chicago Office: 401 South State St., Chicago, IL 60605. 312-793-
1911.

Illinois Department of Revenue. Springfield Office: 101 West
Jefferson, Springfield, IL 62794. 800-732-8866 or 217-782-3336.
Chicago Office: 100 West Randolph St., Chicago, IL 60601. 312-814-
5258.

U.S. Small Business Administration, Business Development Division.
Springfield
Office: 511 West Capitol, Springfield, IL 62705. 217-492-4416.
Chicago Office: 500 West Madison St., Suite 1250, 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:

- Trade Associations -- Encyclopedia of Associations. Gale
Research Company, Book Tower, Detroit, MI 48226.
- Directories and Reference Books -- Directories in Print.
Gale Research Company, Book Tower, Detroit, MI 48226.
- Periodicals -- Gale Director of Publications. Gale
Research Company, Book Tower, Detroit, MI 48226.
- Financial Ratios and Government Publications --
Encyclopedia of Business Information Sources. Gale
Research Company, Book Tower, Detroit, MI 48226.

