APPAREL MANUFACTURERS/SEWING CENTERS

BUSINESS AND INDUSTRY PROFILE

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SOUTHERN ILLINOIS UNIVERSITY AT CARBONDALE
College of Business and Administration

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APPAREL MANUFACTURERS/SEWING CENTERS

TABLE OF CONTENTS

CHAPTER ONE   - GENERAL INDUSTRY INFORMATION

Business Type, Industry Characteristics and Prospects......
Market Opportunities in Various Sized Communities........

CHAPTER TWO   - COSTS/FINANCIAL CONSIDERATIONS

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

CHAPTER THREE - MANAGEMENT CONSIDERATIONS

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

CHAPTER FOUR  - GENERAL START-UP ISSUES

Financing Methods...........................................
Form of Organization........................................
Licensing/ Registration.....................................
Taxes........................................................
Business Services.............................................

CHAPTER FIVE  - INFORMATION SOURCES

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

APPAREL MANUFACTURERS/SEWING CENTERS
(SIC 2335)

GENERAL INDUSTRY INFORMATION

BUSINESS TYPE, INDUSTRY CHARACTERISTICS AND PROSPECTS

Nature of the Business

This profile will include a discussion of the various characteristics for a wide range of apparel manufacturers designated by the Standard Industrial Classification (SIC) Major Group 23. There will also be comments on the financial statements for SIC number 2335 (women's, misses' and juniors' outerwear clothing).

Apparel companies classified under SIC Major Group 23 mill the following types of clothing and textile products: men's and boys' clothing; women's and misses' clothing; men's and women's hats, caps, and gloves; fur goods; waterproof apparel; leather-lined clothing; apparel belts; curtains; draperies; home furnishings; textile bags; canvas products; pleating; stitching; and fabric textile products.

Garment manufacturers are usually located near medium-sized cities (20,000-80,000 in population) or near the perimeter of large cities which contain an abundant supply of relatively inexpensive labor. According to U.S. Department of Labor statistics for 1985, 23,237 apparel manufacturers were operating with 1,124,962 workers and earning $13.4 billion annually. Each firm employed approximately 50 people, each earning approximately $12,000 annually.

Some home-based sewing firms offer custom apparel contouring of wedding dresses, bridesmaid dresses and apparel alterations. These firms do major alterations, tailor outer apparel and repair clothing for patrons that do not have the time or inclination to do their own sewing. Some of these firms offer short completion lead time from receipt of order, compared to retailers that may have to order them from an apparel manufacturer.
Trends in the Industry

For the past 20 years, sewing centers or apparel manufacturers have suffered sales losses to foreign imports and competition. Imports from Korea, Taiwan, and other Asian nations intensified competition in the industry while at the same time garment workers in Korea, Taiwan, and other apparel exporting countries were working for a small fraction of the American apparel worker minimum wage. By 1987, the volume of imported apparel expanded by ten percent or more per year, and roughly half of the $125 billion of garment sales in the U.S. were being manufactured abroad.

As U.S. sales decreased, so did the number of jobs in the industry. Some apparel manufacturers relocated from traditional textile centers in the North to less expensive labor communities in the South.

Several trends in the 1980's boosted the declining U.S. apparel manufacturing industry. Facilities began to utilize computer-aided technology to expedite the mechanical functions of making patterns of different sizes and laying out and cutting a stack of material. In 1988, several national firms became overstocked with large inventories of clothing. Consequently, many of the department or specialty stores, such as K-Mart and Wal-Mart, began to shift back to U.S. apparel manufacturing firms where shorter lead times between placing orders and receipt of inventory could be guaranteed.

Future trends in the industry are likely to include: development of smaller, but more efficient, operations; increased use of computers in such activities as developing pattern size, laying out cloth, and cutting material; semi-automation of the sewing process; inspections through cameras rather than by traveling people; and increased use of automation in sizing, labeling, boxing, crating and shipping the finished products.

Industry Growth

Import quotas levied against certain textile-exporting countries have slowed down the rate of growth of clothing imports. Some large department stores are merchandising a larger ratio of American-made apparel than in past years. Much of this increased merchandising is attributable to faster apparel delivery time, smaller inventory requirements, and rising labor costs abroad.

MARKET OPPORTUNITIES IN VARIOUS SIZED COMMUNITIES

Marketing Plan
Before starting an apparel manufacturing company, the owner(s) need to 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.

Market Data

Assistance in developing a marketing plan to include determining the market potential and acquiring demographic data (average household income, number of households and number of businesses) 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), colleges and universities (through business management programs or Small Business Development Centers), private consultants, and public libraries. Some of these sources of information with their addresses and phone numbers are listed at the end of this profile. Existing apparel manufacturing firms may be contacted to determine what services they offer and what they charge.

COSTS/FINANCIAL CONSIDERATIONS

COSTS AND TYPES OF ASSETS NEEDED TO START THE BUSINESS

Investment Factors

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

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, listed as a percentage of revenues, were provided in 1989 for apparel manufacturing firms with under $100,000 in assets and for those with assets ranging from $100,000 to $250,000.

<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>Cost of operations</td>
<td>49.3%</td>
<td>69.4%</td>
</tr>
<tr>
<td>Compensation of officers</td>
<td>6.9</td>
<td>2.0</td>
</tr>
<tr>
<td>Repairs</td>
<td>0.0</td>
<td>0.1</td>
</tr>
<tr>
<td>Bad debts</td>
<td>0.0</td>
<td>0.2</td>
</tr>
<tr>
<td>Rent on business property</td>
<td>2.9</td>
<td>1.4</td>
</tr>
<tr>
<td>Taxes (excluding federal taxes)</td>
<td>8.9</td>
<td>8.6</td>
</tr>
<tr>
<td>Interest</td>
<td>0.0</td>
<td>0.4</td>
</tr>
<tr>
<td>Depreciation/amortization</td>
<td>0.2</td>
<td>1.6</td>
</tr>
<tr>
<td>Advertising</td>
<td>0.0</td>
<td>0.1</td>
</tr>
<tr>
<td>Pension/benefit plans</td>
<td>3.6</td>
<td>0.1</td>
</tr>
<tr>
<td>Other expenses</td>
<td>24.7</td>
<td>11.6</td>
</tr>
<tr>
<td>Net profit before taxes</td>
<td>3.5%</td>
<td>4.5%</td>
</tr>
</tbody>
</table>

Estimated Percentage of Sales Cost

The November 7, 1988 issue of Business Week suggested the following breakdown as a percentage of sales for the costs of a $100 dress.

<table>
<thead>
<tr>
<th>COST OF ITEM</th>
<th>DOMESTIC DRESS</th>
<th>IMPORTED DRESS</th>
</tr>
</thead>
<tbody>
<tr>
<td>Materials</td>
<td>45.0%</td>
<td>40.0%</td>
</tr>
<tr>
<td>Labor</td>
<td>30.0</td>
<td>15.0</td>
</tr>
<tr>
<td>Overhead/profit for mfg.</td>
<td>25.0</td>
<td>10.0</td>
</tr>
<tr>
<td>Duty, shipping, quota charges</td>
<td>0.0</td>
<td>35.0</td>
</tr>
</tbody>
</table>
Total wholesale cost $50.0 $40.0
Costs of retailers (including markdowns) $19.0 $35.0
Total costs $69.0 $75.0
Retail profit margin 31.0% 25.0%

Retail profit margins on imported clothing are reduced due to frequent markdowns, large inventories, longer lead times, and slower turnovers.

TYPICAL BUSINESS RATIOS FOR OTHER FIRMS IN THE INDUSTRY

The comparison of actual operations with typical, industry-wide ratios is helpful to make decisions concerning service charges, expense category allocations, and realistic profit expectations. These ratios can be of assistance in preparing projected financial statements, cash flow projections, income statements, and balance sheets for loan purposes. They can also be used to compare existing company data with industry averages to identify company strengths and weaknesses.

Small businesses are more likely to have owners as workers in the business, thus paying out a larger ratio of funds as compensation to officers than larger firms. Some firms show direct manufacturing labor as a cost of operation while others might classify it into other expenses; thus, these two ratios tend to differ for very small and medium sized firms. The federal income tax law permits a business to expend up to $10,000 in depreciable equipment in the year acquired rather than to capitalize and depreciate it. Thus, depreciation rates would be lower for smaller firms with little capital than larger ones which could afford such capital expenditures for equipment.

According to Dun and Bradstreet, Inc., the median key financial ratios for women's, misses' and juniors' outerwear, during 1987, were as follows.

Solvency Ratios

Quick ratio
   (cash plus accounts receivable/current liabilities) 1.0:1
Current ratio (current assets/current liabilities) 1.9:1
Total debts to net worth 99.0%

The quick ratio expresses the degree to which a company's current obligation (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. The effect of short-term and long-term (funded) debt on a
business can be determined by comparing total debts to net worth. In general, total liabilities in the form of debt should not exceed 100 percent since, in such cases, creditors have more at stake than owners.

Efficiency Ratios

Collection period (accounts receivable/sales x 365)  53.0 days
Sales to inventory (net sales/inventory)                7.6 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. When comparing the collection period of one concern with that of another or comparing against the industry norm, allowances should be made for possible variations in selling terms. 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. By comparing a company's 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

Return on sales (profit after tax/annual net sales)       2.8%
Return on net worth (profit after taxes/net worth)        14.8%

Return on sales 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 failing 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 owner 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
The apparel manufacturer or sewing center is often located in a multi-story building. Considerations in locating the business should depend on: the physical size of the operation; the use of hazardous materials; adequate storage space with proper ventilation and fire extinguishing systems in place; fire, electrical and safety code enforcement; expected traffic patterns; and sign restrictions. Adequate parking for service vehicles, worker and client cars is essential.

Zoning

When selecting a location and a specific site for the business, 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 business.

Design and Layout

The cutting room and inventory storage facilities are usually on the building ground-level. Upper floors are equipped with rows of sewing machines for sewing production-lines. One line of workers might make only sleeves, another collars, while another assembles the apparel, adding zippers, buttons, and decorations. The last two stations might be inspection/ tagging/boxing/crating/shipping. Most sewing centers are equipped with one or more service elevators for moving boxes of incoming materials and outgoing apparel from floor to floor.

Space also needs to be provided for office workers, pattern and cutting planners, accountants, general managers, file maintenance, reception of customers and some room for expansion. Breakrooms and restrooms should be made easily accessible for employees.

EXPERIENCE AND TRAINING NEEDS

Management/Owner Training

Training for management should cover the "how to's" of the business, including general management, marketing, finance, accounting, production and cost control within the industry. Attention should be given to the firm's philosophy (e.g., growth mindedness, risk hesitancy versus risk taking) as well as front office administration. Training in these areas can be obtained through appropriate college courses or by enrolling in the basic courses offered by statewide regional small business development centers.
Management training may be obtained for a business to prepare employees for future expansion or to create a morale boost for some hourly employees. Key employees are frequently offered half-day workshops and seminars that emphasize new technology in apparel manufacturing.

Employee Training

Apparel manufacturers employ several different classifications of workers, requiring each to be experienced and trained in their respective areas. The assembly-line workers should be experienced in sewing, but not necessarily with the same type of equipment used by the firm. Cutting employees should be experienced or be provided training for operating the existing or new generation of equipment.

KEYS TO SUCCESSFUL MANAGEMENT

Markets

In order to be successful, the management of an apparel manufacturer 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 customer accounts. Management 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 well-established price structure or some other advantage. Effective labor and supply 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 goods 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, engineering, marketing, and accounting/finance. In a small business, the responsibility for most of these roles ultimately rests with the owner/manager of the firm.

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

Telephone directory yellow page listings, trade shows, and direct contact are some methods of advertising. Within this industry, the size of the market will determine the avenues in which the advertising will follow. Company vehicles often carry company logos along with a business telephone number.

Management/Operation Requirements

The profitable operation in the apparel manufacturing industry depends on a healthy blend of general management; efficient production in the areas of pattern development, cutting, and sewing of apparel; cost control of materials and labor; the development of labor-saving approaches; and effective marketing of product lines. The uses and in-stock inventories will depend on the monitoring of the market as a whole (the colors, blends, sizes).

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.

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.

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 an application for a FEIN number contact the Internal Revenue Service (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:
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 Internal Revenue Service (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 also available from the Small Business Hotline at 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 apparel manufacturer/sewing center or for learning more about this type of operation. These include trade associations, directories and reference books, periodicals, ratio studies, investment services and government assistance. A list of these for the apparel manufacturing industry is given below.
TRADE ASSOCIATIONS

Amalgamated Clothing and Textile Workers Union. 15 Union Square, West, New York, NY 10003. 212-242-0700.


DIRECTORIES AND REFERENCE BOOKS


PERIODICALS


FINANCIAL RATIOS


or 908-665-5224.

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.


GOVERNMENT ASSISTANCE


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.


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


