CATERERS

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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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.

CATERERS

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

CATERERS
(SIC 5812)
GENERAL INDUSTRY INFORMATION

BUSINESS TYPE, INDUSTRY CHARACTERISTICS AND PROSPECTS

Nature of the Business
Caterers and eating establishments have been assigned the Standard Industrial Classification (SIC) Number 5812. Eating establishments are primarily engaged in the retail sale of prepared food and drink for on-premise or immediate consumption. This classification also includes, but is not limited to, industrial and institutional food service establishments and fast food restaurants.

The two basic types of catering services are on-premise and off-premise. The on-premise caterer provides the customer with the location (usually a restaurant) as well as food and drink; the off-premise caterer transports food and drink to a location selected by the customer. Both catering services take into account the specific needs of the customer, and are easily adaptable to meet those needs.

Examples of catering functions include office parties, school lunches, weddings, and religious ceremonies as well as catering to groups in hotels, universities, hospitals and other institutional-type settings. Major fund raising functions and private parties can account for a good percentage of a caterer's business.

Industry Growth
Catering represents a rapidly expanding segment of the food service industry. In the late 1980s, the food catering industry accounted for about $25 billion nation-wide.

Caterers of prepared food come from a wide range of businesses. Many restaurant chains cater off-premise functions. Prices are usually similar to those that are charged at the restaurant. Other types of firms that have developed catering businesses during recent years include delicatessens, hotels and gourmet food retailers.

While private functions such as parties and weddings continue to be the mainstay of the catering business, corporate function catering is becoming more and more prevalent. With only 80 percent of the cost of entertaining tax deductible, some employers are considering catering services as a cost-saving means to provide food for luncheon and dinner meetings. Popular types of catered foods in these settings include such items as baked breads, salad lunches, deli meat trays, hot and cold plates, cake, cookies, ice cream, punch, etc.
Some caterers emphasize the preparation of box lunches and/or gourmet picnic baskets. Other catering operations offer the same types of foods through delis or bakeries.

Trends in the Industry

Future lifestyle and demographic trends indicate an optimistic outlook for the catering industry. A return to traditional family celebrations or reunions and the increasing numbers of two-income families with their hurried lifestyles are also positive indications of the need for catering services.

Prospective caterers should consider the long-term market when evaluating their position, and should always be prepared to adapt to changing trends. One such trend is the increasing competition of supermarket and department store catering services in addition to "gourmet to go" services which deliver prepared meals from a variety of restaurants.

MARKET OPPORTUNITIES IN VARIOUS SIZED COMMUNITIES

Marketing Plan

Before starting a catering firm, the owner(s) should develop a marketing plan. A marketing plan is basically a blueprint identifying potential customers for the business and includes important information about the proposed venture. The topics to be addressed include: whether or not the area can support the proposed commercial enterprise; 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 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 Canters 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); and Public libraries, college and university classes, etc.

Market Data

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

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 for wages and six months of working capital, unforeseen expenses, supplies and equipment inventories, types of insurance coverage and building remodeling or improvements.

The amount of capital required to start a catering service depends on its type of operation. On or off-premise, size expectations, type of food to be served and number of employees are all determining factors when estimating cost.

A fledgling catering business may require little additional equipment other than items that would be found in a modern residential kitchen. A larger operation would need a free-standing location with a large kitchen complete with food processing and cooking equipment and walk-in coolers and freezer units.

Many off-premise caterers rent their equipment. The beginning caterer needs at least one range-oven combination. As the business expands, additional equipment could include walk-in coolers, freezers and slicers. Supplies including linen, tableware, glasses, novelties and paper service may also be necessary additions. Finally, a panel truck to transport food and equipment from one site to another is a good investment.

Average Expenses

Among the major expense items in the food catering business are labor costs and equipment maintenance or rental. The Almanac of Business and Industrial Financial Ratios provides expense breakdowns for corporations representative of major SIC industry groups, using International Revenue Service (IRS) published data. The following expenses, broken down as a percentage of revenues, were provided in 1989 for catering firms with under $100,000 in assets and for those with assets ranging from $100,000 to $250,000.

<p>| FIRMS WITH ASSETS | FIRMS WITH ASSETS OF |</p>
<table>
<thead>
<tr>
<th>EXPENSE ITEM</th>
<th>UNDER $100,000</th>
<th>$100,000 - $250,000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cost of operations</td>
<td>44.1%</td>
<td>44.6%</td>
</tr>
<tr>
<td>Compensation of officers</td>
<td>5.7</td>
<td>4.3</td>
</tr>
<tr>
<td>Repairs</td>
<td>1.4</td>
<td>1.3</td>
</tr>
<tr>
<td>Bad debts</td>
<td>0.0</td>
<td>0.0</td>
</tr>
<tr>
<td>Rent and business property</td>
<td>6.2</td>
<td>5.7</td>
</tr>
<tr>
<td>Taxes (exc. Federal taxes)</td>
<td>5.2</td>
<td>4.2</td>
</tr>
<tr>
<td>Interest</td>
<td>0.6</td>
<td>1.1</td>
</tr>
<tr>
<td>Depreciation/amortization</td>
<td>2.8</td>
<td>2.7</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>EXPENSE ITEM (cont'd.)</th>
<th>FIRMS WITH ASSETS UNDER $100,000</th>
<th>FIRMS WITH ASSET OF $100,000 - $250,000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Advertising</td>
<td>1.6</td>
<td>2.0</td>
</tr>
<tr>
<td>Pension/benefit plans</td>
<td>0.2</td>
<td>0.2</td>
</tr>
<tr>
<td>Other expenses</td>
<td>30.7</td>
<td>31.3</td>
</tr>
<tr>
<td>Net profit before taxes</td>
<td>1.5%</td>
<td>2.6%</td>
</tr>
</tbody>
</table>

Average Balance Sheet Data

According to Dun and Bradstreet, Inc., the average asset, debt and net worth data for the restaurant industry, including catering firms, is as follows:

<table>
<thead>
<tr>
<th>ASSETS</th>
<th>DEBTS AND NET WORTH</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash and near cash</td>
<td>11.0%</td>
</tr>
<tr>
<td>Accounts receivable</td>
<td>5.0</td>
</tr>
<tr>
<td>Other current assets</td>
<td>3.0</td>
</tr>
<tr>
<td>Inventory</td>
<td>7.0</td>
</tr>
<tr>
<td>Total current assets</td>
<td>26.0</td>
</tr>
<tr>
<td>Fixed assets</td>
<td>57.0</td>
</tr>
<tr>
<td>Other non-current assets</td>
<td>17.0</td>
</tr>
<tr>
<td>Total assets</td>
<td>100.0%</td>
</tr>
<tr>
<td>Accounts payable</td>
<td>11.0%</td>
</tr>
<tr>
<td>Bank loans</td>
<td>6.0</td>
</tr>
<tr>
<td>Other notes payable</td>
<td>7.0</td>
</tr>
<tr>
<td>Other current debts</td>
<td>12.0</td>
</tr>
<tr>
<td>Total current debts</td>
<td>36.0</td>
</tr>
<tr>
<td>Other long-term debts</td>
<td>32.0</td>
</tr>
<tr>
<td>Net Worth</td>
<td>28.0</td>
</tr>
<tr>
<td>Other non-current debts</td>
<td>4.0</td>
</tr>
<tr>
<td>Total debts and NW</td>
<td>100.0%</td>
</tr>
</tbody>
</table>

"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 assets" are a mixture of land and buildings, equipment, and vehicles.

"Accounts payable" are amounts owed to suppliers of inventories and equipment. "Bank loans" are amounts owed to suppliers of open market notes or equipment installment notes. "Other long-term debts" include both equipment and mortgage 'notes.
TYPICAL BUSINESS RATIOS FOR OTHER FIRMS IN THE INDUSTRY

The comparison of actual operations with typical, industry-wide ratios can be helpful in making decisions concerning service charges, 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, as well as comparing existing company data with industry averages to identify company strengths and weaknesses.

According to Dun and Bradstreet, the median key financial ratios for caterers in 1988 were as follows:

**Solvency Ratios**

Quick ratio (cash plus account receivable/current liabilities) 0.4 to 1
Current ratio (current assets/current liabilities) 0.7 to 1
Total debts to net worth 28.0%

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. 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) 2 days
Sales to inventory (net sales/inventory) 28 times
Assets to sales (total assets/annual net sales) 18.2%

The quality of the receivables (degree to which customers pay their bills on time) of a company can be determined through the collection period, with allowances made for possible variations in selling terms if the company differs from the industry. The sales to inventory relationship is a guide to the rapidity at which merchandise is being moved, which has a direct effect on the flow of funds into the business. The assets to sales ratios in sales and the total investment that is used to generate those sales. A firm can be "over-trading" (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 (net profit after tax/annual net sales)      2.2%
Return an net worth (profit after taxes/net worth)          20.0%

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 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 10 percent is regarded as a desirable objective for providing dividends plus funds for future growth.

MANAGEMENT CONSIDERATIONS

DEVELOPMENT AND SITE LOCATION

Location
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 a home-based business. It is essential to check these local restrictions prior to contracting to rent, lease or buy a property for the business. Other considerations in locating the business are expected traffic patterns, sign restrictions, adequate parking for service vehicles, workers and client cars. In addition, storage space is needed for storing tables and chairs, artificial flower arrangements, linens, table settings, and other items related to the business. Food storage coolers and stock rooms (which are inspected by the local health department) are also necessary.

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 operation of the business. Health and safety issues to consider include proper ventilation and fire extinguishing systems.

EXPERIENCE AND TRAINING NEEDS

Management Training

As in most businesses, the catering manager must be familiar with the product and service provided, as well as the administrative
operation. Smaller firms may combine all the duties for one person--sales, marketing, billing, etc., while larger firms may have several people assuming different jobs. A large catering business should also have an experienced buyer for fresh vegetables and fruits, frozen items, meats, setup supplies, basic ingredients, etc.

Employee Training

Large operations that cater off-premises usually employ a promotion person, a chef and servers. A part-time catering staff (servers) is typical. Employees need to be trained to provide the appropriate atmosphere and the quality level of service that a client is expecting. Proper preparation and service of food in a formal or informal setting is extremely important if repeat business is to be generated.

KEYS TO SUCCESSFUL MANAGEMENT

Markets

In order to be successful, the management of a catering firm must know its competition, have a vision as to the markets that it can cultivate, promote a helpful atmosphere for both clients and employees, and strive for profitable clients and accounts. Management of a catering firm 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 work and equipment at a fair price.

Young people, especially singles, spend a significant portion of their take-home pay for food. Many prefer to buy food already prepared rather than to prepare their own meal. In many cities and towns, delicatessens, restaurants and specialty shops have begun to target this market by offering distinctive ("gourmet to go") carry-out cuisine. Increasing competition in this market is reflected by the variety and quality of cuisine.

Organization

A well-run business should have a clearly defined organizational structure with key personnel to work in the areas of management, marketing, accounting and 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 a catering firm 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, for full-time employees, 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

Radio and newspaper advertising, telephone directory yellow page Listings, and direct contact (telephone or mailings) are some methods of advertising. Catering vehicles often carry company logos and/or a brief listing of services offered, along with a business telephone number. In addition, since a majority of caterers business comes from repeat customers, word of mouth is particularly important in this type of business.

Menu Items

Above all else, caterers are judged by the quality of the food they serve. When starting out in the business, it is best to offer cold menu items. Hot food items, which require more equipment and skill, may be added by the catering firm as business expands. However, menus should include easily transportable food items.

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 5 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 leaders 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 at 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 number 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 at 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 1 800-292-8916. 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 maintain 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 from the Small Business Hotline at 1-800-252-2923.

BUSINESS DEVELOPMENT CENTER NETWORK

The Illinois Business Development Canter 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 is available from the Small Business Hotline.

Several sources of information are useful for improving the level of profitability of a catering firm or for learning more about the operation. These include trade associations, directories and reference books, periodicals, financial ratios, and government publications/assistance. A list of these for the catering industry is given below.

**TRADE ASSOCIATIONS**

National Off-Premise Catering Association. P.O. Box 14352, Chicago, IL 60614. 312-525-6800.

International Caterers Association. 220 South State Street, Suite 1416, Chicago, IL 60604. 312-922-0966.

Catering Handbook. J. Williams Book Company, P.O. Box 783, Jenks, OK 74037. 1-800-873-6775.


**DIRECTORIES AND REFERENCE BOOKS**


How to Manage a Successful Catering Business. J. Williams Book Company, P.O. Box 783, Jenks, OK 74037. 1-800-873-6775.

**PERIODICAL**

Caterer Today. Pro Tech Publishing and Communications, State Road 245, Pro Tech Building, Santa Claus, IN 47579. 812-937-4464.

**FINANCIAL RATIOS**


GOVERNMENT PUBLICATIONS


GOVERNMENT ASSISTANCE


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


