Disclaimer: Some of this material is obsolete yet is provided to aid in historical analysis.

SPORTING GOODS STORES

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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SPORTING GOODS STORES

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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 a reference. Proper legal counsel and other professional guidance should be obtained prior to starting a business.
SPORTING GOODS STORES
(SIC 5941)

GENERAL INDUSTRY INFORMATION

BUSINESS TYPE, INDUSTRY CHARACTERISTICS AND PROSPECTS

Nature of the Business

Sporting goods firms have been assigned the Standard Industrial Classification (SIC) Industry Number 5941. Types of firms included under the classification are discount and department stores dealing in sporting goods, specialty shops for sporting goods, and mail order sporting goods businesses.

Sales in the sporting and athletic goods industry amount to approximately $30 billion annually. Department and discount stores account for approximately 74 percent of the industry sales. Specialty shops, which will be the emphasis of this profile, account for a growing share of the market, with 17 percent of industry sales in 1984 and 19 percent in 1985. Mail order businesses claimed 7 percent and miscellaneous other sellers accounted for 2 percent of sales.

More than 10,000 business firms classified in SIC 5941 have employees, with the smaller firms usually having one or two people on the payroll, and the medium-sized firms employing under ten. This type of store increased its work force by 7 percent annually from 1972 to 1979, by 3.9 percent per year from 1979 to 1986, and is projected by the Bureau of Labor to increase employment by about 2.7 percent annually from 1986 through the year 2000.

Trends in the Industry

Sporting and athletic goods are bought predominantly by adults between the ages of 25 and 44. This age group is projected to be the fastest growing population bracket in the nation for the next 15 years. The U. S. Bureau of the Census estimates that this age category will have an annual compounded growth rate of 3.6 percent yearly over this period, compared to an overall population growth of 1 percent in the nation.

Some of the larger stores operating in this industry stock sports apparel for virtually all major sports teams while others concentrate on sports apparel for only regional professional teams and nearby university teams with strong national rank or regional interest.
Sporting goods stores have broadened their inventory over the past 15 years. While clothing and shoes continue to be very large sellers, sales of some items are driven by cyclical popularity changes. During the period from 1984 to 1986, for example, rowing machines, cycles, and multi-exercise machines were very popular. Boat sales, in units, had fallen by almost one-half from 1981 through 1986, but made a vigorous sales recovery in 1987 and 1988.

A large percentage of the sporting and athletic goods sold to customers in the United States are imported. Between 1975 and 1985, the U.S. has seen its global share of such items slip from 17.4 percent of the total to 8.7 percent. The European Economic Community (EEC) countries have also slipped from 31 percent in 1975 to 21 percent in 1985. The primary beneficiaries have been Taiwan (seeing its share rise from 6.5 percent to 25.1 percent of the world export market in this industry) and South Korea (with its share rising from 2.2 percent to 8.8 percent over the same ten year period). Japan has been a moderate benefactor, with its share of the world exports in this industry rising from 10.9 percent to 11.2 percent. According to the 1987 U.S. Industrial Outlook, the total value of world exports in the industry amounted to $932 million 1975 and had more than tripled to $2.8 billion by 1985.

MARKET OPPORTUNITIES IN VARIOUS SIZED COMMUNITIES

Market Data

On the average, each sporting goods store serves a population base of 25,000 people. These stores tend to be located in shopping malls which attract customers from a large geographical radius. Others locate near areas where their items will be used (e.g., water or snow recreation areas), relying on customers who may need immediate replacement items.

Sporting goods stores usually do not do well in small communities unless they are located near a college or university with a strong sports program. In those locations, the students, their visiting parents, and community boosters are potential customers. Some stores that locate in small cities develop strong mail-order businesses rather than relying on local shoppers.

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 sporting goods firms may be contacted to determine what products and services they offer and what they charge.
Marketing Plan

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

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

- 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 sporting goods firms 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. A franchise fee of $10,000 to $20,000 is common, with a minimum investment ranging from $50,000 to $300,000. The Source Book of Franchise Opportunities, Robert E. Bond, Dow Jones-Irwin, 1988, lists available franchise opportunities, initial investment requirements, and franchise fee information.

COSTS/FINANCIAL CONSIDERATIONS

COSTS AND TYPES OF ASSETS NEEDED TO START THE BUSINESS
Capital Requirements

Initial investment factors to consider include the amount required for wages, six months of working capital, unforeseen expenses, supplies and equipment inventories, insurance coverage and building remodeling or improvements.

Average Balance Sheet Data

The breakdown of assets, liabilities, and net worth for a sporting goods store, according to Dun and Bradstreet, 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>11.5%</td>
</tr>
<tr>
<td>Accounts receivable</td>
<td>6.0</td>
</tr>
<tr>
<td>Notes receivable</td>
<td>0.4</td>
</tr>
<tr>
<td>Inventories</td>
<td>58.5</td>
</tr>
<tr>
<td>Other current assets</td>
<td>2.3</td>
</tr>
<tr>
<td>Total current assets</td>
<td>78.7</td>
</tr>
<tr>
<td>Fixed assets</td>
<td>12.7</td>
</tr>
<tr>
<td>Other noncurrent assets</td>
<td>8.6</td>
</tr>
<tr>
<td>Total assets</td>
<td>100.0%</td>
</tr>
<tr>
<td>Accounts payable</td>
<td>14.0%</td>
</tr>
<tr>
<td>Bank Loans</td>
<td>1.6</td>
</tr>
<tr>
<td>Other notes payable</td>
<td>5.3</td>
</tr>
<tr>
<td>Other current debts</td>
<td>11.6</td>
</tr>
<tr>
<td>Total current debts</td>
<td>32.5</td>
</tr>
<tr>
<td>Other long-term debts</td>
<td>14.1</td>
</tr>
<tr>
<td>Deferred credits</td>
<td>0.1</td>
</tr>
<tr>
<td>Net worth</td>
<td>53.0</td>
</tr>
<tr>
<td>Total debts/net worth</td>
<td>100.0%</td>
</tr>
</tbody>
</table>

"Near cash" refers to checking or savings accounts that may be liquidated easily. "Other noncurrent assets" generally refers to intangible assets such as leaseholds or leasehold improvements. "Fixed assets" are a mixture of land, buildings, equipment and vehicles.

"Accounts payable" are amounts owed to suppliers of inventories and equipment. "Bank Loans" are amounts owed to suppliers of inventories and equipment. "Other long-term debts" include both equipment and mortgage notes.

Revenues and Profitability

A typical sporting goods firm, with assets of $138,000 and net worth of $73,140, should generate annual revenues of approximately $280,000. A breakdown of average revenues into dollars and percentages for the average firm in the SIC #5941 designation during recent years, according to Dun and Bradstreet, follows.

<table>
<thead>
<tr>
<th>ITEM</th>
<th>DOLLARS</th>
<th>PERCENT</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sales / revenues</td>
<td>$280,000</td>
<td>100.0%</td>
</tr>
<tr>
<td>Gross profits</td>
<td>31.0</td>
<td></td>
</tr>
<tr>
<td>Net profit after taxes</td>
<td>4.6%</td>
<td></td>
</tr>
</tbody>
</table>
In order to earn a reasonable return on investment, a sporting goods store must stock items that sell fairly quickly. The three largest department stores (i.e., Sears, Wards, and J.C. Penney) average about $100 in sales yearly (stated in 1987 dollars) for each square foot of floor space. A high-turnover vendor should be able to double this. Using these estimates, a 1,500-square-foot store, stocked with high-turnover items, should sell about $300,000 in merchandise yearly, or about $6,000 weekly. Only heavy traffic areas will generate such a needed stream of impulse buyers or deliberate shoppers. If the inventory turns over five to six times yearly, a gross profit margin of 13 to 17 percent may convert to an adequate profit. If the annual turnover of inventory averages 3.0 times, then a gross profit margin of over 25 percent is needed to cover expenses and to provide an adequate return on net worth.

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 data from existing companies with industry averages to help identify company strengths and weaknesses.

According to Dun and Bradstreet, the median key financial ratios for sporting goods stores are as follows:

Solvency Ratios

Quick ratio (cash plus accounts receivable/current liabilities) 1.3 to 1
Current ratio (current assets/current liabilities) 1.6 to 1
Total debts to net worth 75%

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 (account receivable/sales x 365) 18 days
Sales to inventory (net sales/inventory)                  5.6 times
Assets to sales (total assets/annual net sales)         2.5%

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)      10.4%
Return on net worth (profit after taxes/net worth)        38.0%

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

Independently owned and operated sports and athletic stores are usually located in one of three places. Many have stores in shopping malls, but the failure rate is high for those located in very small malls. A number are stand-alone businesses, with space for parking and a prominently displayed sign. Other sporting goods stores locate near recreational areas such as lakes or ski areas.

Facility Requirements

The mail sporting goods stores are typically small, averaging 1,000 to 1,500 square feet of space. Layout designers often use the walls and ceilings to suspend merchandise. Sometimes
floor displays are laid out in the form of a certain type of sport, such as a football or baseball field. Some miniature displays may be laid out in the same way. Small stores are usually leased by the firm's owner or manager from the shopping mall investment corporation.

Free-standing sporting goods stores are usually large in size, often stocking one of the following: 1) large ticket items such as boats, motors, and other fishing or aquatic equipment; or 2) a diverse line of sporting and athletic items. A large sign that meets local government size requirements should be visible to passing pedestrians or motorists for several hundred feet.

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.

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, as well as the use of hazardous materials.

EXPERIENCE AND TRAINING NEEDS

Management Training

The owner of a sporting goods store often has been an active participant in some type of sport as a young person. Some are retired professionals or retired high-school coaches who seek a second career after leaving active sports or coaching. Some may already have a regional reputation before establishing such a business, and this is an aid in the promotion of a high level of sales.

Training for management should cover the "how to's" of the business, including general management, marketing, financial and accounting areas. Attention should be given to the philosophy (e.g., growth minded, risk averse versus a risk taker) of the firm, as well as to front office administration.

Employee Training
Training should be given to new personnel in order to familiarize them with the lines of merchandise and their locations in the store. Inability to find a certain item desired by a patron by an unsure salesperson reflects poorly on the store and will ultimately lead to fewer return trips by repeat buyers. In addition, sales opportunities will be lost unless the employees in the specialty store really do have superior knowledge about their products sold than those that work at department stores or discount houses.

Most of the franchising firms provide training at their home offices for key officers of franchise businesses. Video cassettes may be provided that illustrate correct techniques for demonstrating certain types of equipment. Ongoing training also should be provided, especially as new equipment or improved service products are acquired.

KEYS TO SUCCESSFUL MANAGEMENT

Markets

In order to be successful, the management of a sporting goods 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 repeat customers. It should also be able to gauge the approximate saturation point in a given market area. Markets should be developed where growth potential exists and where the firm has a price or some other advantage.

Cost/Pricing Policies

Effective cost controls should be followed by the owners and employees. The firm's operating objective should be to develop a reputation in the industry for quality goods at a fair price.

Advertising

Spot radio ads, newspaper ads, telephone directory yellow pages listings, and direct contact (telephone or mailings) are some methods of advertising sporting goods firms. Sponsorship of local sports teams is another method of promotion.

Whichever advertising method is chosen, it should be planned and targeted to the most appropriate audience to be effective. This may require basic market research depending on the business size, location and owner's experience.

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 of the firm.

Customer Relations

All employees in a sporting goods 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 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.

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 conceivable could be generous enough to allow use of 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 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 consideration 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. 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 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.

Regulation -- Certain types of sporting goods stores are highly regulated by federal and state laws. Those that sell weapons or ammunition must know and obey federal laws about such sales. The weapons and ammunition must be secured (chains and locks) when the business is closed in order to safeguard against robberies. Many states will not permit the sale of weapons or ammunition to out-of-state travelers or minors. The owner and the employees should be aware of the laws and regulations and abide by them.

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 to the department at:

100 W. Randolph, Concourse 300 101 West Jefferson Street
Chicago, Illinois 60601 Springfield, Illinois 62794
312-814-5258 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-Hubbell 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, controlling quality, conducting financial analyses, controlling production, 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 506, 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 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. For more information, call the Small Business Hotline.

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

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

TRADE ASSOCIATIONS

National Sporting Goods Association. 1699 Wall Street, Mt. Prospect, IL 60056. 708-439-4000

PERIODICALS

Action Sports Retailer. 31652 2nd Avenue, South Laguna, CA 92677. 714-499-5374.

NSGA Snorts Retailer. 1699 Wall Street, Mt. Prospect, IL 60056. 708-439-4000.

Sporting Goods Dealer. 1212 N. Lindbergh Boulevard, St. Louis, MO 63132. 314-997-7111.


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:

