TEMPORARY HELP SERVICES
BUSINESS AND INDUSTRY PROFILE

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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.

TEMPORARY HELP SERVICES

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Disclaimer: Some of this material is obsolete yet is provided to aid in historical analysis.
TEMPORARY HELP SERVICES  
(SIC 7363)  

GENERAL INDUSTRY INFORMATION  

BUSINESS TYPE, INDUSTRY CHARACTERISTICS AND PROSPECTS  

Nature of the Industry  

Temporary Help Services have been assigned the Standard Industrial Classification (SIC) Industry Number 7363, a part of the broader SIC Group Number 736, personnel supply services. In 1986, approximately 7500 temporary help services were in operation in the U.S. Combined, they accounted for an annual payroll of about $162.5 million and had 668,728 employees. By 1990, the industry had grown to an estimated 1,043,000 employees.  

Some temporary help services are large in size, consisting of more than 100 offices in more than 50 different locations. The U.S. Department of Commerce estimated in early 1988 that the largest temporary help services had more than 7,200 offices nationally. The average number of employees listed with each office was about 90 in 1986. However, the smaller firms which specialize in a limited geographic area and limited types of
employee will be highlighted in this profile.

Nature of the Businesses

Temporary help services are businesses primarily engaged in supplying temporary or continuing help on a contract or fee basis. In this arrangement, temporary help services firms hire and place the workers, collect a stated fee for their work, and then pay the temporaries a portion of the fee as wages and fringe benefits. However, the temporaries are usually under the direct or general supervision of the business to whom the help is furnished. Potential areas of specialization for a temporary help service include the following: employee leasing service, labor pool, modeling service, office help supply service, and usher service.

Temporary help services are most active in supplying four types of workers. The most numerous is office help (about 63 percent of the total), followed by industrial workers (about 15 percent), medical workers (about 11 percent), and technical workers (about 10 percent). Nearly 10 percent of the employees have backgrounds in accounting, engineering systems analysis, law, or other professional areas. Such people are usually between jobs, but some have suffered from burnout with one firm and simply prefer part-time work until full-time employment with another firm can be secured.

Temporary help services maintain listing of client businesses and potential workers and attempt to match the requirements of the clients with the characteristics of the workers. In addition, temporary help services generally administer worker tests, check references, and provide training.

People who are employed by temporary help services fall into three broad categories: retired people, aged 55 to 70, who may desire part-time employment to avoid boredom or to gain supplemental income; homemakers, who may desire part time employment to earn supplemental family income and to build their own retirement fund through Social Security; and people who are in transition between jobs, who may perform temporary work to review possibilities for permanent employment.

Some business firms use temporary help services to screen and train prospective employees. Workers are hired on a temporary basis and may then be offered a permanent job. When this occurs, a fee is normally paid to the temporary help service to compensate for screening and training. This technique is most often used by firms that relocate from one area to another or relatively young firms whose human resource management functions are not fully developed.
Economic Issues

Reasons for using temporary workers vary from firm to firm. Some client businesses have seasonal swings in their needs for workers (e.g., retail sales during the Christmas season or catalog mailings). Other reasons include planned absences of workers for vacations or maternity leaves, or unplanned absences due to illness of permanent employees. Offices with four or five permanent clerical employees are more likely to use temporary help services than those with ten or more, as the work load might be more effectively distributed over a larger staff. An added advantage for the employing firm is that it does not have to enroll temporary workers (with fewer than 1,000 hours of work annually) into its retirement plans.

Trends in the Industry

The temporary help services industry has been one of the fastest growing in the nation since about 1975. The passage of TEFRA (Tax Equity and Fiscal Responsibility Act) in the early 1980s accelerated this growth rate to about 30 to 36 percent annually, although the rate of growth until the end of the century is expected to slow to about 5 percent annually, or perhaps three times the level of annual gain in total employment.

Some one million people may be employed on a part-time basis by 1995. With the anticipated continued shrinkage in the unemployment rate in the nation over the next several decades, retirees are likely to have increasing opportunities to earn supplemental income and to provide a vital contribution to the business community.

In fact, retirees will be the fastest growing segment of the population in the next 20 years. Many of these people are still in good health and become bored with retirement and prefer the new experiences a part-time assignment might offer. These temporary employees have many years of training and experience to offer if they can be matched with an appropriate firm.

MARKET OPPORTUNITIES IN VARIOUS SIZED COMMUNITIES

Marketing Plan

Before starting a temporary help service, the owner(s) should 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.

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.; the U.S. Small Business Administration (SBA), through its local offices and the Service Corps of Retired Executives (SCORE), etc.

Market Data
A city with a population of 20,000 should be able to support a moderate office. In addition, this office might serve several communities within a radius of about 20 miles. Areas with several hospitals or medical complexes are potential markets for temporary nurses and aides. In addition, government and business centers are high users of temporary clerical workers.

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. Before setting up a temporary employment service, a survey should be made of the competition to determine what services they offer, what they charge, their locations, and office layouts. The largest of the firms in this industry, Kelly and Manpower, usually concentrate in larger cities, while independent or regional firms frequently locate in small cities.

FRANCHISING

Franchising Advantages

Franchise opportunities exist for temporary help services and offer an alternative to starting a business from the ground up. Franchising gives the entrepreneur an opportunity to use the mass buying power, training programs, specific territory, experience, and name recognition of the franchisor to build a viable and profitable business.

Most of the franchising firms provide training at their headquarters for key employees of franchisee businesses. Video cassettes may be provided that illustrate correct techniques for performing certain types of assignments. Ongoing training is generally provided as well, especially for new equipment or
improved products.

Franchising Costs

A listing of several large temporary help services franchisors including their names, location of home offices, and the minimum investment requirements are provided here as an industry example.

<table>
<thead>
<tr>
<th>NAME OF FIRM</th>
<th>HOME OFFICE</th>
<th>MINIMUM INVESTMENT</th>
</tr>
</thead>
<tbody>
<tr>
<td>AAA Emplmnt Frnchs, Inc.</td>
<td>St. Petersburg, FL</td>
<td>$ 10,000-30,000</td>
</tr>
<tr>
<td>ADIA Personnel Services</td>
<td>Menio Park, CA</td>
<td>$70,000-75,000</td>
</tr>
<tr>
<td>Careers USA</td>
<td>Philadelphia, PA</td>
<td>125,000-155,000</td>
</tr>
<tr>
<td>Express Services, Inc.</td>
<td>Oklahoma City, OK</td>
<td>12,000</td>
</tr>
<tr>
<td>Manpower, Inc.</td>
<td>Milwaukee, WI</td>
<td>50,000</td>
</tr>
<tr>
<td>Norrell Corporation</td>
<td>Atlanta, GA</td>
<td>50,000-80,000</td>
</tr>
<tr>
<td>Staff Builders</td>
<td>Lake Success, NY</td>
<td>100,000</td>
</tr>
<tr>
<td>Todays Temporary</td>
<td>Dallas, TX</td>
<td>60,000-100,000</td>
</tr>
<tr>
<td>Western Temp. Services</td>
<td>Walnut Creek, CA</td>
<td>2,500-10,000</td>
</tr>
</tbody>
</table>

In addition to the initial investment costs, some franchisors may require that an annual fee or percentage of sales be paid by the franchisee. The home office should be contacted for current information and a prospectus of the franchise operation. Business owners who are interested in a franchised operation should investigate competitive terms and costs with two or more firms that franchise their area before selecting a franchise and making a financial commitment.

COSTS/FINANCIAL CONSIDERATIONS

COSTS AND TYPES OF ASSETS NEED TO START THE BUSINESS

Capital Requirements

Overall, 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.

Roughly $350 in assets is needed for each temporary person listed with the firm, but close to half of this can be obtained through debt. As an example, an entrepreneur with $25,000 who wants to start a temporary help services firm might be able to support $50,000 in assets, $250,000 in annual billings (roughly 5 to 1 is an average billings-to-assets ratio for the industry), and have a staff of office employees and perhaps 50 temporaries.

Average Balance Sheet Data
The chart below reveals that net worth approximately equals accounts receivable for an average temporary help service. With a collection period of about 43 days, or about 1/8 of a year, net worth needs to be about 12 percent of expected annual billings. Thus, a net worth of $50,000 should support annual billings of about $400,000.

The average breakdown of assets, liabilities, and net worth for firms in SIC 7363 (which includes temporary help services) is as follows:

**ASSETS**

<table>
<thead>
<tr>
<th></th>
<th>%</th>
<th></th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash</td>
<td>16.0</td>
<td>Accounts Payable</td>
<td>7.0</td>
</tr>
<tr>
<td>Accounts Receivable</td>
<td>50.0</td>
<td>Bank loans</td>
<td>2.0</td>
</tr>
<tr>
<td>Notes Receivable</td>
<td>1.0</td>
<td>Other notes payable</td>
<td>7.0</td>
</tr>
<tr>
<td>Inventory</td>
<td>1.0</td>
<td>Other current debts</td>
<td>20.0</td>
</tr>
<tr>
<td>Other current assets</td>
<td>7.0</td>
<td>Total current debts</td>
<td>38.0</td>
</tr>
<tr>
<td>Total current assets</td>
<td>75.0</td>
<td>Other long-term debts</td>
<td>11.0</td>
</tr>
<tr>
<td>Fixed assets</td>
<td>12.0</td>
<td>Deferred credits</td>
<td>0.4</td>
</tr>
<tr>
<td>Other non-current assets</td>
<td>13.0</td>
<td>Net Worth</td>
<td>50.6</td>
</tr>
<tr>
<td>Total assets</td>
<td>100.0</td>
<td>Total debts/net worth</td>
<td>100.0</td>
</tr>
</tbody>
</table>

Source: Dun & Bradstreet, Inc.

"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 and buildings, equipment, and vehicles.

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

**Average Expenses**

The Almanac of Business and Industrial Financial Ratios provides average expense breakdowns for major SIC industry groups, using data published by the IRS. The following expenses, presented as a percentage of revenues, were provided in 1989 for firms with under $100,000 in assets and for those with assets ranging from $100,000 to $250,000.

<table>
<thead>
<tr>
<th>EXPENSE ITEMS</th>
<th>UNDER $100,000</th>
<th>$100,000-$250,000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cost of operations</td>
<td>31.5%</td>
<td>40.6%</td>
</tr>
<tr>
<td>Compensation of offices</td>
<td>14.6</td>
<td>11.9</td>
</tr>
<tr>
<td>Repairs</td>
<td>0.6</td>
<td>0.5</td>
</tr>
</tbody>
</table>
Bad debts                                    0.1            0.1
Rent on business property                    3.4            2.9
Taxes (excl. federal taxes)                  3.4            3.9
Interest                                     0.7            0.9
Depreciation/amortization                    2.7            2.8
Advertising                                  0.7            0.8
Pension/benefit plans                        1.9            2.1
Other expenses                              36.5           29.7
Net profit before taxes                      3.9%           3.8%

Because the above data was derived from a mixture of several subclassifications of business firms, including temporary help services, the exact breakdown of expenses may not apply. The average temporary help service often doubles the rate that they expect to pay their employees when bidding on a contract. The additional funds are needed to cover other operating expenses, including payroll taxes, fringe benefits, and to provide for an average 4 percent profit for the firm.

Revenues and Profitability

The following data reflects revenue information for typical temporary help services in recent years according to data published by Dun & Bradstreet, Inc.

<table>
<thead>
<tr>
<th>ITEM</th>
<th>DOLLARS</th>
<th>PERCENT</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sales/revenues</td>
<td>$1,500,000</td>
<td></td>
</tr>
<tr>
<td>Gross profits</td>
<td>411,000</td>
<td>27.4</td>
</tr>
<tr>
<td>Net profit after taxes</td>
<td>61,500</td>
<td>4.1</td>
</tr>
</tbody>
</table>

Source: Dun & Bradstreet, Inc.

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, budgeting, 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.

Key Financial Ratios

According to Dun and Bradstreet, the median key financial ratios for temporary help services were as follows:

Solvency Ratios
Quick ratio  
(cash plus accounts receivable/current liabilities)  1.8 to 1  
Current ratio (current assets/current liabilities)  3.7 to 1  
Total debts to net worth

The quick ratio expresses the degree to which a company's current obligations (expenses) are covered by the most liquid current assets, i.e., cash and customer payments due the company. The current ratio is a rough indication of the "cushion" between current obligations and a firm's ability to pay them from current assets. Total debts to net worth compares total liabilities in the form of debt with owner 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)  43 days  
Sales to inventory (net sales/inventory)  28 times  
Assets to sale (total assets/annual net sales)  19%

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 affect 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 taxes/annual net sales)  3%  
Return on net worth (profit after taxes/net worth)  21%

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 return on equity rate of at least ten percent is regarded as a desirable objective for providing dividends and retained earnings.

MANAGEMENT CONSIDERATIONS

DEVELOPMENT AND SITE LOCATION
Location

A standard commercial office building might be well suited for a temporary help service. Working space for the office personnel (office manager, trainer, receptionist and accountant) would be needed. A conference room for testing and training is also desirable. The conference room could double as a library where job manuals and job descriptions of regular clients are available for review by prospective temporary employees.

Parking space for business clients and temporary workers is needed, although many of the requests for worker placements can be arranged by telephone once working relationships have been developed.

Close proximity to a community college or business training school might be helpful in providing inexpensive training on state-of-the-art equipment, especially for office skills.

Zoning

When selecting a location 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 systems, as well as the use of or exposure to hazardous materials.

EXPERIENCE AND TRAINING NEEDS

Management Training

The owner/manager of a temporary help service should have office management training. Ideally, he or she should be familiar with the general needs of the types of businesses targeted as clients. The owner/manager may also design and/or administer training sessions for the temporaries.

Employee Training

A start-up temporary help service might initially have two permanent employees. A receptionist/secretary would be needed to
answer the phone, greet clients and temporary employees, and perform other clerical duties. One employee should be responsible for training the temporaries, for example, in the use of personal computer spreadsheets, data bases, and graphics.

In addition to technical training, some temporary help services also offer suggestions to their temporaries on upgrading their skills, business dressing, and particular likes and dislikes of client supervisors.

KEYS TO SUCCESSFUL MANAGEMENT

Markets

In order to be successful, the management of a temporary help service 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 accounts. Management of a temporary help services firm 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 price advantage or some other advantage. It is important to develop a regular clientele of businesses. Potential clients include: small offices with fewer than six full-time employees; industrial firms, which have substantial seasonal swings in sales or production; and health care facilities, which occasionally need temporary nurses, clerical staff and cleaning personnel. 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 at a fair price. In addition, an attempt should be made to act as the training and hiring agent for several large employers in the area.

Advertising

Spot radio ads, newspaper ads, direct mail, yellow pages listings and telemarketing are some methods of advertising. Company vehicles often company logos and/or a brief listing of services, along with a business telephone number. Billboards are used by some firms in the industry.

Employee Relations

Potential part-time employees include retired people, homemakers, and others between full-time job assignments. 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. Employee morale can be increased by recognizing outstanding workers through gifts, an employee of the month program, or bonuses, among other methods. 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.

Attempt to stay abreast of changes in skills needed or desired by clients. When appropriate, offer workshops and skill-updating seminars either in-house or through other sources, such as area colleges. For new employees, develop a comprehensive, but relatively inexpensive, training program.

Match Clients' Needs

The temporary help service should maintain a listing of available temporaries by skills and attributes, and attempt to match them with business clients who have similar needs. Ideally, at least two or three days of lead time for matching potential temporaries and clients would be beneficial, but unscheduled absences of workers and short-term deadlines may occur. Listed workers should know that they may sometimes be asked to move to a new job with only an hour or two of advance notice. When this is done, the client business should be made aware that this may result in a less than an ideal fit, and less than the normal amount of preparatory work has been done by the temporary help service.

Customer Relations

All employees of a temporary help service should be courteous to the clients. Besides 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.

An occasional visit by the temporary help service's office manager to the temporaries' work locations may be useful in keeping problems to a minimum. The day-to-day, on-the-job supervision of the temporaries, of course, must be left to the regular staff of the client business. However, developing a feel for the atmosphere and the types of people that would fit into such an environment would aid in assigning temporary employees to a particular client.

Pricing Policy

Set a fair price for the services of those placed on the job. Depending on the market, fees may differ depending on the type of skills a client business desires. Remember, though, that billings have to pay fringe benefits as well as the operating costs of the
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 come from 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 all 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 including 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 fo 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 a 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 or 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 a FEIN application contact the IRS Hotline at 1-800-424-3676. The application is also included in the One Stop Business Start-Up Kit and can be obtained by calling the Illinois Small Business Hotline at 1-800-252-2923.
TAXES

Taxation for small businesses can be quite simple or very complex, depending on the size and type of operation. The following list outlines the major taxes which may impact a business. Of course, the tax liability of each business will be different, based on sales volume, form of organization, etc.

Business Taxation

Income Tax -- Every individual, corporation, trust, and estate residing in Illinois or earning or receiving income in Illinois must pay an income tax based on net income. A sole proprietor must pay individual income taxes on earnings from the business. In a partnership, each partner must pay taxes on the distributive share of partnership income. Corporations must pay a corporate income tax.

Franchise Fees -- In addition, corporations are assessed a franchise tax each year. Corporate franchise taxes are administered and collected by the Secretary of State's Office.

Replacement Tax -- Illinois does not have a personal property tax, but does have a personal property replacement income tax. The replacement tax is also applied to the net income of partnerships, corporations, and trusts. S Corporations are subject only to replacement tax.

Sales Taxes

Four categories of taxes comprise the state and local sales taxes. These are the Retailers' Occupation Tax, the Use Tax, the Service Occupation Tax and the Service Use Tax. State, county and municipal Governments, and certain mass transit districts may levy Retailers' Occupation, Use and Service Occupation taxes, subject to criteria and rate limits established by Illinois law. Additional information regarding the various types of sales taxes may be obtained by contacting the Illinois Department of Revenue at 217-782-2972 or 1-800-732-8866.

A list of items which are exempt from Illinois Sales Tax is contained in "Starting a Small Business in Illinois" which can be obtained through the Illinois Small Business Hotline (1-800-252-2923). For further information on Sales Tax regulations or the Illinois Retailers' Tax Booklet (NUC-19), contact the Department of Revenue at 217-782-2972 or 1-800-732-8866.

Real Estate Taxes
All for-profit real estate owners are required to pay property taxes. The property tax rate is determined by local taxing districts and taxes are paid to the township or county tax collector in the year following assessment.

Withholding Taxes

Certain taxes, including state and federal income taxes and FICA (Social Security), must be withheld from employee wages and remitted to the government. You may be required to register with both the federal government and the State of Illinois for tax withholding purposes.

Federal Withholding -- To register with the federal government, contact the Internal Revenue Service at 1-800-424-3676 and request: Your Business Tax Kit (YBTK) for either a sole proprietorship, partnership or corporation; Tax Guide for Small Business (Publication 334); and Employer's Tax Guide (Publication 15).

State Withholding -- To register with the State of Illinois, contact the Illinois Department of Revenue Hotline at 1-800-732-8866 or write to the department at:

100 W. Randolph, Concourse 300
Chicago, Illinois 60601
312-814-5258

101 West Jefferson Street
Springfield, Illinois 62794
217-785-3707

BUSINESS SERVICES

Legal Counsel

Attorneys can provide services fundamental to the success of the business. A competent attorney can advise on such issues as choosing the most appropriate type of business organization; complying with local, state and federal regulations; obtaining licenses and permits; preparing contracts; and resolving tax questions.

Attorneys also can provide professional help when dealing with other parties such as financial institutions, owners of possible business locations, union officials, governmental bodies, franchising companies, suppliers and customers. In addition, problems may arise requiring the services of an attorney, including collection problems with customers, disputes with creditors or employees, or expansion opportunities.

There are several methods for selecting an attorney. An initial
course of action might be to seek recommendations from other business owners. Another method of finding an attorney is to contact the Illinois State Bar Association Lawyer Referral Service at 1-800-252-8916. The Martindale-Hubbel Law Directory may also be helpful. It contains a listing and rating of attorneys in your city; a copy may be found at the local library. The public library is also a source for reference books on legal topics. One such book is Small Business Legal Advisor by William A. Hancock, published by McGraw-Hill.

Bookkeeping

Access to proper information is provided by a sound bookkeeping system. Functions of a good system include:

Receipts and Expenses -- Creating and maintaining an accounting system for the accurate and timely recording of the company's cash receipts, disbursements, sales and operating expenses.

Financial Statements -- Preparing periodic financial statements (balance sheet and profit and loss statement) and establishing systems that track accounts receivable and payments due. These responsibilities may be undertaken from within or outside of the business, depending on the size and nature of the business and the owner's experience and available time. An accountant, attorney or banker can help determine a firm's needs for a bookkeeper or bookkeeping service.

Accounting

In addition to bookkeeping requirements, a need may arise for the services of a certified public accountant (CPA), an accountant who has passed a written test 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 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, Elk Grove Village, Illinois 60648, or call 312-593-1179.

Insurance Coverage

A well planned insurance program is essential for protecting a business from unforeseen losses and significant financial burdens. In organizing an insurance program, there are three basic considerations: recognize the perils facing the business and the potential loss from each; investigate the methods by which the cost of coverage can be reduced, which includes "shopping" for appropriate insurance plans; and prepare an insurance plan that is compatible with the operation and goals of the business. A qualified insurance agency or broker can explain options, recommend the best coverage and help save money.

Four types of insurance coverage are essential: fire, liability, vehicle and workers' compensation. Other desirable types of insurance coverage include business interruption, crime, and key employee.

INFORMATION SOURCES

There are a variety of resources available to assist with starting a business. Local libraries, chambers of commerce, community colleges, and universities are excellent sources of information.

SMALL BUSINESS HOTLINE

In Illinois, many of the forms needed to start a business may be obtained from the Illinois Small Business Hotline, a program of the Illinois Department of Commerce and Community Affairs' Small Business Assistance Bureau. State business forms, permit and license information, and general business information, such as the "Starting a Small Business In Illinois Handbook," are available from the Small Business Hotline (1-300-252-2923).

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. Assistance is available by calling the Illinois Department of Commerce and Community Affairs, Small Business Assistance Bureau in Chicago on 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 noted above.

Several sources of information are useful for improving the level of profitability of a temporary help services firm or for learning more about this type of operation. These include trade associations, reference books and directories, periodicals, ratio studies, investment services, and government assistance. A list of these for the industry follows.

TRADE ASSOCIATIONS


International Association for Personnel Women. 194-A Harvard St., Medford, MA 02155. (617) 391-7436.


REFERENCE BOOKS AND DIRECTORIES


PERIODICALS

Personnel. American Management Association, 135 West Fiftieth
Street, New York, NY 10020. (518) 891-1500, ext. 670.


Personnel Manager's Legal Reporter. Bureau of Law and Business, 64 Wall Street, Madison, CT 06443. (203) 245-7448.

FINANCIAL RATIOS


Industry Norms and Key Business Ratios. Dun and Bradstreet Credit Services, 1 Diamond Hill Rd., Murray Hill, NJ 07974. (800) 223-0141 or (908) 665-5224.

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: