

HOTELS AND MOTELS  
BUSINESS AND INDUSTRY PROFILE

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SOUTHERN ILLINOIS UNIVERSITY AT CARBONDALE  
College of Business and Administration

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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.

HOTELS AND MOTELS  
(SIC 7011)

GENERAL INDUSTRY INFORMATION

BUSINESS TYPE INDUSTRY CHARACTERISTICS AND PROSPECTS

Nature of the Business

Hotels and motels have been assigned the Standard Industrial Classification (SIC) Number 7011 from Industrial Group Number 701. Types of firms included under this 701 classification are: auto courts, bed and breakfast inns, cabins and cottages, casino hotels, hostels, hotels, inns, motels, recreational hotels, resort hotels, seasonal hotels, ski lodges and resorts, tourist cabins, and tourist courts

This industry classification, 7011, is comprised primarily of hotels, motels, and tourist courts. A separate industry profile has been designed for bed and breakfast firms. Hotels motels and tourist courts have several characteristics in common, but differ in appearance and location. All offer lodging to travelers. Most offer restaurant service at their own facilities or are located near restaurants. Many offer swimming-pools and other attractive features for the relaxation of guests.

Tourist courts are usually smaller than motels. Many resemble row-houses with a carport in-between. They usually offer more privacy than hotels or motels. However, most tourist courts are older and have smaller rooms. Most tourist courts catch the late, spill-over crowds who are unable to obtain accommodations from a motel. Prices often are lower at tourist courts than at motels, but the range of services offered at tourist courts is usually limited. Some have a separate restaurant, which sometimes attracts more local patrons than traveling guests.

Trends in the Industry

Some investment advisory services were moderately high on the hotel and motel industry in 1989. However, recent tax changes eliminated the investment tax credit on equipment; stretched the life of the income tax guideline for depreciation of commercial buildings; and imposed stricter rules on offsetting non-cash expenses against other income, for example, depreciation and depletion allowances.

Many budget hotels charge between \$20 and \$30 nightly for single occupancy depending upon their proximity to major attractions.

The average daily charge for other lodging facilities in 1988 was about \$64 per night for double occupancy, but at least one-third of the hotels/motels charged \$90 or above and another third charged \$40 or below. Patrons expect less at the lower priced motels, hotels, and tourist courts, but they all expect the facilities to be clean and their overnight lodging needs to be met.

Some hotels/motels supplement their room rental revenues by assessing a surcharge for telephone usage or by means of charges at the hotel/motel restaurant. Most guests consume at least one meal at the facility, but the price should be fair for the quality of the food provided; otherwise, the guests will seek other accommodations on their next trip. Some traditional hotel and motel restaurants provide and advertise quality food service to local residents in addition to their overnight guests.

Many downtown hotels have been renovated and many have attempted to revitalize restaurants to cater to a crowd of regular local patrons. Some have offered weekend discounts to city vacationers to fill the large number of rooms vacated by weekday business travelers.

#### Industry Growth

Due to the 1986-1987' income tax changes, the break-even level of occupancy for the industry was raised from 60 percent to 70 percent. The 1987-1988 occupancy rate was around 65 percent, indicating that industry losses were being reported. Still expansion continues to be somewhat vigorous. If interest rates increase, future expansions will likely be slow.

Some rapidly growing motel chains prefer to concentrate on the basic room comforts and avoid lavish spending on a fancy lobby and restaurant. Some motels have eliminated meeting room facilities. These owners concentrate on placing their funds and advertising in attracting travelers rather than groups such as associations and management training seminars.

In the late 1980's, many bargain and expensive motels alike added units to their facilities. Much of the growth has been due to the expansion of franchised operations by some of the mid-priced chains such as Quality Inn and Days Inn.

Smaller communities located on scenic routes are beginning to attract more tourists. The falling value of the dollar internationally has made travel abroad more expensive; therefore, many tourists are beginning to "see America" on their vacations. Many tourists are beginning to explore smaller communities, quaint villages, and historical structures. This could mean that more

travelers will be interested in staying at small tourist courts and motels along their planned travel routes.

#### MARKET OPPORTUNITIES IN VARIOUS SIZED COMMUNITIES

##### Marketing Plan

Before opening a hotel or motel, the owner(s) should develop a marketing plan. A marketing plan is basically a blueprint for identifying potential customers for the business. The plan should also include important information about the venture. Topics that should be addressed include: whether or not the area can support the proposed venture; the existence or 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 include: 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.

##### Market Data

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

##### FRANCHISING

Franchising opportunities exist for hotels and motels 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.

Before deciding upon a specific franchise opportunity, several franchisors should be contacted. Consideration should be given to the territory promised, the assistance provided in management, the benefits acquired from joint advertising the tourist room reservation referrals, and the opportunity to sell or expand the

operation. The required investment capital, the initial franchise fee, the periodic fee charge, and the charges for advertising should also be evaluated.

Most of the franchising firms provide training for key managers of franchisee businesses at their home offices. Video cassettes may be utilized to illustrate correct techniques for certain employee and management activities. Ongoing training should be provided, especially as new equipment or improved services are developed.

There are a number of large franchisors operating in the hotel/motel industry. This includes Brutger Hospitality Group, Downtowner-Passport International Hotel Corporation, Econo-Lodges of America, Inc., Family Inns of America, Quality Inns International, Inc., Ramada Inns Inc., and Scottish Inns. Some franchisors require as little as \$25,000 investment for the first 100 rooms, with additional charges for subsequent rooms. The minimum investment on some large hotels, however, can be as high as \$5 million or \$10 million.

Many small motel chains are expanding nationally into growing cities where no previous facilities existed while some of the larger hotel chains continue to expand internationally. Most expanding motel chains have followed the principal of buy-build-sell-lease which was popularized by some of the national grocery chains in the 1950s and 1960s. Some buy the land, build the facility according to standard needs, operate it until a successful level of clientele is obtained, then sell it (franchise-type operation) to a private owner/operator.

#### COSTS/FINANCIAL CONSIDERATIONS

##### COSTS AND TYPES OF ASSETS NEEDED TO START THE BUSINESS

###### Investment Factors

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

###### Average Expenses

The Almanac of Business and Industrial Financial Ratios provides expense breakdowns for corporations representative of major SIC industry groups, using Internal Revenue Service (IRS) published data. The following expenses, listed as a percentage of revenues, were provided for the reporting year 1986 for hotels with assets

ranging from \$100,000 to \$250,000.

EXPENSE ITEM	COMPANIES WITH ASSETS OF \$100,000-\$250,000
Cost of operations	13.8%
Compensation of officers	6.4%
Repairs	3.8%
Bad Debt	0.0%
Rent on Business property	16.6%
Taxes (exclusive of Federal taxes)	5.5%
Interest	2.6%
Depreciation/amortization	5.1%
Advertising	1.6%
Pension/benefit plans	1.9%
Other expenses	37.4%
Net profit before taxes	5.3%

The other expense category includes salaries and wages other than for officers, payroll taxes, and miscellaneous expenses. In this industry, assets usually turn over from about one to three times each year.

#### Average Balance Sheet Data

Information from Dun and Bradstreet for 1990, offers a review of the financial data for a class of smaller hotel/motels with an average balance sheet of \$1.5 million in assets. This breakdown of assets, liabilities, and net worth is representative of the industry, that is, a 15-20 room operation.

#### ASSETS

Cash and near cash	9.2 %	Accounts payable	3.6%
Accounts receivable	4.2	Bank loans	0.2
Inventories	1.8	Notes payable	2.9
Other current assets	4.3	Other current debts	9.9
Total current assets	19.5	Total current debts	16.6
Fixed assets (net)	47.5	Other long-term debts	45.0
Other non-current assets	32.1	Deferred credits	0.3
All other assets	0.9	Net Worth	38.1
Total Assets	100.0%	Debts and equity	100.0%
Average assets	\$1.5M		

"Near cash" refers to checking or savings accounts that may be liquidated easily to cash. "Other non-current 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.

#### 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, Inc., the median key financial ratios for hotels and motels during the period 1989-1990, were as follows:

#### Solvency Ratios

Quick ratio (cash+accounts receivable/current liabilities)	2.1:1
Current ratio (current assets/current liabilities)	3.1:1
Ratio of fixed assets to net worth	83.9%

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)	4.4 days
Sales to inventory (net sales inventory)	145.2 times
Assets to sales (total sales/annual net sales)	83.9%

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 taxes/annual net sales)	14.5%
Return on net worth (profit after taxes/net worth)	30.3%

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

In order to achieve maximum sales potential, a hotel should be strategically located to meet the needs of potential customers. For the total lodging industry, 40 percent of the revenue comes from business travelers, 25 percent from pleasure travelers, about 25 percent from conference attendees, 5.5 percent from government employees, and the other 4.5 percent from miscellaneous travelers. Many motels are located near exit and access ramps to major interstate highways. Smaller tourist courts are often located on state highways or in smaller cities. Communities that are too small to attract a hotel or motel can still provide lodging for travelers by offering bed and breakfast establishments.

Large hotels located near major airports serving communities with nationally prominent firms may have twice the average ratio of income from business travelers. Some aggressive hotel chains do extend their bookings from weeknights to weekends by promoting conventions. Motels, conversely, attract the bulk of revenues from vacationing travelers. Motels located between major airports and downtown business can expect to attract a number of people who rent autos. This behooves the motel to promote overnight lodging for business travelers as well as vacationers.

##### Zoning

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

consideration must be given to local zoning requirements. The property zoned for agricultural purposes, for example, would need to be rezoned commercial. 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.

#### Management/Owner Training

Training for hotel/motel management should include the basics of the business, including general management, marketing, finance, and accounting. Special attention should be given to business philosophy (e.g., growth possibilities, avoiding legal and business risks) as well as to front office administration. Training in these areas can be obtained through appropriate college courses in business administration or by enrolling in the basic courses offered by regional small business development centers. A number of universities and colleges nationwide offer a curriculum in hotel and motel management.

#### Employee Training

Some large chains of hotels and motels have extensive training programs for newly-hired management trainees. Unfortunately, many independent hotels and motels have very little formal training programs for employees. They often hire the best person available, leaving the training of the employee up to a manager or assistant manager.

#### KEYS TO SUCCESSFUL MANAGEMENT

##### Markets

In order to be successful, the management of a hotel or motel must know its competition, have a vision as to the markets that it can cultivate, promote a helpful atmosphere for both guests and employees, and strive to maintain and develop the services sought by its guests. Management of a hotel or motel 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 or other advantage. Effective labor and supply cost controls should be followed by the owners and employees. The firm's operating objective should be to

develop a good reputation in the industry for quality service at a fair price.

#### Organization

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

#### Customer Relations

All employees with a hotel/motel 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

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

#### Advertising

Spot radio ads, newspaper ads, telephone directory yellow page listings, and direct contact (telephone or mailings) are some methods of advertising hotels and motels. Billboards are used by some firms. Company vehicles often carry the logo of a hotel/motel along with a business telephone number.

### GENERAL START\_UP ISSUES

#### FINANCING METHODS

The ability to raise initial capital is critical for business start-ups. According to a survey conducted by Western Illinois University, one-half of entrepreneurs reported difficulties in obtaining financing, including both initial and working capital. The survey also found that entrepreneurs relied heavily on personal funds, in addition to investments from family and friends. In fact, the survey indicated that approximately one-

half of initial funds came from these sources. On the average, bank loans accounted for nearly one-third of initial capital. Other private lenders, government agencies, venture capital and stock placements only rarely provided initial capital for business.

About one-half of both goods and service-producing firms surveyed had applied to lending institutions for credit. Only five percent of goods-producing firms had been denied credit more than once, while approximately 18 percent of service-producing firms reported credit denials. The most frequent reasons for credit denial included lack of adequate collateral and a policy of not lending to the type of business applying for credit. Since obtaining credit is difficult, many entrepreneurs find it necessary to finance a business through a combination of sources of funds. Following are descriptions of several common types of financing.

#### Equity Sources

Equity sources of funds are the entrepreneur's personal funds or assets or the funds or assets of other investors in the business. Banks often require a minimum equity investment of 20 to 25 percent.

Personal Savings or Insurance -- Individuals with bank passbooks, certificates of deposit, U.S. savings bonds, permanent life insurance (with a cash surrender value), or other savings should view these as a source of financing. Conversion of these savings (or borrowing funds using these savings as collateral) should be explored carefully to determine the effect on the family if funds are not repaid.

Personal or Family Investors -- Next to personal assets, this is the most commonly used source of equity financing and perhaps the one source most abused. A business owner who secures equity funds from family members or friends should enter the relationship on a strictly professional business basis. Potential family conflicts which might result from the business might be avoided by preparing a simple contract to designate the details of the business arrangement.

Personal Assets -- An individual may have accumulated some equity in personal assets such as a vacation home, a second vehicle, or recreation equipment such as a boat, camper, etc. People starting a new business and trying to finance the business could sell these assets to generate funds to capitalize the business. This offers the advantage of not having loan debt to repay during the early years of a business and also shows potential investors and lenders the commitment of the owner.

## Debt Financing

Entrepreneurs should be aware of typical lending practices, sources of funds and different types of credit (and their respective costs) before approaching lending sources.

Institutional Investors -- Banks, savings and loans, and commercial credit companies expect the small business owner to make a significant personal investment (equity) in the business prior to any lending activity. The lack of personal investment is viewed as a sign of greater risk and less commitment on the part of the owner. Smaller loans can sometimes be obtained through a bank's consumer loan division. Security in the form of a second mortgage on the borrower's house or a lien on property such as an auto is usually required.

Leasing Agents -- Leasing companies allow small start-up firms to obtain needed equipment with a small cash down payment and regular monthly payments. Leasing has advantages and disadvantages both for the leasing agent and the small business that rents equipment. Leasing companies may be able to use favorable federal tax advantages (such as depreciation allowances), and thus lease terms are often only slightly higher than if the asset were financed with a bank note. However, if the lease is an operating contract (not a lease to purchase), the leasing company retains ownership.

Trade Credit -- Although it is often overlooked, trade credit is a frequently used means of debt financing. Trade credit is extended from suppliers who accept deferred, rather than immediate, cash payment. Trade credit conceivably could be generous enough to allow use or resale of the product, so that the customer's cash can be used to pay the supplier.

## Public Sources

Public sources of funds include federal, state or local governments which may loan money to small or emerging business 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 20-25 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 business 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 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 purposes 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 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. Contacting 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 outlines the major taxes which may impact a business. Of course, the tax liability of each business will be different, based on sales volume, form of organization, etc.

### Business Taxation

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

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

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

#### Sales Taxes

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

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

#### Real Estate Taxes

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

#### Withholding Taxes

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

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

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

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

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

## BUSINESS SERVICES

### Legal Counsel

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

Attorneys also can provide professional help when dealing with other parties such as 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 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 SPA's 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 SPA's 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 CPA's 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 1-800-252-2923.

##### BUSINESS DEVELOPMENT CENTER NETWORK

The Illinois Business Development Center Network and Service Corps of Retired Executives (SCORE) offices can provide technical assistance, business plan development, finance, marketing, management, international trade, government procurement, energy management, and commercialization of technology-related products. Additional information on these services is available through the Small Business Hotline.

##### SMALL BUSINESS RESOURCE CENTER

The Small Business Resource Center is a Chicago-based center that provides information on area Small Business Development Centers and other state and local service providers. Contact the Small Business Hotline for more information.

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

Several sources of information are useful for improving the level of profitability of a hotel or motel or for learning more about this type of operation. These included trade associations, reference books and directories, periodicals, ratio studies, investment services, and government assistance. A list of these for the hotel/motel industry is given below.

## TRADE ASSOCIATIONS

American Hotel and Motel Association. 1201 New York Ave., N.W., Suite 600, Washington, DC 20005-3931. 202-289-3100.

Hotel and Motel Association of Illinois. 27 E. Monroe St., Suite 220, Oak Brook Terrace, IL 60181. 708-953-0404.

## DIRECTORIES AND REFERENCE BOOKS

The Hospitality Index. American Hotel and Motel Association, 1201 New York Ave., N.W., Suite 600, Washington, DC 20005-3931. 202-289-3196.

Hospitality Law. Magnum Publications, Inc., 2718 Dryden Dr., Madison, WI 53704. 608-249-2455.

Introduction to Hotel and Restaurant Management: A Book of Readings. Brymer, R., 1987, Kendall/Hunt Publishing Company, 2460 Kerper Boulevard, Dubuque, IA 52001. 319-589-2822.

Purchasing: Selection and Procurement for the Hospitality Industry. Stefaneili, J., 1990. John Wiley and Sons, Inc., Attn: Order Dept., #1 Wiley Dr., Somerset, NJ 08873. 800-225-6945 or 212-850-6418.

Uniform System of Accounts and expense Dictionary for Small Hotels and Motel Systems. American Hotel and Motel Association, 1201 New York Ave., N.W., Suite 600, Washington, DC 20005-3931. 202-289-3196.

## PERIODICALS

Cornell Hotel Quarterly. Cornell University School of Hotel Administration, 20 Thornwood Dr., Ithaca, NY 14850. 607-255-5093.

Hotel and Motel Management. Edgell Communications, 7500 Old Oak Boulevard, Cleveland, OH 44130. 216-243-8100.

HSMIAI Hotel Facilities Digest. Hotel Sales and Marketing Association, International, 1400 K St., N.W., Suite 810, Washington, DC 20005. 202-789-0089.

## FINANCIAL RATIOS

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

Annual Statement Studies. Robert Morris Assoc., 1 Liberty Place,

1650 Market St., Philadelphia, PA 19103. 215-851-9100.

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

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

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

Small Business Information Bibliography. Illinois Department of Commerce and Community Affairs, 620 E. Adams St., Springfield, IL 62701. 217-785-6193.

Statistics of Income Bulletin. Superintendent of Documents, U.S. Government Printing Office, Washington, DC 20402. 202-783-3238. In Chicago: Government Printing Office Bookstore, 219 S. Dearborn, Chicago, IL 60604. 312-353-5133.

#### GOVERNMENT ASSISTANCE

Illinois Department of commerce and Community Affairs. Small Business Assistance Bureau. Springfield Office: 620 east Adams, Springfield, IL 62701. 800-252-2923 or 217-785-7546. Chicago Office: 100 West Randolph St., Suite 3-400, Chicago, IL 60601. 312-814-3263.

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

Illinois Department of Revenue. Springfield Office: 101 West Jefferson, Springfield, IL 62794. 800-732-8866 or 217-782-8886. Chicago Office: 100 West Randolph St., Chicago, IL 60601. 312-814-5258.

U.S. Small Business Administration, Business Development Division. Springfield Office: 511 West Capitol, Springfield, IL 62705. 217-492-4416. Chicago Office: 500 West Madison St., Suite 1250, Chicago IL 60661. 312-353-5428.

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

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