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BICYCLE SHOPS
BUSINESS AND INDUSTRY PROFILE

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BICYCLE SHOPS

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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.

BICYCLE SHOPS
(SIC 5941)

GENERAL INDUSTRY INFORMATION

BUSINESS TYPE, INDUSTRY CHARACTERISTICS AND PROSPECTS

Nature of the Business

Bicycle Shops have been assigned the Standard Industrial Classification (SIC) Number of 5941, and are classed as a specialty shop from a broader industry classification, sporting goods stores and bicycle shops. Bicycle shops are primarily engaged in the retail sale of bicycles, bicycle parts, and accessories.

Some industry analysts suggest that bicycling will overshadow jogging as the prevalent form of exercise in the nation by the end of the century. Sales for both import and domestic models have been brisk in the last three years, with sales turning especially strong for touring bikes and all terrain or mountain bikes. The U.S. Department of Commerce states that the long-term prospects for the industry are positive, because of favorable demographics, growing participation in biking by women, and more attention being paid to health and fitness.

Bicycles are sold in a number of places, such as department stores, hardware stores, variety stores, and by independently operated bicycle shops. Beginner's and children's bicycles are often bought-at prices under \$125 at some discount and department stores. Regular, serious adult riders often seek a bicycle of higher quality, with perhaps a greater reputation for dependability, from a nearby bicycle specialty shop. The shops are usually small, in terms of square footage, and usually provide the sale of the bicycle, accessories, and services of items sold.

About 40 percent of the bicycle shops are single proprietorships. Many of these are operated from home-owned facilities, and in terms of average sales size, are only about 20 to 25 percent as large as the corporations. Partnerships are not popular in this line of business, with only six to seven percent of total stores

using this form of business organization.

A potential bicycle shop owner should decide on the type(s) of bicycles to stock. The four broad classifications are:

- 1) Single-speed cruiser bicycles, with heavy frames, wide tires, upright handle bars, and rear coaster brakes. Repair is very easy and can usually be performed by the bicycle owner or even a child past the age of 10 or 11. These usually sell in the low- to mid-price range, from \$100 to \$250.
- 2) Contemporary utility bicycles, with three-speed sprockets, upright handle bars, hand brakes, fenders, chain guards, and designed for town use (medium to wide wheels). These sell in the low- to mid-price range, \$100 to \$300 or higher.
- 3) Lightweight, 10- to 18-speed bicycles with narrow, very high pressure tires, low handle bars, and hand brakes on both the front and rear tires. Most of these bikes provide some space for carrying small accessories (e.g., snap on bicycle pump, storage under the seat for small items, and a snap on water bottle). Prices on these can run from \$300 to over \$2,000.
- 4) Specialty bicycles are one of the following model designations: multi-speed (especially with several, very low-speed gears for riders with knee problems); sports models; touring bicycles; folding-bicycles; all-terrain or mountain bicycles, and tandem bicycles. These are considered to be at the mid- to high-price range (\$300-\$2,000).

Youths and older adults generally want different types of bicycles. Youths want thin tires and 10- to 18-speed bicycles with brakes on low handle bars. Adults prefer less speed and more safety, opting for the contemporary, multi-speed or touring bicycles with wider tires, flat handle bars, and low-speed sprockets with braking on the rear wheel. A relatively new bicycle is the all-terrain or mountain bike with strong, tubular frame, heavy suspension, 3- to 10-speed sprockets, large tires with knobs, and straight handle bar with front and rear hand brakes. These are very sturdy road and off-road bikes which are popular with many age groups.

Trends in the Industry

There is strong competition for the sale of bicycles and accessories from discount houses, department stores and the mail order business. Prices are lower through the mail than at most stores. Many of the items offered through mail order are close-out specials; models that are being discontinued. Serious bicyclists are usually indifferent to mail order prices. They prefer to shop around, see the bicycles and take a test ride on them before making a purchase. This is an important advantage the bicycle shops have over their other competitors who seldom offer service, repairs, adjustments or expert advice.

While three companies manufacture the majority of American-made bicycles (Huffy, Schwinn, and Murray), imports, especially bicycles from Taiwan and parts from Japan, account for one or more of total sales. Many bicycle shops carry more than one line of bicycles in order to appeal to a wide range of buyers. Bicycle shops will usually not handle the supermarket bike (poorly made with cheap) components and manufacturing processes) sold through the discount and department stores or mail order businesses.

Growth Potential

The bicycle store industry is becoming more sophisticated in terms of equipment and maintenance. This trend is likely to continue as more adult buyers return to bicycling as leisure-time and exercise-type activity and demand quality equipment and services. The adult buyers, with most falling between 25 and 44 years of age, seek comfort and safety in a bicycle rather than speed. The 26 to 28 million U.S. joggers are apparently cross-training with bicycling, swelling the ranks of bicyclists.

Over the years from 1979-1984, sales of domestically manufactured bicycles in the United States generally declined. Sales then leveled off for about two years but have been making a vigorous comeback since 1986. The bicycle industry had annual sales of about \$5 billion and grew by approximately five percent per year in sales for 1986 to 1988. The sale of specialty clothing for recreation has been growing, at an even faster rate than bicycle sales, and provides a profitable addition to a line of bicycles for the bicycle shop. A bicycle shop owner or manager should consider the higher profit margin items of accessories when considering the formation of a bicycle shop.

Unit sales of bicycles in the U.S. have grown from about five million units in 1982 to about 11 million units in 1986. Over half of the units sold were multi-speed bicycles. Sales are likely to continue to grow as more adults move into the 25 to 44 age bracket and either buy bicycles for themselves or for their children. This population age bracket will grow by ten percent per year, on average, through the early to mid-1990s.

MARKET OPPORTUNITIES IN VARIOUS SIZED COMMUNITIES

Market Data

The typical bicycle shop in the nation serves about 9,000 people. In a small community where several dozen bicycle enthusiasts live, a bicycle shop is likely to meet with modest success. In order to keep expenses to a minimum, a small shop may be operated from a garage or small commercial site. Inventory lines would be narrow, perhaps consisting of one or two bicycles from each of the four categories. A major portion of total revenues might be earned on bicycle maintenance and repair work. Independent bicycle shops in larger cities are usually operated from a separate structure, with adequate space nearby for parking pickup trucks or vans that might be used to transport the bicycles. Inventory lines would be broader and designed to appeal to the expected shoppers. Existing bicycle shops may be contacted to determine what services they offer and what they charge.

Marketing Plan

Before starting a bicycle shop, 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 local chambers of commerce, bank, accounting firms, local and state governments, the Illinois Department of Commerce and Community Affairs (DCCA), the U.S. Small Business Administration (SBA), colleges and universities (through business management programs or Small Business Development Centers), private consultants, and public libraries.

FRANCHISING

Franchising Opportunities

Few franchise opportunities exist for bicycle shops; however, a franchise offers 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 franchiser to build a viable and profitable business. The Source Book of Franchise Opportunities, by Robert E. Bond, is one of several books that list franchise opportunities, fees and investment requirements.

Franchising Costs

Some franchisors may require that an annual fee or percentage of sales be paid by the franchisee. Information on one franchise opportunity can be obtained from the Huffey Corporation, headquartered in Miamisburg, Ohio. This firm currently holds about 25 percent of the U.S. market.

COSTS/FINANCIAL CONSIDERATIONS

COSTS AND TYPES OF ASSETS NEEDED TO START THE BUSINESS

Initial Investment Considerations

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

Almost one-half of the independently operated bicycle shops are small corporations. The average total assets for these stores increased from about \$130,000 in 1985 to approximately \$137,000 by 1987, according to Dun & Bradstreet, Inc. Fifty-three percent of the assets, on average, is provided by owners equity, while close to 30 percent is from short-term debts. The other 15 to 16 percent is represented by longer-term debt. Many incorporated bicycle shops are operated from leased facilities, with fixed assets amounting to about one to 14 percent of total assets. Working capital amounts to close to 80 percent of total assets, with inventories usually running 58 to 60 percent of total assets.

Average Balance Sheet Data

The breakdown of assets, liabilities, and net worth for 1988/89 for a typical bicycle shop, according to Dun and Bradstreet, follows.

ASSETS		DEBTS AND NET WORTH	
Cash and near	11.5%	Accounts payable	14.0%

Accounts receivable	6.0	Bank loans	1.6
Notes receivable	0.4	Other notes payable	5.3
Inventories	58.5	Other current debts	11.6
Other current assets	2.3	Total current debts	32.5
Total current assets	78.7	Other long-term debts	14.2
Fixed tangible assets	12.7	Deferred credits	0.1
Other noncurrent assets	8.6	Net worth	53.2
Total assets	100.0%	Total debts/net worth	100.0%

"Near cash" refers to checking or savings accounts that may be liquidated easily to cash. "Other noncurrent assets" generally refers to intangible assets such as leaseholds or leasehold improvements. "Fixed assets" are a mixture of land and buildings, equipment, and delivery vehicles. "Accounts payable" are amounts owed to suppliers of inventories and equipment are amounts owed to suppliers of open market notes or equipment installment notes. "Other long-term debts" include both equipment and mortgage notes.

TYPICAL BUSINESS RATIOS FOR OTHER FIRMS IN THE INDUSTRY

The comparison of actual operations with typical, industry-wide ratios is frequently 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 data with industry averages to identify strengths and weaknesses.

According to Dun and Bradstreet, the median key financial ratios for bicycle shops, during the period 1988/89, were as follows:

Solvency Ratios

Quick ratio, cash plus accounts receivable/current liabilities) 0.9 to 1
 Current ratio (current assets/current liabilities) 2.4 to 1
 Total debts to net worth 90%

The quick ratio expresses the degree to which a company's current expenses are covered by the most liquid current assets (cash and customer payments due the company). Generally, larger ratios are preferable and any value of less than 1 to 1 implies a dependency on inventory' or other physical assets to liquidate short-term expenses. The current ratio is a rough indication of "cushion" between current obligations and a firm's ability to pay them from current assets. Total debt to net worth compares total liabilities in the form of debt with owner's 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)	12 days
Sales to inventory (net sales/inventory)	5 times
Assets to sales (total assets/annual net sales)	50%

The quality of the receivables (degree to which customers pay their bills on time) of a company can be determined through the collection period. When comparing the collection period of one concern with that of another or comparing against industry norm, allowances should be made for possible variations in selling terms. The sales to inventory relationship is a guide to the rapidity at which merchandise is being moved, which has a direct effect on the flow of funds into the business. The assets to sales ratio ties in sales and the total investment that is used to generate those sales. By comparing a company's assets to sales ratio with industry norms it can be determined whether a firm is overtrading (handling an excessive volume of sales in relation to investment) or undertrading (not generating sufficient sales to warrant the assets invested).

Profitability Ratios

Return on sales (profit after tax/annual net sales)	4-6%
Return on net worth (profit after taxes/net worth)	14-20%

Return on sales reveals the profits earned per dollar of sales and, therefore, measures the efficiency of the operation. This ratio is an indicator of the firm's ability to withstand adverse conditions such as 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 ten percent is regarded as a desirable objective for providing dividends plus funds for future growth.

MANAGEMENT CONSIDERATIONS

DEVELOPMENT AND SITE LOCATION

Location

Ideally, the bicycle shop should be located on a street or within a strip mall or regional mall with good traffic flows. One might be located on a bicycle trail that is heavily ridden by other bicyclists, expecting to sell supplies and on-the-spot repairs. Many bicycle shops are located in small, downtown shops and near a large walking crowd, such as close to a college or university

campus. Nearby parking is important, but many bicycle shop owners depend on metered parking within a block or two of their stores.

Other considerations in locating the business are health and safety requirements (Occupational Safety and Health Administration); the physical size of the operation; adequate storage space with proper ventilation and fire extinguishing systems in place; fire, electrical and safety codes; expected traffic patterns; and sign restrictions. Adequate parking for service vehicles and workers' and clients' cars is essential.

A major portion of the space in a bicycle shop is allocated to dozens of different models and colors of bicycles, often stacked at diagonal angles and suspended from floor-supported racks in order to conserve space. Additional space will need to be allocated to a small sales office and for assembling new bicycles or making repairs to others. An independent bicycle shop, with average sales of \$180,000, would stock about 40 bicycles. Extras of some of the more popular models are kept in cardboard boxes, but a significant amount of space is needed to effectively display the bicycles. Smaller bicycle shops that expect lower sales levels would require less space. Additional space in the rear of the store or at a nearby warehouse may be needed to store unopened crates of bicycles. Over-stocked shops sometimes offer modest discounts on uncrated bicycles. Most shops are well lit, with a large number of windows that show attractive displays of the bicycles and accessories.

Some space should be allotted to bicycle accessories, such as gloves, helmets, shoes, and bicycle safety equipment, as a biking enthusiast can spend about as much money on accessories as on the bicycle itself. Moreover, the markup is about 10 percent greater on the accessories than on the bicycles themselves.

Zoning

When selecting a location and a specific site for the business, consideration must be given to local zoning requirements. Many communities forbid, through zoning ordinances, the establishment of home-based businesses. It is essential to check these local restrictions prior to contracting to rent, lease or buy a property for the business.

EXPERIENCE AND TRAINING NEEDS

Management/Owner Training

Training for management should cover the "how to" of the business, including general management, marketing, financial, and accounting areas. Attention should be given to the philosophy of the

business (growth possibilities, avoiding legal and business risks) of the firm as well as to front office administration. Training in these areas can be obtained through appropriate college courses or by enrolling in self-employment training courses offered by colleges and community colleges.

The owner, or manager, of an independent shop must be more knowledgeable about the bicycle industry than a typical employee working in a department store or discount store. Some owners/managers are semiprofessional people in the sport of bicycling and choose this line of work because of continued interest in the sport.

Bicycle shop owners and managers need general management skills in buying and selling merchandise, record keeping, and the ability to relate well to employees and potential clients. The owner/manager is in a better position to promote sales if he/she is a biking enthusiast that stays abreast of cycling events, the state-of-the-art equipment, safety devices, and accessories.

Unless the owner is adept at assembling and repairing bicycles, he/she must hire someone who is trained in the area. The small bicycle shop that operates as a single proprietorship will frequently hire a knowledgeable part-time person to handle bicycle repairs.

Employee Training

The unincorporated firms are frequently operated on a part-time basis by someone who hires one or more part-time employees as sales clerks and/or to provide bicycle repairs. The repair person should be someone that has had bicycles for himself/herself and friends.

Approximately ten percent of the single proprietorships employ no additional help for the owner. Sixty percent employ from one to four employees, and another ten percent of them hire ten or more employees. A shop that operates as a single proprietorship will frequently hire a part-time person to handle bicycle repairs and assembly, while the selling and general management functions are performed by the owner.

Most bicycle manufacturers prepare instruction manuals for employees assembling various types of bicycles with suggestions for trouble-shooting or locating major problems. As in the automobile industry, some of the larger suppliers of bicycles will provide training on repair of their merchandise. This may be in the form of written instruction, video tapes, or regional training sessions for employees of brand dealers.

KEYS TO SUCCESSFUL MANAGEMENT

Markets

In order to be successful, the management of a bicycle shop must know its competition, have a vision as to the markets that it can cultivate, promote a helpful atmosphere for both clients and employees, and strive for profitable customer accounts.

Management of a bicycle shop 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 some other advantage. Effective labor and supplies cost controls should be followed by the owners and employees. The firm's operating objective should be to develop a good reputation in the industry for quality equipment and service at a fair price.

A successful bicycle store owner/manager must know the product lines and something about the buyers intended need of the equipment. Racers usually want light frames with a short wheelbase to provide maneuverability. They also like a high-bottom bracket for more speed. Casual bicyclists prefer low- to medium-priced, heavier frames, medium to long wheel bases, and more forward angle to the front wheel fork. They also usually prefer a lower bottom bracket for better balance. Serious bicyclists often want narrow seats with a fast gear adjustment lever. Equipment such as feet clips and straps, shoes, and gloves and helmets are bought by many cross-country bicyclists.

Advertising

Spot radio ads, newspaper ads, telephone directory yellow page listings, and direct contact (telephone or mailings) are some methods of advertising bicycle shops. Sponsoring or promoting bicycle races or children's bicycle parades for special occasions in the community are successful advertising vehicles.

Customer Relations

The development of satisfied clients requires that the salesperson take some time to fit the equipment to the needs of the user. This involves many, of the following points.

- 1) Know the current riding habits of the customer (e. street versus dirt roads and daytime versus nighttime riding).
- 2) Know the possible riding locations, like city or co roads or a riding course.

- 3) Know the approximate amount of funds that will be s for the bicycle and needed accessories. Quality for price should be stressed.
- 4) Encourage the purchase of bicycles with lower-gear ratios, especially for adults.
- 5) Be tolerant of window shoppers. The store manager owner should expect serious bicyclists to shop around.
- 6) Promote accessories; with a view toward providing s riding conditions for the cyclist.

Store owners should not mislead buyers or potential buyers. The manufacturer may have a limited product warranty for replacement of the bicycle or repair, at the manufacturers option, for a limited time period after sale. Some bicycle shops offer repair/service contracts for a fee to supplement any equipment warranties. Some stores service only the models they sell, thus avoiding the problems of having to find parts for odd brands of bicycles that frequently are bought at discount stores or mail order houses. Since store managers wish to promote good will and encourage repeat business, they should be aware of the rules-of-the-road for operating bicycles.

GENERAL START-UP ISSUES

FINANCING METHODS

The ability to raise initial capital is critical for business start-ups. According to a survey conducted by Western Illinois University, one-half of entrepreneurs reported- difficulties in obtaining financing, including both initial and working capital. The survey also found that entrepreneurs relied heavily on personal funds, in addition to investments from family and friends. In fact, the survey indicated that approximately one-half of initial funds came from these sources. On the average, bank loans accounted for nearly one-third of initial capital. Other private lenders, government agencies, venture capital and stock placements only rarely provided initial capital for businesses. About one-half of both goods and service-producing firms surveyed had applied to lending institutions for credit. Only five percent of goods-producing firms had been denied credit more than once, while approximately 18 percent of service-producing firms reported credit denials. The most frequent reasons for credit denial included lack of adequate collateral and a policy of not lendin

to the type of business applying for credit. Since obtaining credit is difficult, many entrepreneurs find it necessary to finance a business through a combination of sources of funds. Following are descriptions of several common types of financing.

Equity Sources

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

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

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

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

Debt Financing

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

Institutional Investors -- Banks, savings and loans, and commercial credit companies expect the small business owner to make a significant personal investment (equity) in the business prior to any lending activity. The lack of personal investment is viewed as a sign of greater risk and less commitment on the part of the owner. Smaller loans can sometimes be obtained through a

bank's consumer loan division. Security in the form of a second mortgage on the borrower's house or a lien on property such as an auto is usually required.

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

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

Public Sources

Public sources of funds include federal, state or local governments which may loan money to small or emerging businesses at relatively low rates of interest as a method to improve the economy. Public sources also generally take a second position on the collateral so that the bank has first claim to the assets if the loan defaults. Although public funds have their limitations, entrepreneurs should explore such funds. Most public sources of funds require 20 to 25 percent owner equity, additional private bank financing, and some guarantee that job creation will occur.

Federal Sources -- An example of a public source of funds is the U. S. Small Business Administration (SBA), which offers a variety of loan programs to eligible existing and start-up small businesses which cannot borrow on reasonable terms from conventional lenders without government assistance.

Local Revolving Funds -- Many communities in Illinois use available economic development funds to establish revolving loan pools to promote business and industrial growth.

State Loans -- The Illinois Department of Commerce and Community Affairs offers several important financing programs to help start-up businesses. Each of these should be considered, along with their associated requirements. For more information on financing programs, contact the Illinois Small Business Hotline at 1-800-252-2923.

FORM OF ORGANIZATION

There are three basic forms of business organization, each of which offers distinct advantages and disadvantages for a prospective business owner. The main 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 at 1-800-252-2923. For further information on Sales Tax regulations or the Illinois Retailers' Tax Booklet (NUC-19), contact the Department of Revenue at 217-782-2972 or 1-800-732-8866.

Real Estate Taxes

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

Withholding Taxes

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

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

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

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

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

BUSINESS SERVICES

Legal Counsel

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

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

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

Bookkeeping

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

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

Financial Statements -- Preparing periodic financial statements (balance sheet and profit and loss statement) and establishing systems that track accounts receivable and payments due.

These responsibilities may be undertaken from within or outside of the business, depending on the size and nature of the business and the owner's experience and available time. An accountant, attorney or banker can help determine a firm's needs for a bookkeeper or bookkeeping service.

Accounting

In addition to bookkeeping requirements, a need may arise for the services of a certified public accountant (CPA), an accountant who has passed a written examination prepared by the American Institute of Certified Public Accountants and who has received a state license for the public practice of accountancy. Most CPAs provide the following services:

Auditing -- Although a bookkeeper employed by the firm may maintain accounting records and prepare financial statements, banks and other lenders frequently require an independent audit prior to granting a loan and during the loan repayment period.

Tax Preparation--The tax services provided by CPAs include planning transaction for the lowest present and future tax liabilities, preparation of tax returns, conferences with taxing authorities who are examining prior years' tax returns and estate planning.

Consulting-- Some CPAs provide assistance in reducing costs, improving reports, installing or upgrading accounting systems, budgeting and forecasting, conducting financial analyses, controlling production, controlling quality, compensating personnel, and managing records.

The Independent Accountants Association of Illinois (IAAI), established in 1949, can refer a competent accountant to the potential Illinois small business person. Many of the IAAI accountants are "Enrolled Agents," licensed to represent a client before the IRS should the client's tax return be audited. For more information, write the Independent Accountants Association of Illinois, P.O. Box 1506, Galesburg, Illinois 61402, or call 309-342-5400.

Insurance Coverage

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

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

INFORMATION SOURCES

Several sources of information are useful for improving the level of profitability of a bicycle shop 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 this industry is given below.

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

In Illinois, many of the forms needed to start a business may be obtained from the Illinois Small Business Hotline, a program of the Illinois Department of Commerce and Community Affairs Small Business Assistance Bureau. State business forms, permit and license information, and general business information, such as the "Starting a Small Business In Illinois Handbook," are available from the Small Business Hotline at 1-800-252-2923.

BUSINESS DEVELOPMENT CENTER NETWORK

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

SMALL BUSINESS RESOURCE CENTER

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

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 listed above.

Several sources of information are useful for improving the level of profitability of a bicycle shop 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 is given below.

TRADE ASSOCIATIONS

American Association of Bicycle Importers. 234 Schuyler Avenue, Kearny, NJ 07032. 201-991-8200.

Bicycle Manufacturers Association of America. 1055 Thomas Jefferson Street, N.W., Suite 316, Washington, DC 20007. 202-333-4052.

Bicycle Promotion Organization. 1818 Street N.W., Washington, DC 20009. 202-332-6986.

Bicycle Wholesale Distribution Association. 1900 Arch Street, Philadelphia, PA 19102. 215-564-3484.

Cycle Parts and Accessories Association. John Auerbach, 122 East 42nd Street, New York, NY 10017. 212-697-6340.

International Bicycle Touring Society. 2115 Paseo Dorado, LaJolla, CA 92037. 619-459-8775.

National Bicycle Dealers Association. 129 Cabrillo Street, Suits 201, Costa Mesa, CA 92627. 714-722-6909.

National Independent Bicycle Repair Association. Cajon, CA 92020. 916-579-6246.

DIRECTORIES AND REFERENCE BOOKS

Bicycle Dealer Showcase -- Buyer's Guide Issue. Hester Communications, Inc., 1700 East Dyer Road, Suite 250, Santa Ana, CA 92705. 714-549-4834.

Bicycles and Bicycling A Guide to Information Sources. Schultz, Barbara and Mark, 1979 Gale Research Company, Book Tower, Detroit, MI 48226. 313-961-2242.

International Cycle Trade Directory. Freed-Crown Publishing Corporation, 6931 Van Nuys Boulevard, Van Nuys, CA 91405. 818-977-0644.

The Bicycling Book: Transportation, Recreation, Sport. Krausz, J., Krausz, V.R., and Harris, P., 1982, Dial Press, One Dag Hammarskjold Plaza, 245 East 47th Street, New York, NY 10017. 212-605-3000.

Popular Mechanics Book of Bikes and Bicycling Hearst Books, 224

West 57th Street, New York, NY 10019. 212-262-8605.

PERIODICALS

Bicycle Dealer Showcase. 1700 East Dyer Road, Santa Ana, CA 92705. 714-250-8060.

Bicycle Business Journal. 4915 West Freeway, P.O. Box 1570, Fort Worth, TX 76107. 817-870-0341.

Bicycling Magazine. 33 East Minor Street, Emmaus, PA 18049. 215-956-5171.

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, Executive Plaza, Room 315, Washington, D.C. 20233-0001. 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.

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.

Business Plan Outline. Illinois Department of Commerce and Community Affairs, Division of Program Development and Support, 620 East Adams, Springfield, Illinois 62704. 217-785-6193.

Business Financing Program. Illinois Department of Commerce & Community Affairs, Business Development Division, 620 East Adams, Third Floor, Springfield, Illinois 62704. 217-782-6861.

Small Business Information Bibliography. Illinois Department of Commerce & Community Affairs, Division of Program Development & Support, 620 East Adams, 5th Floor, Springfield, Illinois 62704. 217-785-6193.

IRS Statistics of Income, Government Printing Office Bookstore, 219 South Dearborn, Dirksen Federal Building, Room 1365, Chicago, IL 60604 312-353-5133 or Department of the Treasury, 111 Constitutional Avenue, Washington, DC 20224 202-566-2000.

Information Services Program for Census Statistical Inquiries, Department of Commerce, Bureau of the Census, 175 West Jackson Boulevard, Chicago, IL 60604 312-353-6251.

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

U.S. County Business Patterns, Department of Commerce, Bureau of the Census, 175 West Jackson Boulevard, Chicago, IL 60604 312-353-6251, or Government Printing Office Bookstore, 219 South Dearborn, Dirksen Federal Building, Room 1365, 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 217-782-3336. 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 Company, Book Tower, Detroit, MI 48226.

Directories and Reference Books - Directories in Print. Gale Research Company, Book Tower, Detroit, AU 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.