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BUILDING CLEANING AND MAINTENANCE SERVICES  
BUSINESS AND INDUSTRY PROFILE

published by the

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The statements, findings, conclusions, and recommendations are those of the author(s) and do not necessarily reflect the views of the department or the Economic Development Administration.

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BUILDING CLEANING AND MAINTENANCE SERVICES  
(SIC 7349)

GENERAL INDUSTRY INFORMATION

BUSINESS TYPE, INDUSTRY CHARACTERISTICS AND PROSPECTS

Nature of the Business

Building cleaning and maintenance services have been assigned the Standard Industrial Classification (SIC) Industry Number 7349. Individual building cleaning maintenance services usually

concentrate on either business maintenance or residential maintenance. A residential cleaning service usually works during the daylight hours, as opposed to a business cleaning and maintenance firm, which works during the evening or night hours, when most full-time workers are absent. Firms which are located in urban areas are more likely to specialize than those in rural areas.

Factors that affect the stability of firms in this industry include employee turnover (primarily because of burnout and low wages), rising insurance costs, fluctuating costs of supplies, availability of inexpensive labor, competition, and regulatory issues. Many start-up firms in this industry find it difficult to compete effectively with larger or more established firms. Since competition in this field is very fierce, profit margins can be minimal. In formal bids, such as municipal or state contracts, the lowest bid is sometimes accepted without serious regard to the quality of work or reputation of the selected firm. The competition on smaller jobs is often a self-employed individual who charges less because of the lack of business overhead expenses (such as rent and utilities). An owner of a building cleaning and maintenance service must diligently work to keep costs down and productivity up to ensure a profit for the company.

#### Industry Growth

The outlook for the industry is for continued growth, although it is likely to be higher in some geographical areas than in others.

According to a 1987 estimate by C. Pollard, the Vice President of ServiceMaster, revenue growth in retail and service company maintenance (including hospital care) is likely to progress by about 6 percent annually in the near term. Growth rates in revenues may exceed 20 percent annually for educational and residential establishments.

#### MARKET OPPORTUNITIES IN VARIOUS SIZED COMMUNITIES

##### Market Data

A city with a population of 20,000 is likely to have one or two business cleaning and maintenance firms. The same city could probably also support one or two residential cleaning services. New cleaning and maintenance firms should locate in cities with population and business growth rather than those with declining population bases. Residential cleaning firms should locate in areas with a base of dual income families and above average income households.

Market potential and demographic data (e.g. average household income, number of households, and number of businesses) may be

obtained from the local chamber of commerce, public library, or city and county governments. Existing building cleaning and maintenance services may be contacted to determine what services they offer and how their fee structure is organized.

### Marketing Plan

Before starting a building cleaning and maintenance service, the owner should develop a marketing plan. A marketing plan is basically a blueprint for outlining possible customers 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, banks, accounting firms, local and state governments, the Illinois Department of Commerce and Community Affairs (DCCA), the U.S. Small Business Administration (SBA), small business development centers (located at colleges and universities throughout the state), private consultants and public libraries.

### FRANCHISING

Franchise opportunities exist for building cleaning and maintenance services and offer an alternative to starting a business from scratch. Franchising allows entrepreneurs to use the mass buying power, training programs, specific territory, experience, and name recognition of the franchisor to build a viable and profitable business.

Most of the franchising firms provide training at their home offices for key officers of franchisee businesses. Video cassettes may be provided that illustrate correct techniques for performing maintenance and cleaning assignments. Ongoing training should also be provided, especially as new equipment or improved service products are acquired.

A number of franchising firms operate in the maid service and home cleaning or party servicing areas. Some may require that an annual fee or percentage of sales be paid by the franchisee. A representative list of these, including the franchise fee, capital requirements, and training provided in the late 1980s, are as follows:

## MAID SERVICE/HOME CLEAN/PARTY SERVICING

Name of Firm	Franchise Fee/Capital	Training
The Maids International	\$7,500/\$11,500	ongoing
Classy Maids USA	\$9,000/\$15,000	1 week
Maids-on-Call	\$9,500/\$15,000	3 weeks
Mini Maid Service	\$15,000/\$20,000	1 week
Domesticaide, Inc.	\$15,000/\$25,000	1 week
Merry Maids	\$15,000/\$30,000	1 week
ServiceMaster	wide range of fees	3 weeks
Servpro Industries	wide range of fees	1 month

## MAINTENANCE-CLEANING/SANITATION SERVICE/SUPPLIES

Name of Firm	Franchise Fee/Capital	Training
Chem-Mark International	\$18,000+	1 week
Clentech-Acoustic	\$19,700	ongoing
Value Line Maintenance	\$23,000+	1 week
Mr. Maintenance	\$2,000/\$25,000	2 weeks
Cooustic-Glo International	\$9,759/\$25,000	2-3 days
Wash on Wheels	\$7,495/\$30,495+	1 week
Jani-King, Inc.	\$10,000/\$16,500	ongoing
Lien Chemical	\$10,000/\$20,000	ongoing
Western Vinyl Repair	\$13,500/\$40,000	ongoing

## COSTS/FIINANCIAL CONSIDERATIONS

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

## Average Expenses

The Almanac of Business and Industrial Financial Ratios provides expense breakdowns for corporations representative of major SIC industry groups, using data published by the IRS. The following expenses, broken down as a percentage of revenues, were provided in 1988 for firms with under \$100,000 in assets and for those with assets ranging from \$100,000 to \$250,000.

EXPENSE ITEM	COMPANIES	COMPANIES
	WITH ASSETS OF UNDER \$100,000	WITH ASSETS OF \$100,000-\$250,000
Cost of operations	34.2%	35.0%
Compensation of officers	15.5	15.4
Repairs	0.4	0.5
Bad debts	0.5	0.2

Rent on business property	3.4	2.8
Taxes (excluding federal taxes)	3.4	3.7
Interest	0.8	1.1
Depreciation/amortization	2.6	3.3
Advertising	0.6	0.9
Pension/benefit	1.7	2.8
Other expenses	33.0	31.9
Net profit before taxes	3.9%	2.4%

An analysis of average costs for typical firms in an industry can be helpful in determining whether to start a new business.

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

Many articles are found in industry Literature describing people who started a small building cleaning and maintenance firm with only about \$2,000 to \$4,000 capital. Liabilities may stretch total commitment to assets to about two times level. For the average of these firms, however, there is roughly \$60,000 in equity (net worth) and perhaps two times this level in assets. According to statistics published by Dun and Bradstreet, Inc., the breakdown of assets, debts, and net worth for an average firm in SIC #7349 follows.

#### ASSETS

Cash and near cash	15.1%	Accounts payable	8.0%
Accounts receivable	30.4	Bank loans	1.4
Notes receivable	1.1	Other notes payable	5.5
Inventories	3.8	Other current debts	18.2
Other current assets	6.5	Total current debts	33.1
Total current assets	57.9	Other long-term debts	14.6
Fixed assets	25.1	Deferred credits	0.2
Other noncurrent assets	17.0	Net worth	52.1
Total assets	100.0%	Total debts/Net worth	100.0%

"Near cash" refers to checking or savings accounts that may be liquidated easily. "Other noncurrent assets" generally refers to intangible assets such as leaseholds or leasehold improvements.

"Fixed assets" are a mixture of land and buildings, equipment and vehicles. "Accounts payable" are amounts owed to suppliers of inventories and equipment. "Loans" are amounts owed to suppliers of open market notes or equipment installment notes. "Other long-term debts" include both equipment and mortgage notes.

A review of this data shows that a building cleaning and maintenance service usually commits nearly a third of its total assets to

accounts receivable, primarily because monthly billing for services is customary in the industry. Fixed assets account for 25 percent of total assets, with most of this invested in cleaning equipment and vehicles. Miscellaneous other noncurrent assets are predominantly for leases or leasehold improvements. Most types of building maintenance service firms invest from five percent to ten percent of each revenue dollar into materials and supplies; thus, the inventory figure is low.

This type of firm may use trade credit to purchase supplies, but does not use bank credit frequency for short-term needs. Wages payable and payroll taxes payable, which are included in "other current debts," usually constitute the largest source of short-term credit for this type of firm. The long-term debts may include building mortgages and loans for equipment and vehicles, as well as a start up loan. Commitment to fixed assets is relatively small in this type of business, and the tax code permits an enterprise to classify up to \$10,000 in long-term assets acquired each year as expenses; therefore, little depreciation is taken.

#### Revenues and Profitability

A typical building cleaning and maintenance firm, with assets of \$100,000 and net worth of between \$50,000 and \$60,000 should generate annual revenues of roughly \$375,000. A breakdown of average revenues into dollars and percentages for the average firm in SIC #7349 during recent years, according to Dun and Bradstreet, is shown below.

ITEM	DOLLARS	PERCENT
Sales/revenues	\$375,000	100.0%
Gross profits	\$144,375	38.5%
Net profit after taxes	\$26,250	7.0%

A building cleaning and maintenance firm's assets are small in total compared to total revenues. Expense control is very important to such a venture. When minimum wages rise, the firm must adequately adjust its maintenance contract fees to offset rising wage costs. As a result, maintenance prices are often bid for periods of six months or one year.

In this type of labor-intensive business, one formula for determining contract bid estimates is to determine the amount of direct labor involved (workers, crew chiefs, and related payroll taxes), double it, and bid that amount on the contract. Adjustments to this formula may need to be made in more rural areas and in locations where a high degree of competition exists. Expenses will usually be covered and leave between five and eight percent as profit. Except for management's salaries, depreciation, rent and utilities, other expenses in the firm are largely variable.

## TYPICAL BUSINESS RATIOS FOR OTHER FIRMS IN THE INDUSTRY

The comparison of actual operations with typical, industry-wide ratios can be helpful in making decisions concerning service charges, budgeting and realistic profit expectations. These ratios are also helpful in preparing projected financial statements (cash flow projections, income statements, and balance sheets) for loan purposes.

According to Dun and Bradstreet, the median key financial ratios for building cleaning and maintenance service firms, during recent years, were as follows.

## Solvency Ratios

## Quick ratio

(cash plus accounts receivable/current liabilities)	1.5 to 1
Current ratio (current assets/current liabilities)	1.8 to 1
Total debt to net worth	

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)	35.4 days
Sales to inventory (net sales/inventory)	70 times
Assets to sales (total assets/annual net sales)	27.5%

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

## Profitability Ratios

Return on sales (profit after tax/annual net sales)	7.0%
Return on net worth (profit after taxes/net worth)	28.2%

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

## MANAGEMENT CONSIDERATIONS

### DEVELOPMENT AND SITE LOCATION

#### Location

The location of a building cleaning and maintenance service's headquarters is not of primary concern because clients are usually contacted on their premises. If possible, the business should be located in an area of the community which optimizes transit time to the majority of the clients' locations. An office should be large enough to accommodate office staff and small meetings. Space for storing supplies and equipment is essential, a dressing room and bathroom should be provided for workers, and a lounge area is desirable if space allows. In addition, several satellite locations for storing additional pieces of equipment and supplies may prove useful if the firm will be servicing a wide geographic area.

#### Zoning

When selecting a location and a specific site for the business, consideration must be given to local zoning requirements. Some communities forbid, through zoning ordinances, the establishment of home-based businesses or the storage of noxious or hazardous chemicals. A building cleaning and maintenance firm would stock cleaning solvents containing these types of materials as a matter of course. Therefore, it is essential to check the local zoning ordinances prior to contracting to rent, lease, or buy a store front property or to operating out of a residence to avoid such zoning problems.

#### Health and Safety Considerations

Health and safety requirements, many of which are mandated by the Occupational Safety and Health Administration (OSHA), are also important factors in the location of the business. Health and

safety issues to consider include proper ventilation and fire extinguishing systems, as well as the use of hazardous materials.

#### EXPERIENCE AND TRAINING NEEDS

##### Management/Owner Training

The owner or manager of a building cleaning and maintenance service should have experience in this line of work, be aware of training materials available in written or video form, and be sales oriented in nature. The owner or manager should also try to keep abreast of changes in techniques or equipment in the industry and schedule training for other staff when appropriate. In addition, since the use of personal computers in accounting and expense tracking has grown in importance during recent years, computer training for management staff has become increasingly essential.

##### Employee Training

Crew chiefs and workers should also receive training. Initial training should involve reading instructional packets, viewing video cassette tapes, and receiving on-the-job training alongside an experienced employee. Continuous training could be offered in monthly meetings, especially when new products and equipment are introduced.

Workers' potential should be developed to the fullest, meaning that hourly-paid employees should be encouraged to continue their formal and on-the-job education. It should be possible for employees to climb the ranks of the business to middle- or top-level management, to operate satellite centers, or to form a franchised firm or their own, should the business continue to grow and prosper. The opportunity to move up in the business, to undertake different and more challenging jobs and to make decisions usually leads to less employee burnout and turnover.

#### KEYS TO SUCCESSFUL MANAGEMENT

##### Markets

In order to be successful, the management of a building cleaning and maintenance service must know its competition, have a vision as to the markets that it can cultivate, promote a helpful atmosphere for both clients and workers, and strive for only profitable accounts. Management of a building cleaning and maintenance service 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 office staff and the field crew. The firm's operating objective should be to

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

Due to intense competition in this industry, owners or managers of building cleaning and maintenance services have to be aggressive in marketing their services to potential clients. In addition, the firm should have diversified accounts, as well as several large contracts, in order to be profitable and not be unduly susceptible to sales declines during a recession. A well-balanced client list may include contracts for cleaning local schools, government buildings, hospitals, several office buildings, and a few manufacturing facilities. Contacting local real estate firms, owners and managers of rental and individuals who are selling their own homes are ways of adding view clients for periodic cleaning services such as carpet shampooing, drapery cleaning, and window cleaning.

#### Advertising

Spot radio ads, newspaper ads, telephone directory yellow pages listings, and direct contact (telephone or mailings) are the usual methods of advertising building cleaning and maintenance services. Service vans often bear company logos and a brief listing of services offered on their sides, along with a business telephone number. Billboards are used by some firms in the industry.

#### Crew Size/Logistics

Business maintenance contracts are intended to replace on-site, full-time building maintenance staff and may include a mixture of accounts, such as: industrial plants, offices within industrial plants, service offices, schools, hospitals, and retail trade firms. A crew of three or four people, after hours, is probably less costly than employing two people on an eight hour day. Moreover, the maintenance crew does not interrupt the daily routine of the business because they clean after regular business hours.

For residential cleaning, a crew of three people is capable of cleaning several homes in a given neighborhood in a working day, devoting from one to two hours to each residence. One supervisor with a van may drop off, supervise, and relocate three or four crews of laborers. Duties assigned to the working crew should be made so that team members complete their assigned tasks about the same time. In order to minimize transit time and transportation costs, a city might be divided into districts with each covered only on certain days of the week.

#### Organization

A well-run firm should have a clearly defined organizational

structure with key personnel to work in the areas of management, marketing accounting and finance. In a small business, the responsibility for most of these roles ultimately rests with the owner or manager of the firm.

#### Customer Relations

All employees in a building cleaning and maintenance service should be courteous to the clients. Outside of qualifications, this is the most critical issue for any business. If a firm is unable to maintain a friendly, courteous relationship with its customers, it will not be successful.

#### Employee Relations

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

### GENERAL START-UP ISSUES

#### FINANCING METHODS

The ability to raise initial capital is critical for business start-ups. According to a survey conducted by Western Illinois University, one-half of entrepreneurs reported difficulties in obtaining financing, including both initial and working capital. The survey also found that entrepreneurs relied heavily on personal funds, in addition to investments from family and friends. In fact, the survey indicated that approximately one-half of initial funds came from these sources. On the average, bank loans accounted for nearly one-third of initial capital. Other private lenders, government agencies, venture capital and stock placements only rarely provided initial capital for businesses.

About one-half of both goods and service-producing firms surveyed had applied to lending institutions for credit. Only 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.

#### Public Sources

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

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

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

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

#### FORM OF ORGANIZATION

There are three basic forms of business organization, each of which offers distinct advantages and disadvantages for a prospective business owner. The main considerations in selecting a form of organization include:

- Cost and complexity of formation;
- Tax and securities law implications;
- Need for attracting additional capital;
- Investors' liability for debt and taxes; and

- The goals and purpose of the enterprise.

Each of these should be thoroughly discussed with an attorney and an accountant prior to selecting one of the following forms of business.

**Sole Proprietorship** -- A sole proprietorship is owned and operated by an individual. Advantages of this form of organization include ease of formation and relative freedom from government controls and restrictions. Disadvantages include less access to capital and financial resources. Also, this form of business organization provides less protection with regard to personal liability. For instance, the owner may be required to sell personal property, including home, car, etc., to repay debts resulting from the business.

**Partnership** -- Generally, a partnership is defined as two or more individuals carrying on an association as co-owners of a business for profit. Typical partnership agreements are in writing and are prepared by an attorney. The agreement defines how much owner equity each partner must contribute, the extent to which each partner will work in the company and the share of the profits or losses to be received by each of them. It is desirable to have the agreement prepared by an attorney. As with sole proprietorship, a general partnership exposes the owners to personal liability. If the business is not successful and the partnership cannot pay all it owes, the general partners may be required to do so using their personal assets. Limited partners are exposed only to the extent of their investment in the partnership.

**Corporation** -- A corporation is a distinct legal entity and is the most complex form of organization. A corporation may sell shares of stock, which are certificates indicating ownership, to as many people as is desirable. The shareholders then elect a board of directors, which selects a president and other officers who run the company on a day-to-day basis. Among the advantages of corporate formation are limited liability of the shareholder and ease of transferring ownership. Electing S Corporation status is another option when starting a business. In general, an S Corporation does not pay a tax on its income. Instead, the income and expenses of the corporation are divided among its shareholders, who then report this data on their own income tax returns. To qualify for S Corporation status, a corporation must meet several requirements, one of which limits the number of shareholders to 35. All shareholders must also consent to the S Corporation status.

For further information regarding S Corporations, contact the Internal Revenue Service (IRS) at 1-800-424-1040 or request a copy of Publication 589, Tax Information on S Corporations, by calling 1-800-424-3676.

## LICENSING / REGISTRATION

Assumed Names Act -- Once a decision has been made regarding the form of organization for the business, it must be registered to legally conduct business in Illinois. Under the Illinois Assumed Name Act, sole proprietorships and partnerships must register with the county clerk if the name of the business will operate under a name other than the owner's full legal name (e.g., "John Doe" would not need to file; "John Doe's Cleaners" would). Limited partnerships and corporations are required to register with the Illinois Secretary of State's Office. More detailed information on business registration is contained in the "Starting a Small Business in Illinois" handbook, which can be obtained by contacting the Department of Commerce and Community Affairs' Small Business Hotline at 1-800-252-2923.

Certificate of Registration -- Most businesses must register with the appropriate state agency to submit tax or informational returns or to collect and remit sales taxes. In Illinois, business owners must contact the Department of Revenue to determine if an Illinois Business Taxpayer Certificate of Registration (Business Tax Number) is required for the business. Contact the Department of Revenue at either of the addresses listed under information Sources.

Unemployment Insurance Liability -- Businesses that hire employees may be required to make unemployment insurance contributions to the state. Liability is determined by the Illinois Department of Employment Security (DES). The form, "Report to Determine Liability", and instructions for completion are available through the Small Business Hotline or by contacting either of the DES offices listed under Information Sources.

Local Regulations -- Most local jurisdictions require that business operation licenses be applied for and renewed annually. Where crowds of people are in attendance, fire codes concerning rest rooms and fire exits are in effect. Fire and safety inspections may be made periodically by the local fire and safety inspector. Contact the city or county clerk for information on licensing, inspections, sign restrictions, and other local regulations.

Federal Employer Identification Number (FEIN) -- Every partnership, corporation and S Corporation must have a FEIN to use as its taxpayer identification number. A sole proprietorship must also have a FEIN, if it pays wages to one or more employees or files any excise tax returns, including those for alcohol, tobacco or firearms. (Otherwise, a sole proprietor can use his or her social security number as a business taxpayer identification number.) To apply for a FEIN, use form SS-4, Application for Federal Employer Identification Number. To receive a FEIN application contact the

Internal Revenue Service (IRS) Hotline at 1-800-424-3676. The application is also included in the One Stop Business Start-Up Kit and can be obtained by calling the Illinois Small Business Hotline at 1-800-252-2923.

## 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. (A single person with a house cleaning business, for example, would keep only a record of receipts and expenses so that a Schedule C to the IRS 1040 long form could be filed annually.) 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 country tax collector in the year following assessment.

#### Withholding Taxes

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

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

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

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

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

#### BUSINESS SERVICES

##### Legal Counsel

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

Attorneys also can provide professional help when dealing with other parties such as financial institutions, owners of possible business location, 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 transactions for the lowest present and future tax liabilities, preparation of tax returns, conferences with taxing authorities who are examining prior years' tax returns and estate planning.

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

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

### Insurance Coverage

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

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

### INFORMATION SOURCES

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

### SMALL BUSINESS HOTLINE

In Illinois, many of the forms needed to start a business may be obtained from the Illinois Small Business Hotline, a program of the Illinois Department of Commerce and Community Affairs' Small Business Assistance Bureau. State business forms, permit and license information, and general business information, such as the "Starting a Small Business in Illinois Handbook", are available from the Small Business Hotline 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 building cleaning and maintenance services firm or for learning more about this type of operation. These include trade associations, reference books and directories, periodicals, ratio studies, investment services, and government assistance. A list of these for the building cleaning and maintenance services industry is given below.

## TRADE ASSOCIATIONS

Association of Cleaning Technicians. In care of: Lovin' Kare Carpet, Victory Bridge Plaza, South Amboy, NJ 08879. 800-228-0238.

International Building Service Contractors Association. 3435 Haines Way, Falls Church, VA 22041. 703-931-1000.

International Maintenance Institute. P.O. Box 266695, Houston, TX 77207. 713-481-0869.

## DIRECTORIES AND REFERENCE BOOKS

Complete Handbook of Maintenance Management. Heinzelman, J., 1976, Prentice-Hall, Inc., Englewood Cliffs, NJ 07632. 201-592-2000.

Maintenance Engineering Handbook. Morrow, L.C., 1977, McGraw-Hill Book Company, 1221 Avenue of the Americas, New York, NY 10020. 212-512-2000.

Maintenance Supplies Buyers Guide Issue. MacNair-Dorland Company,

101 West 31st Street, New York, NY 10001. 212-643-0430.

Sanitary Maintenance Annual Buyers' Guide. Trade Press Publishing Company, 2100 West Florist Avenue, Milwaukee, WI 53209. 414-228-7701.

#### PERIODICALS

Building Operating Management, Sanitary Maintenance. Trade Press Publishing Co., P.O. Box 694, Milwaukee, WI 53201. 414-228-7701.

Cleanfax. 1566 West First Avenue, Columbus, OH 43212. 614-486-5334.

Industrial Maintenance and Plant Operation. Chilton Company, One Clinton Way, Radnor, PA 19089. 215-964-4701.

Maintenance Supplies, Building Service Contractor. MacNair-Dorland Company, 101 West 31st Street, New York, NY 10001. 212-643-0430.

Plant Service. Putnam Publishing Co., 301 East Erie Street, Chicago, IL 60611. 312-644-2020.

#### 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 217-782-3336. 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 publication by category:

- Trade Associations -- Encyclopedia of Associations. Gale Research Company, Book Tower, Detroit, MI 48226.
- Directories 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.