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COMPUTER MAINTENANCE AND REPAIR FIRMS

BUSINESS AND INDUSTRY PROFILE

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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 is not a legal document and should not be used exclusively to determine legal liability.

COMPUTER MAINTENANCE AND REPAIR FIRMS  
(SIC 7378)

GENERAL INDUSTRY INFORMATION

BUSINESS TYPE, INDUSTRY CHARACTERISTICS AND PROSPECTS

Nature of the Industry

Computer Maintenance and Repair firms have been assigned the Standard Industrial Classification (SIC) Number 7378. SIC group 7378 includes computer service companies such as computer rental and leasing services, computer consultants, data base developers and disk conversion services.

In 1987, the U.S. Department of Commerce estimated that approximately 3693 computer maintenance and repair services were in operation. These firms employed 53,280 people, and had a payroll of approximately \$1.7 billion with an average salary of about \$32,000 per employee. About 100 of the firms had annual revenues of more than \$1 million and had been in operation for 25 years or more.

Nature of the Business

Competition in this industry is strong since computer repair and maintenance services are performed by several different types of firms including: computer manufacturers (who usually earn about 10 to 20 percent of their total revenues from the sale of maintenance contracts on their equipment), computer owners (maintaining all or a portion of their own equipment) and third-party maintenance firms (performing computer maintenance and repair activities). This profile is directed primarily toward small computer maintenance and repair firms.

IBM, Digital Equipment Company, Sperry, Burroughs, Control Data Corporation and Honeywell are the primary manufacturers of mainframe computer equipment and peripherals. This equipment is usually sold with a warranty of 90 days or longer, with maintenance contracts available for an annual cost of about three to seven percent of the purchase price. The lower-priced equipment sometimes has an increased maintenance cost due to lower quality components, which require more frequent repairs. Although some businesses have turned to used-equipment suppliers for refurbished equipment due to the high-cost of repeated repairs, the computer maintenance and repair sector has experienced a great deal of growth in the last decade.

## Competition

In 1987, IBM developed a computer service agreement (CSA) that provided savings of about 33 to 35 percent on three or five-year contracts as compared to charges under one-year service contracts. These contracts were attacked by other companies, and repair charges declined more into line with those made by independent firms. Yet, some of the larger third-party maintenance firms continue to claim to save clients from 15 to 30 percent on repair costs in comparison with vendors and equipment manufacturers, in addition to servicing more than one brand of equipment, as is usually the case with manufacturers' repair services. Some of the largest computer maintenance firms include the following: Sorbus (Frazer, PA), TRW Inc. (Fairfield, NJ) and Control Data Engineering Service (Minneapolis, MN).

Rather than purchase a service contract on computer equipment (or have the work done on a fee basis as needed) , some users maintain an in-house computer repair staff. Typical firms which perform their own work include computer equipment vendors, engineering firms, and those that provide on-line computer services to others (such as banks or other financial institutions), most of which require a rapid response for repairs.

The cost of repairs, the willingness to service non-vendor brands of peripheral equipment, the speed and quality of service are the most important issues facing computer maintenance and repair firms. While independent maintenance firms customarily charge less per hour than manufacturers' repair services, it may be difficult for them to obtain repair manuals and spare parts on new generations of equipment. However, companies claiming restraint of trade in obtaining repair manuals and spare parts from manufacturers formed the National Computer Service Network in 1985 to help obtain spare parts and repair manuals and to monitor lawsuits against computer equipment manufacturers for refusal to provide such data on a timely basis. As a result, this situation is beginning to improve.

## Growth Potential

From 1983 - 1988, it is estimated that the \$14 billion computer repair industry doubled. Many of these firms are small multi-service shops that repair small computers, stock parts for the most popular brands, and sell supplies such as paper, ribbons and disks. It is this type of computer maintenance and repair firm that is likely to proliferate during the next few years.

MARKET OPPORTUNITIES IN VARIOUS SIZED COMMUNITIES

## Marketing Plan

Before starting a computer maintenance and repair firm, 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 business 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, state government agencies such as the Illinois Department of Commerce and Community Affairs (DCCA), the U.S. Small Business Administration (SBA) or Small Business Development Centers located at colleges and universities throughout the state

## Market Data

Nationally, one computer maintenance and repair firm operated in 1987 for each 15, 000 people. One firm might be able to serve clients within 10 to 20 miles of the office in more rural areas. Therefore, the geographical distinction of potential clients should be considered in the location of the business.

A computer maintenance and repair firm might be established in order to serve one or a few large clients and gradually broaden its service base to include other customers. Potential clients in the government or federal sectors might provide sufficient revenues to justify the start-up of a computer maintenance firm. The provision of good, timely repair service, at a fair price, would attract other clients as well.

Some computer maintenance firms maintain spare component parts for the items they service and simply replace deficient parts at the site of their customers' computer. This speeds up service and permits the maintenance firms to work on the deficient components at their own business. The diagnostic tests built into personal computers will often pinpoint the area(s) of deficiency, allowing for quick replacement of parts.

Market potential and demographic data (e.g., average household income, number of households and number of businesses) may be obtained by contacting the local chamber of commerce, from the public library or from city and county governments. Existing computer maintenance and repair firms might also be contacted to

determine what services they offer and what they charge.

## COST/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 for wages, six months of working capital, unforeseen expenses, supplies and equipment inventories, insurance coverage and building remodeling or improvements.

#### Average Expenses

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

EXPENSE ITEMS	COMPANIES WITH ASSETS OF UNDER \$100,000	COMPANIES WITH ASSETS OF UNDER \$100,000 - \$250,000
Cost of operations	31.5%	40.6%
Compensation of officers	14.6	11.9
Repairs	0.6	0.5
Bad debts	0.1	0.1
Rent on business property	3.4	2.9
Taxes (exc. Federal taxes)	3.4	3.9
Interest	0.7	0.9
Depreciation/amortization	2.7	2.8
Advertising	0.7	0.8
Pension/benefit plans	1.9	2.1
Other expenses	36.5	29.7
Net profit before taxes	3.9%	3.8%

The largest categories of expense for these groups of computer maintenance and repair firms are for cost of operations (primarily parts and supplies), employees wages and payroll taxes, and compensation of officers. Rent tends to be a slightly higher ratio of revenue for the smaller firms, mainly because larger companies tend to build or buy their own facilities as they expand and become successful.

#### Average Balance Sheet Data

The total assets for an average computer maintenance and repair

firm, as shown in the chart below, average \$143,000, with 54% of this supplied by net worth. The balance comes from short-term payables and long-term debt in a ratio of about 2:1. The other non-current assets would largely be for intangibles such as leases and leasehold improvements. An average establishment has approximately \$500,000 in annual revenues, with \$140,000 in assets, and \$75,000 to \$80,000 in net worth.

ASSETS	DEBTS AND NET WORTH		
Cash or near cash	18%	Accounts payable	8%
Accounts receivable	28	Bank loans	7
Notes receivable	1	Other current debts	17
Inventory	10	Total current debts	32
Other current assets	6	Long-term debt	13
Total current assets	63	Deferred credits	1
Fixed assets	22	Net worth	54
Other non-current assets	15	Debts and net worth	100%
Total assets, percentage	100%		
Total assets, value	\$143,000		

Source: Dun & Bradstreet, Inc.

"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, cleaning equipment, and delivery 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 notes" include both equipment and mortgage notes.

#### TYPICAL BUSINESS RATIOS FOR OTHER FIRMS IN THE INDUSTRY

The comparison of actual operations with typical, industry-wide ratios can be helpful in making decisions concerning service charges, expenses 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.

#### Key Financial Ratios

According to Dun and Bradstreet, the median key financial ratios for computer maintenance and repair firms, published in 1989, were as follows:

#### SOLVENCY RATIOS

Quick ratio (cash+accounts receivable/current liabilities)	1.5 to 1
Current ratio (current assets/current liabilities)	2.0 to 1
Total debts to net worth	74%

The quick ratio expresses the degree to which a company's current obligation (expenses) are covered by the most liquid current assets, i.e., 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. The effect of short-term and long-term (funded) debt on a business can be determined by comparing Total Debts to Net Worth. In general, total liabilities in the form of debt should not exceed net worth (100 percent) since in such cases creditors have more at stake than owners.

#### EFFICIENCY RATIOS

Collection period (accounts receivable/sales x 365)	38 days
Sales to inventory (net sales/inventory)	18 times
Assets to sales (total assets/annual net sales)	36%

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 ratio varies widely between different lines of business and a company's figure is only meaningful when compared with industry norms. The assets-to-sales ratio ties in sales and the total investment that is used to generate those sales. By comparing a company's 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)	8%
Return on net worth (profit after taxes/net worth)	28%

Return on sales (profit margin) 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 10 percent is regarded as a desirable objective for providing dividends plus funds for future growth.

## MANAGEMENT CONSIDERATIONS

### DEVELOPMENT AND SITE LOCATION

#### Zoning Considerations

When selecting a location for the business, consideration must be given to local zoning requirements and other land use considerations. For instance, 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.

Other considerations in locating the business are health and safety requirements, expected traffic patterns, sign restrictions and adequate parking for service vehicles, workers' and clients' cars. Contact the city or county clerk for information on licensing, zoning, inspections, sign restrictions and other local regulations.

#### Site Considerations

The bulk of computer maintenance work is performed on-site, so an elaborate business facility is not necessary, but an adequate inventory of parts is essential. Equipment that cannot be repaired on-site is often removed and repaired at the computer maintenance firm. Occasionally, depending on the relationship with the client, a computer repair firm may lend or lease a replacement component to the client until the defective unit may be repaired.

Computer maintenance and repair firms should locate near several large potential clients, such as commercial or industrial companies. Firms that have retail sales should consider locating in areas near other businesses that supply equipment, supplies, and services to businesses and individuals. More than half operate out of leased facilities to reduce overhead expenses.

### EXPERIENCE AND TRAINING NEEDS

## Management Training

A large percentage of the owners and managers of computer maintenance firms are former salespeople or repair people for one or more of the major equipment manufacturers. They may have become tired of the travel required by their original employer and saw the opportunity to start a business. Others may have been trained in college or university electronic maintenance or engineering programs, and after several years of formal training and maintenance experience, established their own repair shop.

Training for management should cover the "how to's" of the business, including general management, marketing, finance and accounting. Attention should also be given to the philosophy of the business (e.g., growth possibilities, avoiding legal and business risks).

## Employee Training

Some employees may already possess computer repair skills and knowledge from previous experience, training or education. Employee training will vary depending on the employee's function (i.e., sales, cashier, parts repair). Although it has become very time consuming to stay abreast of the rapid developments in the computer industry, trade journals, associations, conferences, workshops and continuing education courses are several ways to keep employees up-to-date with current technology, supplies, repair and maintenance techniques.

### KEYS TO SUCCESSFUL MANAGEMENT

In order to have a good chance for success, a computer repair firm should consider establishing the following policies.

## Markets

In order to be successful, the management of a computer maintenance and repair firm must know its competition, have a vision as to the markets that it can cultivate, promote a helpful atmosphere for both clients and employees, strive for profitable accounts and gain knowledge about the financial recordings of all the business transactions.

Management 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 an established price or other advantage. Effective labor and supplies cost controls should be followed by the owners and employees. The firm's operating objective should be developed to gain a good reputation in the industry for quality work at a fair price.

As the business matures, other markets for the firm might be pursued, such as purchasing and refurbishing used computer equipment for resale.

#### Management

Compete effectively on price (i.e., offer lower prices than those charged by equipment manufacturers) and provide friendly, quality service on a timely basis.

Stock an adequate inventory of spare parts, especially those needed most often by customers. An inventory--system that shows parts on hand would be helpful in maintaining an adequate, though not excessive, inventory.

Obtain parts lists and repair documentation from equipment manufacturers as soon as possible. Repair people should receive early training on new repair procedures.

There will be certain periods of time when management personnel will have to be away from the office. A second line of command should be established prior to any vacancies of upper management. Whatever the procedure may be, train the employee well in advance of any known leave of absence.

#### Advertising

Advertise in newspapers and leading computer and electronics magazines (where appropriate) as a business that services a variety of equipment.

Use spot radio newspaper ads, telephone directory yellow pages listings, direct mail and telemarketing techniques.

Service vans should bear the company logo and a brief listing of services offered on their sides, along with a business telephone number. In addition, billboards are used by some firms in the industry.

#### Service

Develop service contracts for large clients. These contracts may be made more attractive by offering quicker turnaround, as opposed to clients which are not covered by service contracts. Walk-in repairs can be performed during "lag" times between major projects. Based on the availability of spare parts, the firm should strive for a one-week turnaround.

## 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.

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

Factoring Companies -- Another mechanism for assisting business owners is improving cash flow through factoring, or the sale of their accounts receivable. Factoring companies purchase accounts receivable from business owners. The business owner generally pays the factoring company a fee or percentage of the invoice (based on the strength of the receivable) for the transaction as well as

interest costs of borrowing money, but can obtain cash without waiting the normal 60 to 90 days for payments

## Public Sources

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

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

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

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

## FORM OF ORGANIZATION

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

- Cost and complexity of formation;
- Tax and securities law implications;
- Need for attracting additional capital;
- Investors' liability for debt and taxes; and
- The goals and purpose of the enterprise.

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

Sole Proprietorship -- A sole proprietorship is owned and

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

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

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

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

#### LICENSING/REGISTRATION

Assumed Names Act -- Once a decision has been made regarding the form of organization-for the business, it must be registered to

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

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

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

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

Federal Employer identification Number (FEIN) -- Every Partnership, corporation and S Corporation must have a FEIN to use as its taxpayer identification number. A sole proprietorship must also have a FEIN, if it pays wages to one or more employees or files any excise tax returns, including those for alcohol tobacco or firearms. (Otherwise, a sole proprietor can use his or her social security number as a business taxpayer identification number.) To apply for a FEIN, use form SS-4, Application for Federal Employer Identification Number. To receive a FEIN application contact the IRS Hotline at 1-800-424-3676. The application is also included in the One Stop Business Start-Up Kit and can be obtained by calling the Illinois Small Business Hotline at 1-800-252-2923.

TAXES

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

### Business Taxation

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

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

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

### Sales Taxes

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

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

### Real Estate Taxes

All for-profit real estate owners are required to pay property taxes. The property tax rate is determined by local taxing

districts and taxes are paid to the township or county tax collector in the year following assessment.

#### Withholding Taxes

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

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

State Withholding -- To register with the State of Illinois, contact the Illinois Department of Revenue Hotline at 1-800-782-3366 or write to the department at:

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

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

#### BUSINESS SERVICES

##### Legal Counsel

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

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

There are several methods for selecting an attorney. An initial course of action might be to seek recommendations from other business owners. Another method of finding an attorney is to contact the Illinois State Bar Association Lawyer Referral Service at 1-800-252-8916. The Martindale-Hubbel Law Directory may also be helpful. It contains a listing and rating of attorneys in your

city; a copy may be found at the local library. The public library is also a source for reference books on legal topics. One such book is Small Business Legal Advisor by William A. Hancock, published by McGraw-Hill.

### Bookkeeping

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

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

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

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

### Accounting

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

### Insurance Coverage

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

As with most businesses, adequate insurance coverage is strongly recommended for real property, for liability insurance on vehicles, for workers' compensation (which is required in Illinois), and for fire. 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 computer maintenance and repair 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 (1-800-252-2923), 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", also are available from the Small Business Hotline.

#### 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.

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

Several sources of information are useful for improving the level of profitability of a computer maintenance and repair 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 this industry is given below.

#### TRADE ASSOCIATIONS

American Federation of Information Processing Societies. 210 Summit Avenue, Montvale, New Jersey 07645.

Association for Computing Machinery. 1133 Avenue of the Americas, New York, New York 10036.

Institute of Electrical and Electronics Engineers. 345 East 47th Street, New York, New York 10017.

#### DIRECTORIES AND REFERENCE BOOKS

Business Computers: How to Select Hardware, Software and Service. Brandon, D.H. and Siegelstein, S., 1980, Broadroom Books, 500 Fifth Avenue, New York, New York 10036.

A Dictionary of Mini and Micro Computing. Van Nostrand Reinhold Company, 135 West 50th Street, New York, New York 10016.

The Effective EDP Manager. Frank, Michael R., 1981, Amacom, 1-35 West 50th Street, New York, New York 10036.

Management Guide to Computer Security and Control. John Wiley and Sons, Inc., 605 Third Avenue, New York, New York 10016.

#### PERIODICALS

ACM Computing Surveys Association for Computing Machinery Journal.

Association for Computing Machinery, 1133 Avenue of the Americas,  
New York, New York 10036.

IBM Journal of Research and Development. IBM Corporation, Armonk,  
New York 10504.

PC Magazine. Ziff-Davis Publishing Company, P.O. Box 54093,  
Boulder, Colorado 80322. (800) 289-0429.

Quarterly Bibliography of Computers and Data Processing. Applied  
Computer Research, P.O. Box 9280, Phoenix, Arizona 85068.

#### FINANCIAL RATIOS

Almanac of Business and Industrial Financial Ratios. Prentice-  
Hall, Inc., 1818 Ridge Road, Englewood Cliffs, New Jersey  
07632. (800) 922-0579 or (201) 592-2000.

Annual Statement Studies. Robert Morris Associates, 1 Liberty  
Place, 1650 Market St., Philadelphia, Pennsylvania 19103. (215)  
851-9100.

Industry Norms and Key Business Ratios. Dun & Bradstreet Credit  
Services, 1 Diamond Hill Rd., Murray Hill, New Jersey 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, DC 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, Fifth Floor, Springfield, IL 62701. (217) 785-6193.

Business Financing Programs. Illinois Department of Commerce and

Community Affairs, Business Development Division, 620 East Adams, Third Floor, Springfield, IL 62701. (217) 782-6861.

Small Business Information Bibliography. Illinois Department of Commerce and Community Affairs, Division of Program Development and Support, 620 East Adams, Fifth Floor, Springfield, IL 62701. (217) 782-6861.

#### GOVERNMENT ASSISTANCE

Small Business Assistance Bureau, Illinois Department of Commerce and Community Affairs Springfield Office: 620 East Adams, Springfield, Illinois 62701. (217) 785-7546. Chicago Office: 100 West Randolph Street, Suite 3-400, Chicago, Illinois 60601. (312) 814-3263.

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

Illinois Department of Revenue. Springfield Office: 101 West Jefferson, Springfield, Illinois 62794. (800) 732-8866 or (217) 782-3336. Chicago Office: 100 West Randolph Street, Chicago, Illinois 60601. (312) 814-5258.

U.S. Small Business Administration, Business Development Division. Springfield Office: 511 West Capitol, Springfield, Illinois 62705. (217) 492-4416. Chicago Office: 500 West Madison Street, Suite 1250, Chicago, Illinois 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. Company; Book Tower; Detroit Michigan 48226.
- Directories and Reference Books -- Directories in Print. Company; Book Tower; Detroit, Michigan 48226.
- Periodicals -- Gale Directory of Publications. Gale Research Company; Book Tower; Detroit, Michigan 48226.
- Financial Ratios and Government Publications -- Encyclopedia of Business Information Sources. Gale Research Company; Book Tower; Detroit, Michigan 48226.