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FRUIT FARMS  
BUSINESS AND INDUSTRY PROFILE

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FRUIT FARMS  
(SIC 017)

GENERAL INDUSTRY INFORMATION

BUSINESS TYPE, INDUSTRY CHARACTERISTICS AND PROSPECTS

Nature of the Business

Many types of fruit are grown over a wide range of climates and in most geographic locations of the U.S. (apples in the state of Washington; citrus in the lower half of Florida and the lower valleys of Texas and in California; and grapes in California). These major fruit crops will be addressed in this business profile as well as offering advice on sources of valuable information on the industry.

Fruit farms, operated as businesses are classified in the Standard Industrial Classification (SIC) system as berry crops (SIC 0171), grapes (SIC 0172), nut trees (0173), citrus fruits (SIC 0174) and deciduous tree fruits (SIC 0175).

Trends of the Industry

Average disposable income and costs of food affect the amount of a family's budget spent on food. For example when the general cost of food items increases by more than the gain in disposable income, a family will reduce the amount spent on food. As personal income increases, spending on food items (except for fruit juices) rises, but not at the same rate.

As another example, an increase in costs of certain types of agricultural products (for example, cereals, meats, etc.) causes consumers to shift their patterns of consumption from higher to lower cost goods.

The average family of four at mid-1988 was spending about \$99.60 weekly at the supermarket. Other expenditures, outside the supermarket for such things as eating out, spending at farmers' markets, and items bought in bulk added an additional 20-25 percent to the weekly food budget. Younger adults, those 20-44 years old, spend about 50 percent more in eating out than do adults older than 45 while singles spend about two times the average eating away from home.

Department of Agriculture estimates suggest that fruit as a food will grow somewhat more rapidly than average food, sales over the next 20 years. Older adults, aged 55 and over, are increasing in number about four times as rapidly as the general population and

consume more fruit than in past years. Health-minded parents have increased the purchase of fruits as snacks (rather than candy that causes cavities and snack chips that may contain excessive cooking oil). Thus a larger share of the family income is likely to go toward the purchase of fresh, frozen, or processed fruits in future years. Families with home freezers often pick their own at local fruit farms (e.g., orchards, berry fields, vineyards, etc.), and some vegetable growers offer in-season fruit as well as organically raised vegetables to nearby patrons.

Fruits are frequently used as an ingredient of pastries, breakfast cereals, or as substitutes for certain other commodities, so their positions in the total food picture cannot be divorced from that of grains, meats and dairy products. Over the past ten years canned food sales have declined as frozen juices or other fruit bearing products have increased in popularity. The sale of fruits has been increasing as a snack food, especially for older adults, age 55 and over, or for nutritious-minded families with children. Bananas, apples, grapes, and oranges appeared to be the most popular fruit snack foods in the latter 1980s. Strawberries, blueberries, blackberries, apples, peaches, and nectarines (smooth peaches, essentially) are popular fruits that are picked and frozen during harvest seasons by numerous families in fruit-growing regions.

#### MARKET OPPORTUNITIES IN VARIOUS SIZED COMMUNITIES

Like any other small operation, to be successful the management of a fruit farm must know its competition, understand the markets that it wants to cultivate, promote a helpful atmosphere for both clients and employees, and strive for profitable seasons and fruits. The firm's operating objective should be to develop a good reputation in the industry for quality products at a fair price.

To help pinpoint these objectives, the owner(s) should develop a business plan. A business plan is basically a blueprint for the business and should include important information about the venture. Topics that should be addressed include: whether or not the area can support the proposed venture; the existence of an unidentified market niche that may be exploited; the level of competition in the area; the current customer base population, income, and growth trends; competitive pricing strategies; and a variety of other facets of the business that owners or managers need to know to develop a viable and profitable business.

#### Potential

Specific marketing studies can help the owner gain some assurance that items grown and harvested might then be sold for prices adequate to cover expenses and to provide a reasonable return on

net worth. The farm should be developed where growth potential exists and where the firm has an established, well known, price or some other advantage.

Market potential and demographic data (e.g., average household income, number of households, and number of businesses) may be obtained by contacting the local chamber of commerce, public library, or city and county governments. Existing fruit farms may be contacted to determine what services they offer and what they charge.

Large fruit farms usually market their products to food companies that freeze, can or process them into juices, jellies, or confectionery products while small fruit farms generally market their products directly to local or regional cooperatives, supermarkets and restaurants, or sell produce to nearby consumers who come to the farm to pick their own produce and fruits. The financial backing, available markets and probable level of profits should influence the size of the fruit farm.

The you-pick fruit farm operator must vigorously market the produce from his or her farm. Since other farmers will be competing for customers and will have harvests at about the same time periods, it is essential that repeat clients be developed for a you-pick operation. Some fruit farmers develop several thousand repeat patrons who pick their own fresh fruit, and notify previous years' customers with postcard mail outs or use field signs or newspaper ads to alert interested patrons. The price charged should be about 67, to 75 percent of retail market price.

Harvest usually increases while the trees are growing and then levels out about the sixth to eighth year. For the tree type fruits, about 15 or more tons of fruit should be harvested per acre of orchard. Keep this in mind for the future growth potential.

The commercial fruit farmer may have a limited number of crop types, such as a well known variety of peaches (Elberta is a popular, free-stone variety) and apples (Red Delicious is popular). One who seeks to sell directly to residents of a nearby city or to deliver to restaurants and regional supermarkets should have more diversity.

Different varieties of fruit may be used for different purposes. For example, Elberta is a better peach for processing than for the fresh market. Some apples are better for cooking than others. Different varieties of fruit have different harvest dates and storage life. Determine your present and future market, and then establish the type of product (fruit, berry) you wish to

sell.

Many supermarkets have expanded their offerings from about 75 to 225 different products, with several varieties of apples, peaches, oranges, grapes, exotic fruits, in-season strawberries, blackberries, blueberries, plums and cherries, carried in their vegetable/fruit display cases. Some of these are bought from distant shippers while some, when available, are bought from local growers.

## COSTS/FINANCIAL CONSIDERATIONS

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

The amount invested in assets such as plant stock, working capital, sorting sheds, storage facilities, transportation vehicles, etc., must be substantial enough to cover expenses and offer a reasonable return on invested net worth. During years of slight over-supply, it is not unusual for the per unit selling prices of the products to decline to about a break-even level. As such, it is often important to have stand-by financing available during years when crops or profits are poor.

Each year, Dun & Bradstreet, Inc., provides financial profiles (balance sheets, income statements, and key financial ratios) for about 800 industry lines. These industry benchmark statements and ratios for fruit farms may be useful to the owner/operator in developing a business plan for a new operation or comparing with statements of an ongoing operation.

A small fruit or fruit/vegetable farmer should start on a much smaller scale than those suggested by the intermediate to large-scale companies listed in Dun & Bradstreet, Inc.

Average assets for very large farms vary from about \$900,000 for deciduous fruits to about \$1,300,000 for berry farms. From the 1985-1987 data provided by Dun & Bradstreet, Inc., the average financial statements for the large fruit farms are presented on the following page:

ASSETS-	Berries--	Grapes--	Citrus--	Deci
Cash/near cash	14.3%	10%		9.0%
Accounts receivable		9.9	8.3	5.3
Notes receivable	1.8	0.6	1.7	0.5
Inventories	2.9	18.0	4.0	8.6
Other current assets	6.5	3.0	3.8	6.4

Total current assets	31.2	41.6	39.6	29.8
Fixed assets	26.7	51.4	23.7	41.2
Other non-current assets	42.1	7.0	36.7	29.0
Total assets	100.0%	100.0%	100.0%	100.0%

## DEBTS AND NET WORTH

Accounts payable	3.1%	3.6%	4.9%	3.1%
Bank & other notes pay	4.6	4.9	3.7	5.1
Other current debts	8.0	5.1	11.5	11.1
Total current debts	15.7	13.6	20.1	19.3
Other long-term debts	19.1	20.3	15.1	22.6
Deferred credits	0.2	0.4	0.8	0.6
Net worth	65.3	65.7	64.0	57.5
Debts & net worth	100.0%	100.0%	100.0%	100.0%

Assets (\$ 000)	1,284.00	955.00	1,220.00	916.00
Sales (\$ 000)	916.00	500.00	1,197.00	801.00
Gross profit	28.4%	30.8%	43.4%	42.0%
Net profit after tax	9.5%	1.8%	6.9%	4.2%

The above statements suggest that the berry farms were most profitable, followed by citrus farms. The grape and deciduous tree farms had little net profits on sales or return on net worth, on average, for the 1985-1987 years of reporting by Dun & Bradstreet, Inc.

## TYPICAL BUSINESS RATIOS FOR OTHER FIRMS IN THE INDUSTRY

The comparison of actual operations with typical, industry-wide ratios is frequently helpful in making decisions concerning service charge mark-up, expense category allocations, and realistic profit expectations. These ratios are also helpful in preparing projected financial statements such as cash flow projections, income statements, and balance sheets for loan purposes.

Key industry-wide financial ratios are given in the following three charts, and were derived from Dun and Bradstreet, Inc. Median (50th percentile) ratios for 1985-1987 were recalculated as "averages" in the sub-industries for fruit farming. Given this type of calculation, these data provide fair approximations for the industries rather than a true average.

## Solvency Ratios

	-Berries-	-Grapes-	-Citrus-	-Decid. -
Quick Ratio	1.1:1	1.0:1	1.2:1	0.7:1
Current Ratio	2.1:1	3.0:1	2.2:1	1.8:1

Total Debts to Net Worth	30.5%	43.7%	39.0%	44.2%
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The Quick Ratio expresses the degree to which a company's current obligation (expenses) are covered by the most Liquid current assets (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. 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. Total Debts to Net Worth compares total liabilities in the form of debt to owner equity and most cases does not exceed 100 percent since in such cases creditors have more at stake than owners.

#### Efficiency Ratios

	-Berries-	-Grapes-	-Citrus-	-Decid.-
Collection Period	30.9 days	50 days	33 days	18.6 days
Sales to Inventory	27.7 times	3.9 times	19 times	9.5 times
Assets to Sales	122.0%	116%	125%	108.0%

The quality of the receivables, i.e., degree to which customers pay their bills on time, can be determined through the Collection Period. Allowances should be made for possible variations in selling terms from industry norms. 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. (This ratio varies widely between different lines of business.) By comparing a company's Assets to Sales ratio with industry norms it can be determined whether a firm is overtrading (handling an excessive volume of sales in relation to investment) or undertrading (not generating sufficient sales to warrant the assets invested).

#### Profitability Ratios

	-Berries-	-Grapes-	-Citrus-	-Decid. -
Return on Sales	10.4%	4.0%	6.0%	3.4%
Return on Net Worth	17.1%	4.0%	7.3%	9.0%

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.

## MANAGEMENT CONSIDERATIONS

### DEVELOPMENT AND SITE LOCATION

One of the primary considerations for a fruit farm is its location. Most fruits must be grown on average or above-average fertile farms with gentle slopes and adequate moisture. Thus most types of deciduous fruits, berries and grapes can be grown throughout the United States. (Citrus fruits are only grown in the lower half of Florida and Texas and along the southern Pacific coast.) Slow runoff of water and cool air during frosty weather are important to fruit growing. The soils should be reasonably fertile or nutrients should be added. For example, blueberries love an acid soil while fruits grow in most places suitable for vegetables.

Some fruits, especially strawberries are very susceptible to severe production declines during a drought. (About one inch of rainfall or irrigation equivalent per week is needed before and during harvest season in order to produce a good crop.) Most other fruit crops can stand a few weeks of little or no rainfall, but long droughts and above-average temperatures may severely reduce the harvest and even damage the trees, vines, or bushes on which the fruits are grown. Apples and peaches generally need two or three months of cool weather during the year in order to yield good crops.

Size of the farm is also important. Vegetable/fruit farms can be as small as 18 to 20 acres. A small vegetable/fruit farmer could likely make about \$75,000 in annual revenues with 18 to 20 acres. Consideration must be given to the amount of acreage planted. For example, an acre each of apples, peaches, blueberries and strawberries and another two acres divided among other types of fruit crops such as nectarines, plums, cherries, grapes and blackberries could supply fresh and frozen fruit to 300 to 500 families. As an alternative, one-third of the acreage might be devoted to a fruit farm, another one-third devoted to cultivated vegetables, and the balance used for raising hay for mulch or for rotation of certain crops.

### CROP VARIETIES

#### Grape Vine

By the third year after planting, grape vines are usually producing some grapes. Dormant wood from the grapes is removed in the fall of the year so as to promote better fruiting

of the mature plants the following year. From 20 to 60 buds, on about four to six branches, are usually left to produce the crop for the following year. This means leaving six current year growth limbs, each of which contains about eight to ten buds which send out runners which will bear next year's crop. Leaving an excessive number of buds will provide a large plant filled with very beautiful leaves but bear little fruit.

The removed branches, about the diameter of a pencil, and containing about four buds, should be bundled, heeled out in soil to keep them moist until the following spring, and set in soft, loamy soil for rooting and branching into new plants. They must be watered from time to time, and two sets of roots will grow from the two buds underground. Vines will grow from the two buds left above ground.

In 1-1/2 to two years, the vines should be transplanted to the field, spacing them about eight feet apart in the row, with perhaps ten feet between the rows to permit space for cultivation, admission of sunlight, and the passage of air currents.

The Concord variety appears to be a uniform type grape popular for making grape juice and jellies and can be grown almost anywhere in the United States. Small, white seedless grapes, grown widely in California, and other red and black seedless varieties are more popular as eating grapes. Most grape crops are harvested in the late summer or early fall except in southern California, where wine and raisin grapes are grown, and in Florida where crops may be forced to yield fruit at other times.

#### Blueberry Production

Most second year blueberry plants produce berries. Since blueberries provide a crop over about a three to four week time period, with some ripening each few days, many commercial growers will alternate rows of early blueberries, midseason berries, and late season blueberries to extend the harvest season over about ten weeks. Most varieties of blueberries are not self pollinating, so a grower usually must have at least three varieties.

To get good pollination, a bee population is needed. Bee hives are sometimes leased by fruit farmers who have an inadequate supply to pollinate their crop during the blooming stage. Some growers place a few bee hives around the periphery of the fields. About half the crop of honey may be taken by the beekeeper, providing another source of income, and still leave enough honey for the bees during winter months.

Blueberries are started from cuttings from the parent plants. Most berry plants are produced by taking up young suckers, or canes that have come up from the roots of the mother plants. The second-year plant produces the berries and then dies. These dead canes should be removed during the winter, or the berry row will become thick with thorny, dead berry plants and become a menace to the would-be harvesters of the fruit.

Very short blueberry plants are popular in the New England, Atlantic Seaboard states. Bush varieties, growing to six or eight feet in height, are more popular in the Midwestern states (Michigan, Illinois, Indiana, Ohio, Wisconsin, etc.) where blueberries are raised commercially. Special care in planting, cultivating, regular watering and fertilizing is needed with blueberries, so an experienced nurseryman or other knowledgeable person should be consulted on their special care. Because of the difficulty of propagating blueberry plants, most are imported from the Pacific states and reset in the Midwestern states.

#### Miniature Fruit Trees

Throughout the 1960-1985 period, a great deal of experimental work has gone into the development of miniature fruit trees (peach, nectarine, cherry, apple, plum, etc.) that promise a much faster yield than from standard varieties. The miniature trees appear to have lives of 18-25 years, just as most standard varieties of fruits, exceeding the expected eight to ten year lives of dwarf varieties. Regular sized trees usually get into full production in about their sixth to eighth year (or even later for pears). The miniature trees begin to produce fruit their second or third year, although second year fruit is removed and discarded to give the plant a chance to develop its growth of branches and roots.

Harvest per acre on the miniature varieties is greater than on the standard varieties because the trees are planted much closer together. For peaches or apples, this may be about 12-16 tons per acre, beginning in about the sixth to eighth year after transplanting the trees to the fruit fields. By the fourth year, the miniature variety has largely reached its growth of eight feet in diameter and six feet in height, has more fruit than the tree can support (meaning that the fruit should be thinned by hand to eliminate the misshaped, injured small fruit), and the yield per acre is equal to or above that of the 12 to 20 foot high trees. For the regular, full-sized varieties of peaches or apples, trees are often set about 20 feet apart in rows that are often 25 feet apart. The miniature plants could be set eight to ten feet apart with some greater space between rows.

Thus, about four times the number of miniature trees are used per acre as for the large varieties. For the small fruit farmer who wants an early harvest (three versus six years in the future), the miniature fruit trees may be the desired choice. Using miniature trees, planted about eight to ten feet apart, may cost slightly more in developing an orchard, but production usually begins in three rather than about six to seven years, and yields and life expectancy of many miniature varieties of fruit trees equal or excel that of standard-sized trees.

## Fruit Trees

Most fruit trees are propagated by and can be purchased from large, regional nurseries. Most trees (citrus, deciduous fruit trees and nut trees) are started from base root stocks or seeds which are planted to produce the seedlings, seedlings are then budded or grafted to a very hardy root stock, which is not very susceptible to severe weather or disease. Most root stock varieties produce native fruit of poor quality and size. Once growth begins from the bud or graft, branches from the base stock are cut away, leaving only the bud of the variety desired. Thus the fruit trees are the result of grafting the appropriate bud on hardy root stock.

Two year old or three year old trees, usually about three to six feet in height, are sold by regional nursery to the fruit farm. A two year old plant has a chance of developing a good root system and is preferred by many commercial orchard managers rather than the older, but larger trees. Planting is usually done in the early spring or late fall. Young plants should be watered well when set out and again at weekly intervals if rainfall is not adequate. Roots should not be permitted to dry out, or the tree is likely to die.

Certain types of fruits do not do well if planted on land recently used for certain vegetable crops. Peppers, tomatoes, eggplants, and potatoes may infest the soil with a certain type of virus harmful to most varieties of fruit trees. Such land should be used for some purpose other than starting a fruit farm for four or five years. A small vegetable farm may be separated from the fruit farm with a hay raising or animal raising operation. Waste from one of the operations might be useful to another (e.g., hogs relish spoiled fruits and vegetables).

## KEYS TO SUCCESSFUL MANAGEMENT

### Customer Relations

All employees of a fruit farm 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.

### Licensing/Permits

The fruit farm owner should have the proper Licenses to operate and sell fresh fruits, and be aware of federal and state laws. especially in hiring and work practices. The federal government and certain states issue marketing orders and agreements that must be followed by fruit and vegetable farmers.

Most vegetable and fruit farms are labor intensive and hire seasonal workers, beginning in mid-spring and extending through the harvest season. The owner must be knowledgeable regarding federal laws in the areas of minimum wage requirements, child labor laws, payroll tax deductions and payments, occupational health and safety laws (i.e., covering such things as in-field restrooms, hand-washing facilities, drinking water, medical care after an insecticide or injury incident, etc.).

### Marketing and Advertising

Spot radio ads, newspaper ads, telephone directory yellow pages listings and direct contact (telephone or mailings) are some methods of advertising. Company trucks 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.

### Keys To Success

Successful operation of a fruit farm requires some of the same skills as those for a vegetable farm. (One of the major differences is that fruit farming produces little income for the

first few years of operations, whereas vegetable farming may produce cash revenues the first year).

Attempt to reduce the cost of the mid-marketing channel of distribution. The grower should handle his/her own grading, sorting and transport to nearby markets. If this is not possible, more than one possible buyer of the product should be investigated, granting the business to the highest, reliable bidding firm.

Financing is required to cover personal living expenses and to meet operating expenses of the business during the period of small income. Thus many fruit farmers will operate small vegetable farms until production of fruit starts.

Consider joining or forming an association for marketing surplus fruit harvest, perhaps receiving more favorable consideration from regional canneries or companies that freeze or otherwise process fresh fruits.

#### EXPERIENCE AND TRAINING NEEDS

##### Management/Owner Training

The owner/operator of a fruit farm must enjoy the rigors and discipline of this profession. Hours are long, income is usually modest, and the farmer is at the mercy of the elements (frost, freezes, rainfall, hail, birds getting the crops, various types of fungi, etc). This job requires an around-the-calendar working environment. Any size farm operation requires one or more on-premises workers.

Most owners of commercial fruit-farms or vineyards have had some training and experience in the industry. This may have been through a college/university curriculum in agriculture, working on a nursery, growing up on a farm and participating in such activities or through on-the-job training. Most techniques used by vegetable and fruit farmers have been learned by trial-and-error during past years. A new operator, however, should spend time in studying about techniques, pitfalls, and possible benefits before undertaking such a venture.

A good book on gardening should be followed on soil testing, types of nutrients to apply, and periodic care for the plants. The advice of a regional nurseryman or a county Agricultural Agent should be sought before and during such activities until experience is gained, as certain varieties are raised for different purposes. For example, certain varieties are more appealing for cooking than for fresh consumption and others are best for canning. Some are early and still others are mid or late season

varieties.

### Employee Experience

Most fruit farm operations require some seasonal employees to take care of grass cutting, tree pruning, insect and disease spraying, planting, watering, harvesting, crating, shipping the product, protection of the trees or bushes from inclement winter weather and rodents, and the removal and replenishment of old or dead plants.

The average person who is employed as a seasonal farm worker has finished less than the eighth grade of public schools. A large number of them are migrants domiciled in the southern states and working seasonally in the grain belt or central vegetable and fruit farm belts; some move seasonally along the Atlantic seacoast states. Large vegetable or fruit farmers or processors sometimes provide temporary housing for seasonal workers and their families.

Training in the usage of equipment and insecticides should be given to adult and younger workers to safeguard against injury and illness. This may be obtained through local educational facilities or county offices.

## 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 entrepreneurs 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 payment.

#### Public Sources

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

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

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

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

#### FORM OF ORGANIZATION

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

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

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

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

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

investment in the partnership.

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

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

#### LICENSING/REGISTRATION

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

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

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

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

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

#### TAXES

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

#### Business Taxation

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

Franchise Fees -- In addition, corporations are assessed a franchise tax each year. Corporate franchise taxes are

administered and collected by the Secretary of State's Office.

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

#### Sales Taxes

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

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

#### Real Estate Taxes

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

#### Withholding Taxes

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

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

State Withholding -- To register with the State of Illinois,

contact the Illinois Department of Revenue Hotline at 1-800-732-8866 or write to the department at:

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

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

## BUSINESS SERVICES

### Legal Counsel

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

Attorneys also can provide professional help when dealing with other parties such as financial institutions, owners of possible business locations, union officials, governmental bodies, franchising companies, suppliers and customers. In addition, problems may arise requiring the services of an attorney, including collection problems with customers, disputes with creditors or employees, or expansion opportunities. There are several methods for selecting an attorney. An initial course of action might be to seek recommendations from other business owners. Another method of finding an attorney is to contact the Illinois State Bar Association Lawyer Referral Service at 1-800-252-8916. The Martindale-Hubbel Law Directory may also be helpful. It contains a listing and rating of attorneys in your city; a copy may be found at the local library. The public library is also a source for reference books on legal topics. One such book is Small Business Legal Advisor by William A. Hancock, published by McGraw-Hill.

### Bookkeeping

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

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

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

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

#### Accounting

In addition to bookkeeping requirements, a need may arise for the services of a certified public accountant (CPA), an accountant who has passed a written 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, IL 61402, or call 309-342-5400.

#### Insurance Coverage

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

explain options, recommend the best coverage and help save money.

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

#### INFORMATION SOURCES

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

##### SMALL BUSINESS HOTLINE

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

##### BUSINESS DEVELOPMENT CENTER NETWORK

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

##### SMALL BUSINESS RESOURCE CENTER

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

The U. S. Small Business Administration offers many publications for a minimal fee. A list of these management aids is available from the Small Business Hotline. Several sources of information are useful for improving the level of profitability of a fruit farm 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 fruit farm industry is given below.

#### TRADE ASSOCIATIONS

National Association of Fruits, Flavors and Syrups. 5 Ravive Drive, Matawan, NJ 07747. 201-583-8188.

Western Fruit Growers Associations. P.O. Box 2130, Newport Beach, CA 92658. 714-863-1000.

United Fresh Fruit and Vegetable Association. 727 N. Washington Street, Alexandria, VA 22314. 703-836-3410.

#### DIRECTORIES AND REFERENCE BOOKS

American Fruit Grower Buyer's Guide Issue. Meister Publishing Company, 37733 Euclid Avenue, Willoughby, OH 44094. 216-942-2000.

Red Book. (Fruit Industry). Vance Publishing Corp., 7950 College Blvd., Overland Park, KS 666210. 913-451-2200.

Western Growers Association - Membership Directory. Western Fruit Growers Association, P.O. Box 2130, Newport Beach, CA 92658. 714-863-1000.

#### PERIODICALS

American Fruit Grower. Meister Publishing Co., 37733 Euclid Ave., Willoughby, OH 44095. 216-942-2000.

Citrus and Vegetable Magazine. Kyle Publishing co., P.O. Box 2349, Tampa, FL 33601. 813-223-7628.

Fresh Fruit and Vegetable Market News, Weekly Summary. U.S. Department of Agriculture, Washington, DC 20250. 202-427-2175.

Fruit Varieties Journal. American Pomological Society, 103 Tyson Building University Park, PA 16803. 814-863-2198.

#### 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, Washing-ton, 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 publications by category:

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

-Directories and Reference Books -- Directories in  
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.