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GARDEN SUPPLY STORES AND RETAIL NURSERIES

BUSINESS AND INDUSTRY PROFILE

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College of Business and Administration

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TABLE OF CONTENTS

CHAPTER ONE - GENERAL INDUSTRY INFORMATION

Business Type, Industry Characteristics and Prospects.....	1
Market Opportunities in Various Sized Communities.....	2
Franchising.....	2

CHAPTER TWO - COSTS/FINANCIAL CONSIDERATIONS

Costs and Types of Assets Needed to Start the Business....	3
Typical Business Ratios for Other Firms in the Industry...	4

CHAPTER THREE - MANAGEMENT CONSIDERATIONS

Development and Site Location.....	5
Experience and Training Needs.....	6
Keys to Successful Management.....	7

CHAPTER FOUR - GENERAL START-UP ISSUES

Financing Methods.....	8
Form of Organization.....	10
Licensing/ Registration.....	11
Taxes.....	12
Business Services.....	13

CHAPTER FIVE - INFORMATION SOURCES

Small Business Hotline.....	15
Business Development Center Network.....	15
Small Business Resource Center.....	15
Trade Associations.....	15
Directories and Reference Books.....	15
Periodicals.....	15
Financial Ratios.....	16
Government Publications.....	16
Government Assistance.....	16

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.

GARDEN SUPPLY STORES AND RETAIL NURSERIES (SIC 5261)

GENERAL INDUSTRY INFORMATION

BUSINESS TYPE, INDUSTRY CHARACTERISTICS AND PROSPECTS

Nature of the Business

Garden supply stores and retail nurseries have been assigned the Standard Industrial Classification (SIC) Industry Code Number 5261. Firms in this category are primarily engaged in the retail sales of trees, shrubs, other plants, seeds, bulbs, mulches, soil conditioners, fertilizers, pesticides, garden tools, and other garden supplies.

A garden supply store or retail nursery may stock limited supplies or it may be a full-line nursery. A complete line of products

include the following: inside plants, outside plants, grass seeds, grass sod, garden seeds, flower seeds, flower bulbs, organic and inorganic fertilizers, mulch starter materials, potting materials, insecticides, hand tools, trellises, power equipment (such as lawn mowers, garden tractors, rotor tillers, gasoline or electric cultivators, and snow blowers), and a variety of "how-to" books and pamphlets. The average sales mark-up on plants is generally 50 to 60 percent. The mark-up on other items is usually less. Some retail nurseries and garden centers will provide landscape services for newly built homes. Lawn and/or plant items are selected by the home builder or owner and are guaranteed with proper watering and pest control. The cost for such services for an average home can run from \$2,000 to \$3,000 but can produce a more attractive arrangement than if the homeowner does his/her own landscaping.

The number one household outdoor leisure activity, based on a 1987 survey, was gardening. This activity was enjoyed by approximately 84 percent of the total households surveyed. Gardening may be categorized into lawn care, flower gardening, vegetable gardening, and shrub care.

Trends in the Industry

The five-year Business Census of Retail Trade, published in 1985, indicated that about 7,850 garden supply and retail nurseries were operating nationwide. Although business starts amounted to 6.8 percent, the business failures amounted to 6.2 percent based on the beginning of the year figures. Most garden supply stores are small, having an average employment level of six; however, some are large and have several dozen employees. Most business enterprises have one establishment, although the largest eight companies have a total of 291 establishments with an average of 29 employees.

The May 1987 issue of Direct Marketing indicated that lawn and garden care sales in 1986 amounted to about \$15 billion, with another billion or two spent on cut flowers. A portion of this was for mail order businesses, with an estimated 340 firms having \$700 million in sales. Some leaders in the mail order gardening business included Garden Way, Jackson & Perkins, Brecks, Michigan Bulb, and Gurney. Competitors to the garden supply and retail nursery firms are the plant and gardening departments of large department stores, such as Wal-Mart, K-Mart, and True Value Hardware Stores.

Industry Growth

It is likely that sales in the garden and retail nursery industry, compared to the overall economy, will continue to grow more rapidly for the balance of this century. For the period 1975-1987, the

industry experienced an annual sales rate of growth of about 15 percent. Growth factors included the general public interest in gardening to save money and to raise healthy food with less chemical contamination.

Demographics support the likelihood of continued growth in the industry for the next 15 to 20 years. People over 50 years of age have been the most frequent customers of garden centers, and for the past two or three years, people between the ages of 30 and 49 have become repeated customers. Moreover, the population above the age of 45 is projected to grow three times as rapidly for the next 15 years as for the past 15 years.

MARKET OPPORTUNITIES IN VARIOUS SIZED COMMUNITIES

Marketing Plan

Before starting a garden supply store or retail nursery, the owner(s) should develop a marketing plan. A marketing plan is basically a blueprint for outlining possible customers for the business which should include important information about the venture. Topics that should be addressed include: whether or not the area can support the proposed venture; the existence of an unidentified market niche that may be exploited; the level of competition in the area; the current customer base population, income, and growth trends; competitive pricing strategies; and a variety of other facets of the business that owners or managers need to know to develop a viable and profitable business.

Assistance in developing a marketing plan may be obtained from many sources--some at cost, others for free. A few sources for assistance and information are: Small Business Development Centers located at colleges and universities throughout the state; professional service companies such as accounting firms, private consultants, legal firms, etc.; service organizations such as chambers of commerce or the Service Corps of Retired Executives (SCORE); other public sources such as public libraries, college and university classes, etc.

Market Data

Market potential and demographic data (e.g., average household income, number of households, and number of businesses) may be obtained from the local chamber of commerce, public library, or city and county governments. Existing garden supply stores or nurseries may be contacted to determine what services they offer and what they charge. On the average, one garden supply store is in operation for each 3,000 people.

FRANCHISING

Franchise opportunities do exist for garden supply stores and nurseries. They offer an alternative to starting a business from the ground up. Franchising gives the entrepreneur an opportunity to use the mass buying power, training programs, specific territory, experience, and name recognition of the franchiser to build a viable and profitable business. The Source Book of Franchise Opportunities is an excellent source for franchise information including franchisors, franchise fees, and capital investment requirements.

Most of the franchising firms provide training at their headquarters office for key managers of franchise businesses. Video cassettes may be provided that illustrate correct techniques for performing certain types of landscaping. Continuing education is also provided as new or improved equipment, services or products are developed.

COSTS/FINANCIAL CONSIDERATIONS

COSTS AND TYPES OF ASSETS NEEDED TO START THE BUSINESS

Investment Factors

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

Average Balance Sheet Data

The breakdown of assets, liabilities, and net worth for the average garden supply store or nursery in 1988, according to Dun and Bradstreet, Inc., was as follows:

Assets		Debt and Net Worth	
Cash/near cash	11.9%	Accounts payable	14.9%
Accounts receivable	9.1	Bank/other loans	7.2
Notes receivable	0.5	Other current debts	12.7
Inventories	43.8	Total current debts	34.8
Other current assets	2.8	Other long-term notes	16.5
Total current assets	67.7	Deferred credits--	
Fixed assets	18.0	Net worth	48.7
Other non-current assets	4.3	Liab. & Net worth	100.0%
Total assets (%)	100.0%		
Total assets (\$\$\$)	208.5k		

"Near cash" refers to checking or savings accounts that may be

liquidated easily. "Other non-current 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. "Bank/other loans" are amounts owed to lenders of capital. "Other long-term notes" include both equipment and mortgage notes.

Revenues and Profitability

A typical garden supply or nursery, with assets of \$208,500 and net worth of approximately \$101,540, should generate annual revenues of roughly \$465,000. A breakdown of average revenues and percentages for the average firm in the SIC 5261 designation in recent years, according to Dun and Bradstreet, is shown below.

Item	Dollars	Percent
Sales/revenues		
Gross profits		
Net profit after taxes		

TYPICAL BUSINESS RATIOS FOR OTHER FIRMS IN THE INDUSTRY

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

According to Dun and Bradstreet, the median key financial ratios for garden supply stores and retail nurseries, during the period 1986-87, were as follows:

Solvency Ratios

Quick ratio (cash + accounts rec/current liabilities)	0.6 to 1
Current ratio (current assets/current liabilities)	2.0 to 1
Total debts to net worth	

The quick ratio expresses the degree to which a company's current obligations (expenses) are covered by the most liquid current assets, i.e., cash and customer payments due the company. The current ratio is a rough indication of the "cushion" between current obligations and a firm's ability to pay them from current assets. Total debts to net worth compares total liabilities in the

form of debt with owners equity, which for small firms usually does not exceed 100 percent. Thus, owners have more at stake than creditors.

Efficiency Ratios

Collection period (accounts rec/sales x 365)	10.6 day
Sales to inventory (net sales/inventory)	5.5 tim
Assets to sales (total assets/annual net sales)	42%

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

Profitability Ratios

Return on sales (profit after tax/annual net sales)	3.2%
Return on net worth (profit after taxes/net worth)	13.7%

Return on sales reveals the profits earned per dollar of sales and, therefore, measures the efficiency of the operation and is an indicator of the ability to withstand falling prices, rising costs and declining sales. Return on net worth (return on equity) is used to analyze the ability of the firm's management to realize an adequate return on the capital invested by the owner(s) of the firm. Generally, a relationship of at least ten percent is regarded as a desirable objective for providing dividends plus funds for future growth.

MANAGEMENT CONSIDERATIONS

DEVELOPMENT AND SITE LOCATION

Location

A retail nursery and garden supply store frequently will follow one of several approaches when locating and developing its business. The first option may be to locate within a structure on a side street in a downtown location. The second may be to locate on the edge of town in a facility with a small office building and detached sheds where plants are stored. The third approach may be to raise plants to sell at retail price through mail order catalog

distribution and order shipping.

The downtown retail nursery structure may have high windows or skylights to provide adequate sunlight and large fans to provide ventilation for the vegetation. Water faucets should be located every few yards so that sprinklers can be attached to keep the plant roots moist. This type of store frequently caters more to inside plants than to large, outdoor plants or bushes, although their spring and fall inventories may be centered on outdoor plants. Plants may be displayed on tables in attractive arrangements, with taller plants set to the rear. Other plants may be displayed along the walls or in hanging baskets. Pots and other items which are not damaged by water or high humidity may be stored under the tables.

Nurseries and garden stores located on the edge of town usually stock more outdoor plants, often setting the plants inside a chain-link fence. A nearby small building can contain a small office, garden seeds, flower seeds, bulbs, fungicides, insecticides, fertilizers, and tools. Plants may have partial shelter from the elements in a structure called a slat or lath house. This type of edifice has alternating slats about three inches in width with an equal amount of open space. This permits sun and rain to fall within the structure, while at the same time providing partial shade. Alternate rows of plants and walkways usually run the length of this structure.

Another type of nursery is the retail mail order nursery. The facilities can include dozens of greenhouses, fields for larger growing plants, a wooded area for obtaining leaves for mulch, several lakes for obtaining irrigation water, and storage and shipping warehouses. This particular type of nursery appears to be a pace setter in bringing plants from Europe, reproducing them in the U.S., and selling them directly to customers by mail order.

Zoning

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

Health and Safety Considerations

Health and safety requirements, many of which are mandated by the Occupational Safety and Health Administration (OSHA), are also important factors in the location of the business. Health and safety issues to consider include proper ventilation and fire

extinguishing systems, as well as the use of hazardous materials.

EXPERIENCE AND TRAINING NEEDS

Management/Owner Training

Training for management should include the basics of the business, including general management, marketing, finance and accounting. Special attention should be given to the front office administration of the firm.

Taking several horticulture classes at a nearby college or university may prove helpful, but gaining actual work experience with a nursery owner for a year or two should be a prerequisite before opening a garden supply store or retail nursery. As an alternative, a trained manager may be hired and placed in charge of the operation.

Employee Training

If the nursery or garden supply store sells insecticides, herbicides and fertilizers, the salespeople must be familiar with their intended uses. Also, employees who sell power equipment should know about assembling, problem-solving, and repairing the equipment.

Small retail plant stores and nurseries cannot compete with the discount prices of plant and garden departments at K-Mart or Wal-Mart, so they must be willing to spend more time with customers, showing them the best technique to use in planting trees and/or shrubs.

Plants or shrubs purchased from retail nurseries are often of better quality and larger in size than those bought at discount stores. In most cases, they have not suffered from days of shipment and mediocre care in the store's plant department. The nursery sales people must emphasize quality and plant vigor rather than price. The survival rate of plants purchased from nurseries should be close to 95 percent. If properly planted, fertilized, and cared for, plants grown regionally will usually survive the rigors of the cold months. However, plants or shrubs sold by some discount stores are shipped several hundred miles from different climates and may have less of a chance of surviving weather extremes, even with careful planting and observation.

KEYS TO SUCCESSFUL MANAGEMENT

Markets

In order to be successful, the management of a garden supply store

or nursery must know its competition, have a vision as to the markets that it can cultivate, promote a helpful atmosphere for both clients and employees, and strive, for satisfied, repeat customers. Management of a garden supply store or nursery should be able to gauge the approximate saturation point (at which the market is not profitable) in a given market area. Markets should be developed where growth potential exists and where the firm has a price or some other advantage. Effective labor and supplies cost controls should be followed by owners and employees.

Organization

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

Customer Relations

All employees of a garden supply store or nursery firm should be courteous to the clients. Outside of qualifications, this is the most critical issue for any business. If a firm is unable to maintain a friendly, courteous relationship with its customers, it will not be successful.

Introducing potential customers to the garden supply store or nursery through personal appearances before garden groups, social groups, and service organizations may also be helpful in increasing business. Developing and sending a periodic newsletter to previous patrons, other nearby plant stores, and regional chambers of commerce offices is another way to build trade. Accepting major credit cards and checks from repeat customers will also increase business.

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.

Advertising

Some garden supply or nursery firms offer one- or two-hour free workshops to customers. The topics vary to emphasize the type of

garden or lawn care that should be undertaken during certain periods of the year. Video cassettes can be shown with a knowledgeable person available to answer questions.

Spot radio and TV ads, newspaper ads, telephone directory yellow page listings, and direct contact (telephone or mailings) are some methods of advertising garden supply stores and nurseries. Service vans often bear company logos and a brief listing of services offered along with a business telephone number. Billboards are used by some firms in the industry.

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 had 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 20-25 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 1-800-732-8866 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 Usting 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.

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. For more information, call the Small Business Hotline.

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

Several sources of information are useful for improving the level of profitability of a garden supply store or nursery or for learning more about this type of operation. These include trade associations, reference books and directories, periodicals, ratio studies, and government publications/assistance. A list of these for the garden supply and nursery industry is given below.

TRADE ASSOCIATIONS

National Lawn and Garden Distribution Association. 1900 Arch Street, Philadelphia, PA 19103. (215) 564-3484.

DIRECTORIES AND REFERENCE BOOKS

Book of Garden Ornament, Hunt, P., and Dent, J., 1981. England State Mutual Book and Periodical Service, 521 Fifth Avenue, New York, NY 10175. (516) 537-1104.

Garden Supply Retailer-Green Book Issue. Chilton Publishing Co., 1 Chilton Way, Radnor, PA 19089. (215) 964-4327.

The Source Book of Franchise Opportunities. Bond, Robert E. and Bond, Christopher E., Dow Jones-Irwen, 1818 Ridge Rd., Homewood, IL 60430. (800) 634-3966.

PERIODICALS

Garden Supply Retailer. Chilton Publishing Co., 1 Chilton Way, Radnor, PA 19089. (215) 964-4327.

House and Garden. Nast Publications, Inc., 350 Madison Avenue, New York, NY 10017. (212) 880-8800

Lawn and Garden Marketing: The Merchandising Magazine for Lawn, Garden, and Leisure Living Products. Intertec Publishing Corporation, Box 12901, Overland Park, KS 66212. (913) 888-4664.

FINANCIAL RATIOS

Almanac of Business and Industrial Financial Ratios. Prentice-Hall Inc., 1818 Ridge Rd., Englewood Cliffs, NJ 07632. (800) 634-2863 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) 351-3446 or (201) 665-5330.

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.

Small Business Information Bibliography. Illinois Department of Commerce and Community Affairs, 620 East Adams Street, Springfield, IL 62701. (217) 524-4843.

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

GOVERNMENT ASSISTANCE

Illinois Department of Commerce and Community Affairs, Small Business Assistance Bureau. Springfield Office: 620 East Adams, Springfield, IL 62701. (800) 252-2923 or (217) 785-7546. Chicago

Office: 100 West Randolph St., Suite 3-400, Chicago, IL 60601.
(312) 814-3263.

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

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

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

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

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