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GIFT SHOPS
BUSINESS AND INDUSTRY PROFILE

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This publication was authored by Lynn Andersen Lindberg, Business Research Management Services Institute and Donald Vaughn, Professor of Finance, both of Southern Illinois University. The publication was edited by John Moulton, Office of Urban Assistance, Department of Commerce and Community Affairs.

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-----NOTE:
 contained in this booklet is comprehensive and accurate. However,
 this guide should only be considered a reference. Proper legal
 counsel and other professional guidance should be obtained prior to
 starting a business.

GIFT SHOPS
 (SIC 5947)

GENERAL INDUSTRY INFORMATION

BUSINESS TYPE, INDUSTRY CHARACTERISTICS AND PROSPECTS

Nature of the Industry

Gift, novelty and souvenir shops have been assigned the Standard Industrial Classification (SIC) Industry Number 5947. In the latter 1980s, the number of gift shops remained relatively static, and their sales level grew about 5 to 6 percent annually. The market for gifts and home accessories is active. Many gift shops are showing a profit, and industry sales volume continues to rise. Approximately 60,000 gift shops operated in the United States in 1987.

Many gift shops are selecting merchandise which appeals to the new affluent class by stressing one-of-a-kind, colorful and off-beat merchandise. This merchandise meets the needs of a free and easy life style and a renewed interest in family oriented activities such as cooking, entertaining, and home decorating.

Most gift shops experience their peak sales periods during the last two months of the year. This sales period is an important consideration, especially for starting-up a gift shop business. Therefore, merchandise buying, inventory control, cash management, and display settings are important planning aspects of gift shops during these months.

Nature of the Business

Some specialty shops concentrate on gift-type merchandise similar to larger department stores with specialty departments. Some are franchised operations while still others are owned by larger firms. For example, the main New York store of Macy's offers items such as t-shirts, jerseys, watches, pajamas, play suits, back packs, ball caps, lunch boxes, calendars, posters and action figures. Still other gift stores and departments have begun to add value and fashion gifts, such as China, silver, stainless steel, candles and linens. A recent importing trend has intensified with items such as drinkware, serviceware, ceramic figurines, mugs, musical items, planters and desk accessories. Chain gift shops are continuing to buy items worldwide in order to help reduce the cost to consumers.

Some gift shops have provided space for a card section, as most gift-givers include a card with the gift. Some popular brands of cards include Hallmark, American Greeting, Paramount, Ambassadors, Disney, religious and cards in foreign languages.

Many gift shops operate a section of the shop as a seasonal gift gallery, catering to certain seasons of the year and changing their displays and merchandise accordingly. For example, New Year's items, Valentine gifts, Easter gifts, Mother's day items, Father's day items, Independence Day, back-to-school gifts, Halloween decorations, Thanksgiving holiday items and Christmas items are featured for several weeks prior to such events. After the holiday, this merchandise is generally discounted for quick sale. Novelty gifts, stationery and greeting cards are more generic in nature and often have a permanent location within the store.

A significant amount of space is allocated to dinnerware, ceramic and glass accessories, toys, games, decorations and accessories, jewelry, artificial flowers, candles, books, audio/visual tapes, stationary, greeting cards and items of regional appeal such as sports teams apparel, etc. Roughly half of the inventory items are seasonal in nature, while the other half are considered variety items on sale throughout the year.

Fast-moving merchandise should be located at the front of the store to reduce the searching effort by customers and clerks. A back room is often used for record keeping, seasonal inventory storage or for gift wrapping. Where the latter is done, one clerk would

probably be on duty at a cash register near the front of the shop while the second would handle gift wrapping and aid the customers in locating their desired item(s).

In order to maintain a fast-moving inventory, the managers or owners of such stores often attend gift and market fairs. These are usually held in large cities, such as Dallas, Atlanta, Chicago and New York, several times per year. Trade associations often sponsor them. Sources are suggested at the end of this profile.

MARKET OPPORTUNITIES IN VARIOUS SIZED COMMUNITIES

Marketing Plan

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

Assistance in developing a marketing plan may be obtained from many sources -- some at cost, others for free. A few sources for assistance and information are local chambers of commerce, banks, accounting firms, local and state governments, the Illinois Department of Commerce and Community Affairs (DCCA), the U.S. Small Business Administration (SBA), colleges and universities (through business management programs or Small Business Development Centers), private consultants and public libraries. Existing gift and novelty shops may be contacted to determine what services they offer and what they charge.

Market Data

For the small gift shop, location, personal attention and image are the important competition factors. About one gift shop operates for each 4,000 people in the community. Few gift shops operate successfully in small communities unless they are "non-traditional" or on well-traveled paths of vacationers. These shops must have a special offering - a boutique, something unusual and special, and distinctive merchandise for those of discriminating taste. An image can be built around one or two specialties to be offered exclusively in a rustic, elegant or period decor -- as long as the effect is unique. Most shopping malls have one or two gift shops, with some offering a wider range of merchandise than others. Many department stores, chain drug stores, variety stores and discount

stores, such as Wal-Mart and K-Mart, have departments that offer gift store items, books, and greeting cards. The idea is not to compete with these stores, but offer complementary items or merchandise not available from them.

Market potential and demographic data (e.g., average household income, number of households, and number of businesses) may be obtained by contacting the local chamber of commerce, from the public library, or from the city and county governments.

FRANCHISING

Franchise opportunities exist for gift and novelty shops and 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 franchisor to build a viable and profitable business. One source of information on specific franchise operations is *The Source Book of Franchise Opportunities*, by Robert E. Bond, which discusses opportunities, fees, and investment requirements. Several franchisors are listed below.

Ben Franklin Stores. Division of City Products Corp., 1700 South Wold Road, Des Plains, IL 60018.

Dahnken Licensing Companies. Dahnco, Inc., 145 South State, Salt Lake City, UT 84111.

Habersham Plantation Corporation. Box 1209, Toccoa, GA 30577.

The Mole Hole. J.D. Harris Corporation, 217 Howard Street, Petoskey, MI 49770.

Nickerson Farms Franchising. 4135 South 89th Street. Omaha, NE 68127.

Wicks 'N' Sticks, Inc. 13403 N.W. Freeway, Suite 160, Houston, TX 77040.

Most of the franchising firms provide training at their home offices for key managers of franchise businesses. Video cassettes may be provided that offer tips on sales techniques. Ongoing training also should be provided, especially as new gift items are acquired.

COSTS/FINANCIAL CONSIDERATIONS

COSTS AND TYPES OF ASSETS NEEDED TO START THE BUSINESS

Initial Investment Considerations

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

Officers' compensation in gift shops average about 4.4 percent of sales. Depreciation averages about 2.1 percent of sales.

Average Balance Sheet

A typical gift shop, with assets of \$109,000 and net worth of \$63,000, should generate annual revenues of approximately \$184,000. The breakdown of assets, liabilities and net worth for a gift or novelty shop, according to Dun and Bradstreet, is as follows:

ASSETS

Cash and near cash		16.2%	Accounts payable	
Accounts receivable		4.1	Bank loans	
Notes receivable		0.5	Other current debts	
Inventories				51.2
Other current assets	3.1		Other long-term debts	
Total current assets	75.1		Deferred credits	
Fixed assets				14.1
Other noncurrent assets	10.8		Total debts/Net worth	
Total assets		100.0%		

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

A review of these data shows that the largest of the above categories of assets is for inventories, as about half of total assets are in merchandise intended for sale. Current assets amount to roughly two times short term debts, with other current debts, such as payroll taxes and wages payable, being the largest short-term debt item. Long-term debts amount to about one-sixth of assets.

The two largest categories of expenses for miscellaneous retail stores, including gift and novelty shops, are cost of merchandise

sold and the cost of labor (included in other expenses). Since profit margins are often low, close expense control, especially over labor, must be exercised.

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 retail costs mark-up, expense category allocations and realistic profit expectations. These ratios are also helpful in preparing projected financial statements (e.g., cash flow projections, income statements and balance sheets) for loan purposes.

According to Dun and Bradstreet, the median key financial ratios for gift and novelty firms, during 1989, were as follows:

Solvency Ratios

Quick ratio (cash plus accounts
receivable/current liabilities)
Current ratio (current assets/current
liabilities)
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 assets, i.e., cash and customer payments due the company. The current ratio is a rough indication of the "cushion" between current obligations and a firm's ability to pay them from current assets. Total debts to net worth compares total liabilities in the form of debt with owners equity, which for small firms usually does not exceed 100 percent. Thus, owners have more at stake than creditors.

Efficiency Ratios

Collection period (accounts receivable/sales x 365)	6
Sales to inventory (net sales/inventory)	3
Assets to sales (total assets/annual net sales)	5

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

Profitability Ratios

Return on sales (profit after tax/annual net sales)

Return on net worth (profit after taxes/net worth)

Return on sales reveals the profits earned per dollar of sales and, therefore, measures the efficiency of the operation and is an indicator of the ability to withstand falling prices, rising costs and declining sales. Return on net worth (return on equity) is used to analyze the ability of the firm's management to realize an adequate return on the capital invested by the owners of the firm. Generally, a relationship of at least 10 percent is regarded as a desirable objective for providing dividends plus funds for future growth.

MANAGEMENT CONSIDERATIONS

DEVELOPMENT AND SITE LOCATION

Zoning

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

Location

Whether it is based primarily on unique merchandise, special decor or competitive pricing, store identity should be distinctive. The location of a gift shop is extremely important to its success. The store should be near a large number of shoppers, preferably those with idle time who are on foot. As previously mentioned, malls, hotels and tourist sites are good locations for gift shops. An attractive theme sign should appear above the entrances to the gift shop, where a large glass window might display unique merchandise, seasonal merchandise or impulse items. Unique architectural features of a building, such as arches, balconies, brick exteriors and interiors, historical structures, etc., may offer very desirable extras for display and decorative effects and should be exploited to give the gift shop character or establish an image.

Design and Layout

Layout of the store is very important. A sign should be attractive and encourage shoppers to enter. Newspapers and magazines should be located near the back of the store so that the customers may

pass by impulse items, thus selecting items that they may have forgotten. Snack-type foods and candies might be prominently displayed near the cash register as some customers prefer to spend their change for candy or gum rather than carry it. Arrangement of the store might be altered slightly from season to season to be more attractive. The store manager might experiment with relocating certain types of merchandise in different locations of the store, but generally the seasonal items should be prominently displayed. Fast moving items should be convenient to both shoppers and employees.

Gift shops should be orderly and arranged so that the one or two sales clerks/cashiers may observe the shopping crowd. Shoplifting might become a problem if the arrangement and lighting are poor. The merchandise should be attractively displayed, and the displays should be changed frequently to attract the attention of shoppers.

A gift shop should be stocked with some impulse items and with some that pertain to special occasions as well as traditional gift items. For example, grandparents that travel often buy a gift for the grandchildren. Traveling parents frequently buy items for their young children.

Other Considerations

Other considerations in locating the business are health and safety requirements (Occupational Safety and Health Administration); the physical size of the operation, adequate storage space with proper ventilation and fire extinguishing systems in place, fire, electrical and safety codes, expected traffic patterns and sign restrictions. Adequate parking for service vehicles and workers' and clients' cars is essential. Check with area realtors for unique buildings or structures that may be available which provide atmosphere, good traffic patterns and high visibility.

EXPERIENCE AND TRAINING NEEDS

Management/Owner Training

The owner of a gift shop is usually the chief buyer and should if possible, attend trade fairs one or more times yearly to stay abreast of merchandise that appears to be selling well or appears to be growing in popularity. Publications may be received from many of the sources given at the end of this profile.

Training for management should cover the "how to's" of the business, including general management, marketing, inventory control, finance and accounting. Attention should be given to the philosophy of the firm (e.g. growth mindedness, risk taking, etc.) as well as to front office administration. This knowledge may be

received from hands-on experience or higher educational training. Workshops and seminars are available in addressing these needs from many colleges and universities across the state and from DCCA's Small Business Development Center network. To receive a "Small Business Training Resource Catalog" of training programs contact the Illinois Small Business Hotline at 1-800-252-2923.

Employee Training

The sales personnel should be helpful and courteous to the customers. All staff need to be aware of how to reduce shoplifting opportunities and should be trained in what to do if someone is seen leaving the shop with merchandise that has not been purchased. Essential to the success of the business are well-trained employees. A training program might include retail selling techniques, store etiquette, inventory and stock control, display arrangement and new product knowledge. Clerks may be experienced in performing some duties expected of them when hired, while others may be teamed with experienced employees to receive on-the-job training. Updates on taxes, insurance coverage, and health care are also important training opportunities for the gift shop owner and staff. All employees should be provided with a written job description detailing specific duties and responsibilities, and the owner, manager and employees should understand the contents. The employees should also be advised of promotion opportunities, overtime practices and other compensation available.

KEYS TO SUCCESSFUL MANAGEMENT

Business Methods

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

Management of a gift or novelty firm should be able to gauge the approximate saturation point in a given market area. Markets should be developed where growth potential exists and where the firm has unique products offering or price advantage. Effective controls on labor and supplies costs should also be followed by the owners. The firm's operating objective should be to develop a good reputation in the community for quality merchandise at a fair price.

Ideally, the owner/manager should have previous experience in retailing before beginning a gift and novelty shop. The owner should then train other employees in the desired attitudes toward the customers, the duties that are expected of them, and permit them some flexibility in scheduling their work hours.

Customer Relations

All employees in a gift shop 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. Offering merchandise and product lines in response to customer buying habits or requests is very important. Annual mailings to customers surveying their needs or dislikes could be valuable information in determining shop inventory and pricing.

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.

A small commission on sales above the breakeven level might promote some enthusiasm in the sales staff and increase the store's sales.

Holding a business meeting of all employees one hour a month can be helpful in gaining employee suggestions and cooperation in promoting timely sales items. This may also improve management/employee relations helping in overall working conditions and attitudes within the store.

Advertising

Most gift shops advertise in one of several ways. Some use specific advertising, attempting to promote public awareness within the community or more general gift shop advertising in regional, state or national consumer magazines. Selective promotion is used to advertise certain themes or occasions, such as holidays. Spot radio ads, newspaper ads, telephone directory yellow pages listings and direct contact (telephone, mailings or person-to-person) are some methods of advertising gift or novelty shops. Service vans often display company logos and a brief listing of services offered along with a business telephone number. Billboards are inexpensive and highly noticeable to the public including possible customers.

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 5 percent of goods-producing firms had been denied credit more than once, while approximately 18 percent of service producing firms reported credit denials. The most frequent reasons for credit denial included lack of adequate collateral and a policy of not lending to the type of business applying for credit. Since obtaining credit is difficult, many entrepreneurs find it necessary to finance a business through a combination of sources of funds. Following are descriptions of several common types of financing.

Equity Sources

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

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

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

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

Debt Financing

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

Institutional Investors -- Banks, savings and loans, and commercial credit companies expect the small business owner to make a significant personal investment (equity) in the business prior to any lending activity. The lack of personal investment is viewed as a sign of greater risk and less commitment on the part of the owner. Smaller loans can sometimes be obtained through a bank's consumer loan division. Security in the form of a second mortgage on the borrower's house or a lien on property such as an auto is usually required.

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

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

Public Sources

Public sources of funds include federal, state or local governments which may loan money to small or emerging businesses at relatively low rates of interest as a method to improve the economy. Public sources also generally take a second position on the collateral so that the bank has first claim to the assets if the loan defaults. Although public funds have their limitations, entrepreneurs should

explore such funds. Most public sources of funds require 20 to 25 percent owner equity, additional private bank financing, and some guarantee that job creation will occur.

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

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

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

FORM OF ORGANIZATION

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

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

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

Sole Proprietorship -- A sole proprietorship is owned and operated by an individual. Advantages of this form of organization include ease of formation and relative freedom from government controls and restrictions. Disadvantages include less access to capital and financial resources. Also, this form of business organization provides less protection with regard to personal 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 to 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 information returns

or to collect and remit sales taxes. In Illinois, business owners must contact the Department of Revenue to determine if an Illinois Business Taxpayer Certificate of Registration (Business Tax Number) is required for the business. Contact the Department of Revenue at either of the addresses listed under Information Sources.

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

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

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

TAXES

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

Business Taxation

Income Tax -- Every individual, corporation, trust, and estate residing in Illinois or earning or receiving income in Illinois

must pay an income tax based on net income. A sole proprietor must pay individual income taxes on earnings from the business. In a partnership, each partner must pay taxes on the distributive share of partnership income. Corporations must pay a corporate income tax.

Franchise Fees -- In addition, corporations are assessed a franchise tax each year. Corporate franchise taxes are administered and collected by the Secretary of State's Office. Replacement Tax -- Illinois does not have a personal property tax, but does have a personal property replacement income tax. The replacement tax is also applied to the net income of partnerships, corporations, and trusts. S Corporations are subject only to replacement tax.

Sales Taxes

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

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

Real Estate Taxes

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

Withholding Taxes

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

Federal Withholding -- To register with the federal government,

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

State Withholding -- To register with the State of Illinois, contact the Illinois Department of Revenue Hotline at 1-800-732-8866 or write 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 recommendation from other business owners. Another method of finding an attorney is to contact the Illinois State Bar Association Lawyer Referral Service at 1-800-252-8916. The Martindale-Hubbel Law Directory may also be helpful. It contains a listing and rating of attorneys in your city; a copy may be found at the local library. The public library is also a source for reference books on legal topics. One such book is Small Business Legal Advisor by William A. Hancock, published by McGraw-Hill.

Bookkeeping

Access to proper information is provided by a sound bookkeeping

system. Functions of a good system include:

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

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

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

Accounting

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

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

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

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

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

Insurance Coverage

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

As with most businesses, adequate insurance coverage is strongly recommended for real property, liability insurance on vehicles and for workers' compensation (which is required in Illinois). Specialized insurance may be warranted in certain high-risk cases. Other types of insurance to consider include fidelity bonding, business interruption insurance, key person and executive liability and decision-making insurance. An insurance planner should be consulted for information on necessary coverage.

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 at 1-800-252-2923.

BUSINESS DEVELOPMENT CENTER NETWORK

The Illinois Business Development Center Network and Service Corps of Retired Executives (SCORE) offices can provide technical assistance, business plan development, finance, marketing, management, international trade, government procurement, energy management, and commercialization of technology-related products.

Additional information on these services is available through the Small Business Hotline.

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 gift shop firm or for learning more about this type of operation. These include trade associations, directories and reference books, periodicals, financial ratios, and government publications/assistance. A list of these for the gift shop industry is given below.

TRADE ASSOCIATION

Gift and Decorative Accessories Association of America. 372 Park Avenue South, New York, NY 10010. 212-689-4411.

DIRECTORIES AND REFERENCE BOOKS

Gift and Decorative Accessories Buying Guide. Geyer-McAllister Publications, Inc., 51 Madison Avenue, New York, NY 10010. 212-689-4411.

Gift and Tableware Reporter Gift Guide. Gralla Publications, 1515 Broadway, New York, NY 10036. 212-869-1300.

Giftware News--Tableware Directory and Management Guide Issue. Talbott Communications Corporation, 206 W. Huron, Chicago, IL 60610. 312-664-4040.

Souvenirs and Novelties Buyers Guide. Kane Communications, Inc., 7000 Terminal Square, Suite 210, Upper Darby, PA 19082. 215-734-2420.

PERIODICALS

Gifts and Decorative Accessories. Geyer-McAllister Publications, Inc., 51 Madison Avenue, New York, NY 10010. 212-689-4411.

Gifts and Tablewares. Southern Communications, Ltd., 1450 Don Mills Road, Don Mills, Ontario, Canada M3B2X7. 416-445-6641.

Giftware News. Talbott Communications Corporation, 206 W. Huron, Chicago, IL 60610. 312-664-4040.

FINANCIAL RATIOS

Almanac of Business and Industrial Financial Ratios. Prentice-Hall Inc., 1818 Ridge Rd., Englewood Cliffs, NJ 07632. 800-922-0579 or 201-592-2000.

Annual Statement Studies. Robert Morris Assoc., 1 Liberty Place, 1650 Market St., Philadelphia, PA 19103. 215-851-9100.

Industry Norms and Key Business Ratios. Dun and Bradstreet Credit Services, 1 Diamond Hill Rd., Murray Hill, NJ 07974. 800-223-0141 or 908-665-5224.

GOVERNMENT PUBLICATIONS

CENDATA. U.S. Department of Commerce, Bureau of the Census, Washington Executive Plaza, Room 315, Upper Marlboro, MD 20772. 301-763-2074.

County Business Patterns - Illinois. U.S. Dept. of Commerce, Bureau of the Census. Order from: Superintendent of Documents, U.S. Government Printing Office, Washington, DC 20402. 202-783-3238. In Chicago: Government Printing Office Bookstore, 219 S. Dearborn, Chicago, IL 60604. 312-353-5133.

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

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

GOVERNMENT ASSISTANCE

Illinois Department of Commerce and Community Affairs, Small Business Assistance Bureau. Springfield Office: 620 East Adams, Springfield, IL 62701. 800-252-2923 or 217-785-7546. Chicago Office: 100 West Randolph St., Suite 3-400, Chicago, IL 60601. 312-814-3263.

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

