

Restaurant Start-Up Profile

This report is a combined effort by the Illinois Institute for Rural Affairs and the Illinois Department of Commerce and Economic Opportunity. IIRA, through a contract with Katherine J. Henning, compiled the material and conducted the analysis. DCEO printed and distributed the document.

Layout by Nancy Baird, Illinois Institute for Rural Affairs.

Published by the Illinois Department of Commerce and Economic Opportunity
620 East Adams
Springfield, IL 62701
In Illinois 800/252-2923 or 217/782-7500
TDD: 217/785-0211

Also available electronically on the Illinois Institute for Rural Affairs' website (<http://www.iira.org>)

June 1999 (Revised July 2003)

Table of Contents

<i>Section</i>	<i>Page Number</i>
Introduction and Purpose	1
Restaurants Defined	2
Feasibility Study	2
Market Opportunity	3
Market Area of the Community	3
Economic Base of Potential Customers	5
Market Potential of a Specific Site	5
Determine the Restaurant “Concept”	6
Pro Forma Financial Statement	8
Facility and Equipment	9
Facility Design	9
Forms of Business Ownership	10
Sole Proprietorship	11
Partnership	11
Limited Partnership	11
Registered Limited Liability Partnership	11
Limited Liability Company	11
Corporation	12
S Corporation	12
Franchise	12
Professional Resources	13
Bankers, Accountants, Attorneys	13
Business Plan	13
Leasing	14
Financing	14
Traditional Lending	14
Venture Capital and Business “Angels”	15
Legal Issues	15
Registrations and Licenses	15
Taxes	16
Insurance	17
Advertising	17

Administration 18
 Hours and Staffing 18
Service and Policy 19
Suggestions for Success 19
Additional Assistance 20
References 22
Appendix A: Feasibility Checklist 23
Appendix B: Market Characteristics 29
Appendix C: Business Profile 33
Appendix D: Restaurant Financial Profiles 39
Appendix E: Business Plan Checklist 43

Restaurant Start-Up Profile

Introduction and Purpose

Starting a new business can be both complicated and confusing—even for experienced entrepreneurs. Working through the maze of financial requirements and the multitude of other hurdles that must be met to make a business operational is a formidable challenge, especially for those with minimal prior business experience. At the same time, in many small communities new businesses are an essential component of a successful economic development strategy.

Restaurants play an especially important role in many small communities. In addition to providing a place to obtain food service, these establishments can be a focal point to facilitate an exchange of ideas and an opportunity to build social capital. Consequently, having a restaurant on main street benefits both the owner and the community.

This guide grew out of requests by community leaders for assistance in determining whether a restaurant might be viable in their town and was prepared under contract with the Illinois Institute for Rural Affairs at Western Illinois University in a cooperative endeavor with the Illinois Department of Commerce and Economic Opportunity (DCEO). It is a resource to facilitate the start-up process for a restaurant and to help existing restaurant owners make decisions about expansion. Additional and more detailed information will be necessary before an actual decision to invest in a restaurant venture can be made, however. This guide contains information about characteristics of successful restaurants in Illinois to help potential entrepreneurs and local leaders with those decisions.

As Americans participate in a more complex and rapidly changing lifestyle, they eat out, pick up, or order in with increasing frequency. Based on data available in October 1997, the National Restaurant Association (NRA) forecasts 1998 sales of \$336.4 billion, up 4.7 percent over 1997 (1998). There was a 1.7 percent increase in real sales in 1997 and, after adjusting for inflation, real sales should increase 1.8 percent in 1998. Sales at full-service restaurants are expected to exceed \$110.3 billion, a 2.0 percent gain in constant dollars. In addition, menu prices are expected to increase approximately 3.0 percent in 1998, compared with a 2.8 percent gain in 1997. Sales are based on the definition of eating places, code 5812, in the North American Industrial Classification (NAIC) system, formerly the Standard Industrial Classification (SIC) system.

While the U.S. as a whole has seen an average restaurant growth of 5 percent annually during the past several years, in Illinois it has been much more conservative, with growth from 1992 to 1994 totaling just 2 percent. Nationally, the average sales per restaurant in 1992 was approximately \$450,000, while Illinois was comparable at \$442,000.

Restaurants Defined

We have all had meals in a variety of restaurants. The level of service provided, location, range of menu prices, and selection all add unique dimensions to a restaurant. Nevertheless, the restaurant industry uses specific criteria in classifying eating places, and the NRA classifies restaurants into three broad groups—(1) quick-service, (2) mid-scale, and (3) upscale (Goldman 1993, p. 59). Each of these types of eating establishments has different requirements for start-up:

Quick-Service or fast-food restaurants typically have limited menus, serve food prepared quickly for eat-in or takeout dining, and often offer drive-up service at a relatively inexpensive price.

Mid-scale restaurants generally offer full service meals at a perceived value. Variations of mid-scale restaurants offer somewhat limited service with customers ordering at the counter and food served at tables. Another variation of mid-scale restaurants is a small town cafe. A cafe or coffee shop typically has limited hours and a limited menu; however, meals are often flavored with local news or seasoned over casual business. The cafe may also be a community gathering or meeting place in lieu of a meeting hall.

Upscale restaurants offer fine dining with full table service, focusing on quality rather than on price. These restaurants may also include specialties such as Chinese, French, and other foreign or ethnic foods. Upscale restaurants are often used for special occasions such as birthdays and anniversaries. If the facility is large enough to accommodate banquets or special events, receptions and meetings are also scheduled in these restaurants.

In rural Illinois, some of the quick-service restaurants are not the typical franchise giants associated with the fast-food industry. Many are “mom and pop” restaurants serving a busy community. They often locate near schools and sport complexes. In other cases, a local ice cream stand may broaden service to include sandwiches or pizza.

Feasibility Study

Before starting a business, an investor must estimate whether both time and money should be spent on the venture. Unfortunately, not all good ideas make great businesses, or even generate a steady revenue stream. Determining the feasibility of a new business may be one of the most crucial decisions facing entrepreneurs. A broad feasibility checklist can be used to determine if an idea represents a genuine opportunity for starting a new business or expanding an existing one. The checklist in **Appendix A** includes both personal and market considerations.

NRA’s (1983) Research Department suggests five steps in conducting a restaurant feasibility study:

1. Research Your Market Area
2. Survey Potential Competitors
3. Analyze the Selected Site
4. Develop a Restaurant “Concept”
5. Construct a Pro Forma Financial Statement

Before starting any business, consideration must be given to who the customers will be and where the business will be located. Restaurants are no different than other businesses in this respect. The “concept” or type of restaurant and the market the owner is trying to reach are often the first and main considerations. If a specific ethnic food will be served, then the exact location and market must be evaluated. According to Realtors, location is the most important consideration. Certainly, researching both market and location thoroughly is well worth the time and effort. Selecting a site should be based on current information regarding market characteristics and the competition.

Market Opportunity

The first step in evaluating opportunities for a restaurant is to estimate the market and conduct a feasibility study. Successful restaurants usually rely on providing good food and high-quality service, supported by effective advertising and community involvement. Repeat business is especially important in a small town without a large number of visitors or people traveling through the community.

Market Area of the Community

The intended market area must include a sufficiently large customer base to support the restaurant. The economic base of a community should be stable and the demographic characteristics compatible with the project. Potential restaurateurs may want to contact wholesale food distributors for help in determining the probability of success in a community. Many distributors employ restaurant or real estate development specialists with guidelines based on “per capita weekly expenditures” to estimate the probability of success.

Additional information can be obtained from the economic censuses published by the U.S. Census Bureau. These data sets can be useful in determining the number of restaurants currently operating and the populations of communities where they are located. This information is also available from a network of Business and Industry Data Centers (BIDCs) supported by DCEO.

Business and Industry Data Center
620 East Adams Street, 6th Floor
Springfield, IL 62701
In Illinois 800/252-2923 or 217/785-7545

The Census Bureau web site is <http://www.census.gov/> and the regional office address is:

Chicago Regional Census Center
111 W. Jackson Boulevard, Suite 400
Chicago, IL 60604
Phone: 312/353-9191
Fax: 312/353-8957

Depending on the target market, some population characteristics are more relevant than others. For example, family style restaurants might be concerned with the number of households, the average income per household, and the average household size. Upscale restaurants might be more concerned with income levels because the cost of meals is an important consideration. Sources in the restaurant industry can assist in providing helpful purchasing patterns by age, family size, and other community characteristics.

Specific demographic characteristics that can help determine the potential market in a geographic area include the following:

- Residential population
- Number of households
- Average income per person and per household
- Average household size
- Nonresidential population
- Population by major age segments
- Average age
- Population by gender
- Significant ethnic groups
- Employment profiles

Another source of market information is Dun & Bradstreet Inc. (D&B), which collects and sells data to secondary users. Some D&B profiles may also be available from the BIDs or DCEO. Their Marketplace software can be queried by NAIC codes (Dun & Bradstreet 1998). Contact Dun & Bradstreet on the web at <http://www.dnb.com> or at the following addresses:

D&B Small Business Services
One Diamond Hill Rd.
Murray Hill, NJ 07974
800/552-3867

D&B Market Data Retrieval Services
One Forest Parkway, P.O. Box 2117
Shelton, CT 06484
800/333-8802

The population size and composition of a community and the surrounding area are factors in determining the size and type of restaurant that might prosper. Restaurants can survive in small communities if residents from surrounding communities patronize them or if they are located in an area with year-round tourism. We are all familiar with restaurants that draw from a relatively large area. Usually they are usually distinguished by quality of food, theme, or some other dimension. Accomplishing this differentiation almost certainly involves additional costs in advertising or other marketing strategies.

When considering a venture like a restaurant, it is important to remember that restaurants go where people go. In the case of Illinois, that means that 85 percent of the restaurants are located within counties included in Metropolitan Statistical Areas as defined by the U.S. Census Bureau. In general, the gross income of restaurants in these areas is greater than restaurants in more sparsely populated areas.

Data by county can sometimes be misleading. In some areas of the state, counties average more than 1,000 residents per restaurant, but the restaurants still gross far less than those in more populated areas which average 400 or 500 citizens per establishment. The pattern of higher average gross sales per restaurant in areas of higher populations occurs because of greater selection and active commerce in the more populated areas. More restaurants translate into more choice in dining; this brings in more diners and allows for higher prices to be charged. The more sparsely populated areas are usually made up of farms and similar businesses; typically, the demographics represented in those areas are on the lower end of the restaurant purchases in frequency and price.

One other community issue is the labor pool available to staff restaurants and there is an expected shortage in the future. The most prevalent age of food service workers is 16-24. Due to current population growth trends, this has become a smaller segment of the population. Thus, hiring in this age group has become more competitive, and entrepreneurs must consider this fact.

In selecting locations for restaurants, entrepreneurs must evaluate a variety of local factors and, in general, must try to find places with a viable market and limited competition. Detailed market information that can be used to help select potential market areas is provided in **Appendix B**. Specifically, the number of eating places, employees, sales, and population are listed by county population. This information is useful for several reasons. First, it provides general information regarding the number of restaurants currently in each county. In some sense, these restaurants will be competing with the new restaurant.

Second, a comparison of the number of persons per restaurant, along with the average sales, can provide insight as to potentially unserved markets. Finding an area with relatively few restaurants or a large number of residents served by each restaurant may suggest that there is room for additional restaurants to open. Certainly, this type of casual analysis does not substitute for a detailed feasibility study of a community; it does provide basic information about the general region, however.

Economic Base of Potential Customers

The keys to a successful restaurant are a stable economic base in the community and demographic characteristics compatible with the intended market. Banks or lenders will request this information as part of an application for a loan to finance the business. The economic base of a community can help identify the potential for success, as well as help to determine the type(s) of restaurant that might succeed. An industrial economic base might support a different type of restaurant than a white-collar clientele. Ethnic backgrounds in the community may also affect the types of food preferred and consumption patterns. The prosperity of an area affects personal income in that community and its surrounding areas and may also affect residents' attitudes about eating away from home.

It helps to learn about a community by observing and contacting residents. How do residents feel about the community? Is suitable employment available for the residents? What issues are emphasized in the local newspaper? Are other businesses opening in the area? Is there new construction? Is there a progressive chamber of commerce or local economic development group? Is there an area convention and tourism bureau? The answers to these questions help to evaluate whether a community is progressive and growing or whether development has become stagnant. Realistically, a restaurant is more likely to prosper in a community where other businesses are growing and resources are available to support and help new businesses.

Market Potential of a Specific Site

The goal in analyzing a potential site is to determine whether the market area available will support a restaurant. This analysis can also help to determine whether a specific market segment should be targeted in a given site. Location and site selection will be an up-front decision for the most part, but will have repercussions throughout the life of the restaurant. A convenient, accessible location for prospective customers as well as ample parking are the two most important factors to consider when initially evaluating property to buy or lease. A business that is difficult to find, or difficult to patronize because of inadequate parking will detract from the overall satisfaction of customers, and limit the chances of their returning business. The single largest monetary factor in a location is, of course, the cost of the property. Whether bought outright or leased, this will be a large part of the overall expense of the restaurant.

In analyzing the site, several factors should be considered:

1. The competitive environment
 - Number of restaurants already serve the proposed market area
 - Activity level of the restaurants (slow, somewhat busy, very busy)

- Positive factors common among the busiest restaurants
 - Apparent problems with the slow restaurants
 - Ways a new restaurant could gain a competitive advantage
 - Potential future developments in the area which could change the environment (shopping malls, highway bypass, and so on)
 - Potential effect new developments could have on the environment.
2. Characteristics and sources of potential customers
 - Does the supply of potential customers exceed the number of restaurant seats in the market area?
 - Can potential customers be drawn from other restaurants in the market area?
 - Can potential customers be drawn from outside the market area?
 3. The estimated sales potential for the market area based on a profit target for the restaurant
 4. Net Income Formula: Amount of sales to produce targeted amount of profit

<i>Formula</i>	<i>Example</i>
Sales = Profit Target	\$50,000 = \$850,000 in Sales
Net Income % of Sales	.058

Source: NRA 1995.

While such market comparison information can provide broad insights into the feasibility of a new restaurant, more detailed data are necessary to make sound business decisions. This information is available from several sources. First, D&B Marketing Service can provide lists of restaurants and limited information about output and sales volumes for the area. Although this information can be valuable, it does not include all businesses because the records are based on credit checks. This information is available by city which can be quite useful in determining expected profitability.

Second, useful information regarding sales tax receipts in broad “Kind of Business” categories is available from the Illinois Department of Revenue. These data are obtained from sales tax receipts and, in some instances, may include more than what might be considered restaurants in the usual sense of the word. If eating establishments also carry other lines of merchandise, then the sales of the restaurant portion may be overstated.

Third, DCEO has a network of BIDCs to assist investors in locating information needed to start a business. These BIDCs, combined with the Small Business Development Centers (SBDCs), can offer a range of useful services to help determine market feasibility.

Fourth, specific information about the number of restaurants that a region can support is available from professional groups and trade associations. **Appendix C** lists several resources, many of which provide free information and help.

Determine the Restaurant “Concept”

To fully analyze the feasibility of a proposed restaurant, the “concept” of the restaurant must be defined. The first step is writing a general concept statement which should include some of the following components:

- What will be the theme for the menu? Variety, deli, seafood, steak house, ethnic, or home-style, for example.

- What will be the level or style of the restaurant? Quick-service, mid-scale, or upscale?
- What will be the price structure of the menu?
- Will the menu have daily specials?
- Are there plans to match the decor of the restaurant to the items on the menu?
- Will there be entertainment or music?

After the restaurant concept has been determined, the components should be defined in writing. The concept statement is more of a general description than a detailed plan. A description of the type of menu being planned should list the types and number of items for the following categories: breakfast, lunch, sandwiches, appetizers, soups, salads, entrees, side dishes, beverages, and desserts.

Describe the planned atmosphere. The atmosphere or ambiance, along with the menu, should fit the type of restaurant (quick service, mid-scale, or upscale) determined by the market study. Customers will evaluate the atmosphere of the restaurant by the way it makes them “feel.” The atmosphere during the day may differ from the evening. Also, the atmosphere may vary by section of the restaurant.

Consider the following factors in creating a desired atmosphere:

- Formal or informal
- Soft lighting or bright
- Quiet or loud
- Cozy or open
- Romantic or social
- Singles or family
- Leisurely or busy
- Comfortable or functional

The process of creating the concept for the restaurant should involve the assessment of the information gathered during the market research discussed earlier. The research reflects how the market has performed in the past and speculates about the future. Both are based on the primary and secondary information gathered. Basing the concept of a restaurant on the market study does not always guarantee success, however. The concept may have to be adjusted after the restaurant is open.

Two additional concept components must be considered: size of the restaurant and operating criteria. Size of the restaurant may be predetermined by size of the site. Approximately 40 to 60 percent of a site is used for dining (Entrepreneur Magazine Group 1996, p. 37). A general guideline in estimating the number of seats is 12 square feet, depending on local code, to 18 plus feet per seat, for spacious dining. The remaining space is termed the “back of the house” and is used for food preparation, storage, dish washing, and offices. Finally, the days and hours of operation are listed in the concept statement. Decisions should be based on practices in other restaurants in the market, rather than on personal preferences.

A restaurant designer can help identify the most efficient setup for a business. In fact, if the size of the restaurant will warrant the expense, it would be wise to consult with a restaurant designer, an interior designer, and a graphic designer. The ideas presented by these professionals are still only viable based on the owner’s approval.

Pro Forma Financial Statement

Even the best pro forma statement is no assurance of success for a restaurant. Based on the market research and a few assumptions, however, the pro forma statement will help to organize, evaluate, and quantify the results. The pro forma statement shows the income or revenue minus the expenses for a specific period. The pro forma statement does not arrive at the true net income (or loss) for the restaurant because variables such as depreciation, income taxes, interest, zoning permits, and utility hookups are not easily estimated. Although some bankers and investors require one-, three-, or five-year estimates, a single year is usually sufficient in constructing a pro forma income statement.

The proposed restaurant's pro forma income statement percentage ratios should be compared with those of industry standards. *Restaurant Industry Operations Report* (1994), *Financial Profiles of the Small Business and Introduction to Financial Statement Ratios* (1995) are all good sources. More specific information such as balance sheet data, ratios, and income data for restaurants is contained in **Appendix D**.

Restaurant Worksheet		
Pro Forma Income Statement		
Time Period (Date And Year)		
	<i>Dollars</i>	<i>Percent</i>
Food Sales		
(List by time and source i.e. breakfast, lunch, or dinner for each: food, beverage, carryout)		
Total Food Sales	_____	_____
Cost of Sales		
(List by source: food, beverage, carryout)		
Total Cost Of Sales	_____	_____
Gross Profit	_____	_____
Controllable Expenses		
Payroll and Benefits	_____	_____
Direct Operating Expenses	_____	_____
Administrative and General	_____	_____
Utilities	_____	_____
Repairs and Maintenance	_____	_____
Advertising and Promotion	_____	_____
Music and Entertainment	_____	_____
Total Controllable Expenses	_____	_____
Net Operating Profit	_____	_____
Fixed Expense		
Rent	_____	_____
Insurance	_____	_____
Total Fixed Expenses	_____	_____
Earnings Before Interest, Depreciation, and Taxes	_____	_____

Facility and Equipment

After determining the market for the proposed restaurant, a specific location is selected. Building a new facility is usually more costly than converting an existing structure. Unique structures, train depots, fire stations, small warehouses, banks, or barns may hold potential for theme restaurants. High traffic areas provide the greatest exposure and should be considered, depending on access.

The exterior appearance of the restaurant is almost as important as the inside decor. Great advertising or even the best word of mouth endorsements cannot always compensate for lack of curb appeal. If the outside shows dirty windows, a dimly lit entrance, or an offensive sign, potential customers may turn away. The outside should be clean and inviting. If parking will be provided, the estimate is one spot for every three restaurant seats, with safe convenient access. Large restaurants must provide four percent of the first 100 parking spots for persons with disabilities and two percent of any additional parking to comply with the 1990 Americans with Disabilities Act.

The same care and detail applies to the inside of the restaurant. A fresh coat of paint, along with new tablecloths, recently upholstered seats, and appropriate wall decorations go a long way to promote the concept of the restaurant. If the entire restaurant is kept spotless from floor to ceiling, both customers and the health department will be more satisfied. Costly fines and closures can result from unsanitary restaurant conditions. The media has access to public health information and distributes it widely. Cleaning and maintenance are simply necessary business expenses.

Facility Design

The possible design and layout of the facility must also be considered. The first impression received is from the customer service area, including the waiting area, restrooms, coatroom, hostess stand, and cashier's station. The design of the dining space is also important since it represents approximately 50 to 70 percent of the facility. The dining space not only uses a majority of floor space, it is also the center of attention and consumes the bulk of the money for design and decorating. The concept of the restaurant will help determine the layout of tables and booths. Customers visiting table service restaurants arrive in pairs 40 to 50 percent of the time, 30 percent are alone or in groups of three, only 20 percent visit in groups of four or more (Entrepreneur Magazine Group 1996, p. 38).

Although most people seem to prefer the comfort of a booth, small tables for two customers can be pushed together for larger groups. To accommodate different groups of customers, place fixed booths around outer walls, allowing flexibility in the inner floor space. Place tables with enough space to assure comfortable seating and enough of a walkway for wait staff to move among tables.

The remaining space is for food preparation, storage, and office area. The food preparation area should provide an efficient movement of food from the kitchen to the dining room. The space should be arranged with everything only a few steps away from the cook, and should also allow two or more cooks to work side by side if warranted. The space needed for prep and steam tables, oven, grill and stove top, and small refrigerator and freezer, along with the exhaust fans needed for ventilation must be adequate. Larger refrigerators or walk-in coolers are used to store perishable items (Entrepreneur Magazine Group 1996, p. 40). A separate area is usually reserved for dish washing and trash. This area should be separate from that of the cooks and servers.

After the cost of the facility, the next largest start-up expense is equipment. Commercial food service dealers can help select the necessary equipment, for the type of restaurant chosen. It is wise to research the available options and take the necessary time to obtain competitive quotes. The potential cost savings of automatic or energy efficient and self-cleaning units should be considered. Used equipment may seem reasonably priced but, ultimately, may prove to be outdated or in poor

condition. Check the vendors' return and guarantee policy. Not all equipment must be purchased from one vendor. Standard equipment is less costly than custom items to purchase, install, and maintain.

To completely equip a restaurant, the purchase of furnishings for the entryway, restrooms, dining room, kitchen, storage, office, and employee areas must be included. The restaurant concept should be carried through to the dinnerware. Table 1 shows typical start-up costs for full-service restaurants. The low end is a 525 square foot restaurant with gross annual sales of \$400,800 and seating for 35 customers. The high end is a 6,700 square foot restaurant with gross annual sales of \$3.6 million and seating for 260 customers, plus a bar. Both scenarios are for restaurants in metropolitan areas with good lunch and supper business. The operating expenses projected for the first three months of operation are listed in "Suggested Operating Capital."

Start-Up Costs		
Item	Low	High
Rent (Sec. Dep. & 1st Month)	\$ 4,250	\$ 102,000
Initial Inventory	10,648	76,395
Equipment/Fixtures	55,749	138,511
Leasehold Improvements	16,700	31,250
Licenses/Tax Deposits	150	300
Phone/Utilities Deposits	50	350
Owner/Manager	4,200	5,000
Employees	7,600	77,500
Grand Opening Advertising	1,800	16,169
Legal Services	675	300
Accounting	0	1,500
Insurance	1,794	5,100
Miscellaneous	300	500
Total Costs	\$103,916	\$454,875
Suggested Operating Capital	\$ 47,782	\$477,468

Source: Entrepreneur Magazine Group 1996, p. 235.

Forms of Business Ownership

Several legal forms of ownership are possible, including sole proprietorship, partnership, limited partnership, corporation, or an S Corporation. Each has advantages and disadvantages. Before deciding on what form of business ownership, potential investors should consult an attorney who specializes in these issues.

Sole Proprietorship

Although a sole proprietorship is the simplest form of business ownership, it has major disadvantages for small business owners. If the business experiences financial difficulties, creditors of the business can seek and attach the owner's personal property; therefore, personal credit can be adversely affected.

Partnership

A general partnership consists of two or more persons, each responsible for her or his own actions as well as the actions of the other partner(s). All partners are personally responsible for debt assumed on behalf of the business, no matter which partner incurred the debt. Once an individual contributes assets to the business, personal ownership is lost, as assets become equity of the business.

Limited Partnership

Limited partnership relationships are in addition to those individuals who are general partners and only have liability to the amount personally invested in the business. Limited partnerships are common in real estate. The office of the Secretary of State can be contacted for additional information or to file for a limited partnership.

Illinois Secretary of State
17 N. State (filing only)
Room 1137
Chicago, IL 60602
312/793-2872

Illinois Secretary of State
Howlett Building
Room 357
Springfield, IL 62756
217/785-8960

Statewide TDD: 800/252-2904 or 217/524-1137

Registered Limited Liability Partnership

If organized as a Registered Limited Liability Partnership under a specific section of the General Partnership Act, partners are not liable for the debts, obligations and liabilities of, or chargeable to the partnership. An application must be approved and filed by the Secretary of State. Renewal applications must be made annually.

For information, write or call:

Registered Limited Liability Partnership Section
Room 357, Howlett Building
Springfield, IL 62756
217/524-4952

Limited Liability Company

A Limited Liability Company (LLC) is the non-corporate form of doing business that provides its owners with limited liability, flow-through tax treatment and operating flexibility through participation in management of the business. The LLC is well suited for every type of business venture, except banking and insurance which are prohibited by Statute. Examples of acceptable businesses are: farming, agricultural services, mining, construction, manufacturing, transportation, wholesale and retail trade, investment companies, insurance agents, real estate brokers, all types of real estate ventures, hotels, personal and business services, automotive sales and services, amusement and recreation, health services, accounting, architecture and other professions, just to name a few. Many

Illinois businesses could obtain personal limited liability protection by restructuring as an LLC with a minimum of one owner.

For a packet containing organization information, write or call:

Limited Liability Company Section
Room 359, Howlett Building
Springfield, IL 62756
217/524-8008
TDD: 800/252-2904

Corporation

A corporation is a separate entity from the owner(s) and, therefore, is only legally responsible for the actions and debt of the business. If the corporation experiences financial difficulties, creditors of the business can seek and attach the shareholder's and/or officer's personal property; therefore, personal credit can be adversely affected. Operating a corporation in the correct legal and financial manner ensures protection from its liabilities. The disadvantage of a corporation is double taxation: the corporation must pay taxes on net income, and the shareholders pay taxes on dividends received. Articles of Incorporation must be filed with the Secretary of State outlining the purpose of the corporation. For more information, contact the Illinois Secretary of State, Business Services, Springfield office.

Secretary of State/Business Services
Room 328, Howlett Building
Springfield, IL 62756
217/782-6961
TDD: 217/782-0238

S Corporation

Illinois also allows for the formation of S Corporations when starting a business. An S Corporation does not pay taxes on its income. Rather, the income and expenses are divided among shareholders who must report them on their personal income tax returns. The disadvantage is that an S Corporation is limited to 35 shareholders. To request a copy of Tax Information on S Corporations, Publication 589 contact:

Internal Revenue Service (IRS)
Forms Distribution Center
P.O. Box 8902
Bloomington, IL 61702-8902
800/829-3676 or TDD 800/829-4059

Franchise

Overall, franchises provide the most structured method of entering into ownership and, as such, are very popular with those with enough capital to purchase one. Franchises make up 70 percent of restaurant chains, but the percentage varies greatly from one individual corporation to the next. For instance, the Wendy's chain is 73 percent franchisee owned, while Ryan's Family Steak Houses, Inc. is only 11 percent franchisee owned. All other restaurants in the chains are fully operated by the corporation. This information and similar industry statistics can be found in *Standard and Poor's 1998 Annual Report*.

Professional Resources

It is important to choose bankers, accountants, and attorneys wisely in order to best utilize the services of these skilled professional consultants.

Bankers, Accountants, Attorneys

Bankers, for example, provide a source of funds for starting a business but can also assist businesses in finding solutions to difficulties. The closer the relationship of the business with the proper bank personnel, the better the chances of obtaining loans and special attention in marginal situations. The U.S. Small Business Administration (SBA) also has several services for small businesses, including help in creating or updating the business plan.

Record-keeping, payroll, and accounting are all necessary elements for business success. Record-keeping and payroll are functions provided for or by the business. Accounting is the analysis of those functions, giving the owner a clear picture of the strength and status of the business. Accountants may assist in establishing the type and arrangement of books most suitable for a business and may also provide tax advice and reminders of important dates.

Attorneys generally cover a variety of specialties. It is important to hire one with the specific expertise needed. Among the most important considerations are availability and time for clients, and expertise in the restaurant or food service field.

Business Plan

A business plan is essential to obtaining financing and giving a business overall direction. The business plan is an excellent way to communicate with bankers, partners, suppliers, and other interested parties. Creating a business plan gives the owner a realistic approach to short-term implementation of the business during the next three to five years. Contact the First Stop Business Information Center at the address below:

620 E. Adams Street
Springfield, IL 62701
800/252-2923 or TDD 800/785-6055

Business plans vary with type of business; however, business plans generally follow a similar format containing the following components:

- Cover or title page
- Plan summary
- Operating or management plan
- Marketing plan
- Human resource management
- Financial data
- Owner's experience and expertise

An accountant or a local SBDC can help prepare a thorough plan. An SBDC business plan checklist is provided in **Appendix E**.

Leasing

For businesses just beginning, leasing is often an attractive option. A short-term lease with an option to extend the contract can help safeguard against a large amount of money being spent on the property if the restaurant fails, and also keeps the option open to extend the lease if the business is successful. Another advantage of leasing is the ability to change locations at the end of the lease if another is deemed to be more appropriate or profitable. Include in the lease first option to buy if lessor decides to sell the property.

One type of lease, the percentage lease, often is chosen for new businesses because of its structure. Through it, the owner of the property receives a set base rent as well as a percentage of the gross revenue. This can aid both parties as the restaurant grows: The restaurateur can get a lower base rent, and the landlord has an opportunity to expand this margin. It is important to insert a clause in such an agreement to put a maximum on the rent.

Another advantage of leasing the property is being able to negotiate conditions on such things as internal and external signs, lawn care, ice and snow removal, remodeling costs, alterations to the building itself, and whether or not it is permissible to expand or engage in additional lines of business.

Financing

Start early and be patient when seeking financing. An estimated 80 percent of the fastest growing companies have been financed solely by founders using personal savings, credit cards, second mortgages, customer advances, extended terms from vendors, and other creative bootstrap techniques (Bygrave 1994, p. 176). All financing comes at a cost. Restaurateurs have more control using their own capital than if they borrow; the more people and dollars involved in financing the restaurant, the less equity for the restaurateur.

Traditional Lending

If the amount of start-up capital needed exceeds available cash reserves, look internally first to family, friends, or close business associates. Regardless of the way in which the funds are borrowed, the money should still be treated as a loan. To help avoid risk or misunderstandings, present the business plan and explain the risks. Prepare and sign loan papers for each funding source.

The next most readily available source of funds is a local commercial bank. Again, be prepared to present a business plan. Explain why the restaurant should succeed and the possible risks involved. Banks will usually require some type of collateral to secure a loan. It is possible to put up real estate or life insurance. Inventory and equipment may also be used as collateral.

If the restaurant is to be independently owned and operated, but adequate private financing has not been obtained, the SBA can be contacted. SBA loans are known as loans of last resort. The SBA bases its decision to loan funds on a business's ability to succeed. The formula used is guided by the assigned NAIC code and standards for success in that classification system. Interest is calculated based on the cost of money paid by the government. There is no maximum loan amount for a SBA guaranteed loan; however the SBA share is limited to lesser of 75% or \$750,000 (SBA n.d.).

The SBA also has the LowDoc Loan Program. LowDoc loans do not require as much paperwork and have a somewhat shorter response time. The maximum loan amount for a LowDoc loan is \$100,000; loans for less than \$50,000 require relatively little paperwork. The SBA's primary consideration for this type of loan is a borrower's ability and willingness to repay the loan, supported by credit history and past or projected cash flow.

Venture Capital and Business “Angels”

The venture capital market best serves those companies that start in the high-potential category for growth investors. The standard investment is \$1,000,000. Venture capital is worth considering when the restaurateur is ready to expand into a chain of restaurants.

Business “Angels,” on the other hand, are still investors; however, they are generally more likely to accept equity investments. Many are local or regional residents familiar with the area and market. Characteristically, they are first generation self-made millionaires active in civic or charitable causes. (Look for their names via the local media in membership lists of boards of directors.) In addition, they tend to be risk takers. (Check with the Federal Aviation Administration [FAA], U.S. Coast Guard, and state motor vehicle public records for private pilots, and owners of recreational or high-performance vehicles.) Make a list before contacting some of the more familiar names.

Legal Issues

As always, read about the issues and ask questions if you are uncertain of anything! Fact-finding prior to opening a business reduces risk. Document or retain everything, including a telephone log and contact lists, in well-organized files.

Registrations and Licenses

Most local jurisdictions have licensing and zoning regulations for restaurants. Make sure all the proper local individuals, offices, and agencies are contacted. Do not forget to contact both the City Clerk and County Board Offices. Also, contact the County Health Department to determine the type of license(s), regulations, and inspections required by the county. Festival and special event food vendors should contact local authorities to determine if special permits are required. Depending on the type of restaurant and event, it can be used as an opportunity to gain exposure, attract customers, and promote positive public relations.

The Illinois Department of Public Health (IDPH) administers approximately 200 programs and services that promote the health of Illinois citizens. In terms of the restaurant business, the major responsibilities of the IDPH are food safety and restaurant inspections. These responsibilities go along with the main purposes of IDPH, which include the prevention and control of infectious and communicable diseases; the reduction and elimination of exposure to environmental hazards; and the awareness of a safe, wholesome, and nutritious food supply. Contact the Illinois Department of Public Health on the web at <http://www.idph.state.il.us/> or at

100 W. Randolph, Suite 6-600
Chicago, Illinois 60601
Phone: 312/814-2608
Fax: 217/782-3987
TDD: 800/547-0466
Electronic Mail: mailus@idph.state.il.us

535 West Jefferson Street
Springfield, Illinois 62761
Phone: 217/782-4977

If the market research and plans include serving alcohol, be especially careful of local liquor zoning laws. Although the state allows restaurants to serve alcohol and, in certain instances, sell package liquor, not all townships or cities can issue a liquor permit. Some jurisdictions will only issue a certain number of permits within a geographic area. Strict regulations can be imposed with stiff fines to help enforce local law(s). Restaurant owners, servers, and customers can be penalized for violating the law.

The State of Illinois requires restaurant owners serving alcohol to acquire a liquor license. The Illinois Liquor Control Commission has a web site containing information and license application forms://www.state.il.us/lcc/default.htm. Additional information is available by contacting the Commission at either of the following locations:

100 W. Randolph
Suite 5-300
Chicago, IL 60601
Phone: 312/814-2206
Fax: 312/814-2241
TDD: 312/814-1844

222 S. College, Room 100
Springfield, IL 62704
Phone: 217/782-2136
Fax: 217/524-1911

Taxes

Restaurant owners face many responsibilities in the operation and management of their businesses; including federal tax requirements. Since these can be varied and complex, the Internal Revenue Service (IRS) has developed a special location on its web site, the Digital Daily (www.irs.gov), which provides specific industry information for those that are already engaged in or intend to enter the business.

To get to the restaurant information click on the "Business" link in the left hand "Contents" section of the page, then follow the links, "Small Business/Self-Employed", "Industries Professions", and "Restaurants" to reach the desired location. The information found in this section can also be accessed by using the site's search engine.

This web site contains a wealth of information regarding compliance with federal tax obligations such as payment of income, Social Security/Medicare, and employment taxes. It also addresses the requirements of proper tip reporting and how to take advantage of specific provisions in the law favorable to restaurant owners. In addition, to the federal tax information, there is also a great deal of general information that can be accessed by clicking on the "Related...", "Financial Resources...", and "Restaurant - Trends and Statistics" links. These sites provide information regarding professional associations, potential sources of financing, and industry specific statistics.

A significant aspect of federal tax compliance is the filing of all required tax returns and the payment of any liabilities due. The IRS encourages all small business owners to consider use of its numerous options to file and pay electronically such as:

- IRS e-file for the filing of individual and self-employed tax returns
- Employment Tax e-file for filing business returns
- And the Electronic Federal Tax Payment System (EFTPS) for payment of individual and business liabilities

Specific information regarding the filing of tax returns electronically can be found on the IRS web site by clicking on the blue "IRS E-File" logo. More information regarding the payment of federal tax liabilities can be found at the EFTPS website: www.eftps.gov.

If you have questions regarding any of the information obtained on the web site, please contact the Business and Specialty Tax Line at 1-800-829-4933.

Insurance

Proper insurance helps manage risk, but no business can eliminate it entirely. It is important to know the kind(s) of insurance and how much to carry. Factors to consider are (1) probability of loss, (2) resources available to meet the loss, and (3) size of potential loss. Considering the size and frequency of loss to the restaurant helps determine if insurance is required or if the loss should be considered part of normal business operations. The restaurant's financing source may have insurance guidelines or special requirements. The following are the types of coverage commonly considered (Entrepreneur Magazine Group, 1996, pp. 150, 152):

- Fire and general property insurance—covering fire losses, vandalism, hail, and wind damage
- Plate-glass insurance—covering window damage
- Consequential-loss insurance—covering loss of earnings or extra expenses when business is suspended due to fire or other catastrophe
- Burglary insurance—covering forced entry and theft of merchandise and cash
- Fidelity bonding—covering theft by an employee
- Fraud insurance—covering counterfeit money, bad checks, and larceny as well as stolen credit cards
- Public-liability insurance—covering injury to the public such as customer or pedestrian falling on the property
- Product-liability insurance—covering injury to customers arising from the use of goods purchased through the business
- Worker's compensation insurance—covering injury to employees at work
- Life insurance—covering the life of the owner(s) or key employee(s)
- Business-interruption insurance
- Malpractice insurance—covering owner against claims from customers who suffer damages as a result of services performed
- Errors and omissions insurance--covering the store against claims from customers who suffer injury or loss because of errors made, or things that should have been done but were not done.

Many insurance agents concentrate on homeowners and auto insurance. Be sure to contact an insurance agent with experience in commercial insurance.

Advertising

Advertising informs potential customers of services available. Selecting the right media helps promote the restaurant at the lowest cost to those customers. The effectiveness of available advertising should be compared to determine the following: How selectively does the media reach your market? How often or intense is the media? Does the media portray the right impact on the market? What is the cost per contact? Estimate at least 10 percent of the first year's projected gross sales for advertising.

Plan something special for the grand opening; inform local media, and take advantage of the free press. Continue advertising on a regular schedule to create consistency in business, but do not repeat the same message over a long period. Change the advertising to keep customer attention. Do not postpone advertising until business drops off; it may be too late to regain momentum.

Restaurant advertising does best by word of mouth and through the following media:

- Television
- Radio
- Newspaper
- Magazines
- Direct mail
- Yellow Pages
- Public transportation
- Billboards
- Internet home page
- Free-net in community
- Chamber of Commerce
- Visitor's Bureau
- Convention Bureau
- Supporting non profit organizations
- Free press (if available in the community)
- Community involvement

Specialty advertising (e.g., cups, matchbooks, calendars, and so on) also work well for restaurants. Consider developing a logo with the restaurant's "concept." For example, incorporate a sports graphic with the restaurant's name to create a visual recognition. Once the restaurant is operational (and cash flow allows), consider some type of sponsorship. Team sports usually require a sponsorship fee along with some type of clothing, (e.g., shirts, jackets, or hats) with the restaurant's name and logo. Sponsorship creates not only a medium for advertising, but also community good will and loyalty from the players, their families, and friends. Some restaurants sell clothing and specialty items as souvenirs. Keep in mind the original restaurant concept is still being promoted.

Administration

Hours of operation for the restaurant vary with the concept and are not only difficult to judge but may be difficult and expensive to staff.

Hours and Staffing

While one restaurant is open 24 hours, another is open only for the evening dinner business and another may only open in the morning for coffee and breakfast. Mid-scale family restaurants are usually open the longest number of hours. Some restaurants are closed one or two days a week. The early part of the week is generally considered slower; therefore, Sunday, Monday, or Tuesday is often chosen as a cost consideration. Think about the restaurant's market and competition. For example, whether the culture or religion of the majority of your market regard Sunday as a day of worship. If the effect is slow business, respect your customers and staff, and take the day off. If your competition is ethnic restaurants, traditionally closed on Monday, stay open to attract business.

One busy family-owned and operated Mexican restaurant closes every Tuesday, a week during the Mexican Fiesta in September, two weeks for vacation, and all weekends if a family member is graduating or getting married. The events and dates are posted on the marquee in advance to inform

customers of upcoming closings. During lunch and supper, the restaurant is filled with loyal customers. Friday and Saturday evenings are standing room only while waiting for an available table. While fixed costs are a consideration, family and heritage are high priorities.

If employees are assigned to work holidays, consider rotating schedules when possible. In appreciation for hard work, a popular Bar-B-Q restaurant closes early on the Fourth of July to reward its employees. The employees' families and other guests are also invited. Another example is a neighborhood bar and grill that is open every Easter Sunday, but not on Mother's Day.

Until regular business and customers are established, it may be difficult to know how much help to employ and schedule on a regular basis. Students may be grateful for being released from work early if business slows in the evening. Students may also soon find another job if they do not work enough regular hours to pay expenses. Seasonal business will also affect hours. A pizza parlor may be empty during a school ball game, but if open when it finishes, it must be sure to employ enough staff. A log of hours scheduled and hours that employees are sent home should be monitored and compared with cash register sales to help anticipate necessary adjustments on the next schedule. Sales and labor logs should be kept from day one. This charts progress and trends and helps in planning future inventory needs.

Service and Policy

The better the service a restaurant gives, the less need for company policy to handle problems. Communicate and practice good customer service as company policy. Refer to the Feasibility Checklist in **Appendix A**. Do you like working with people? Hire employees who also like working with people. Although steps are taken in the best restaurants to provide excellent service, when serving the public, anything can go wrong. Decide ahead of time what level of responsibility to give employees. Should an employee be empowered to resolve problems on the spot? Alternatively, does a problem require a solution from someone of higher authority? Either way has both tangible and intangible costs, along with possible frustrations.

When a customer has a problem, keep in mind why you are in business and who is paying. The worst and best advertising is word of mouth. If a business does something right, the customer generally tells one to three people. However, if a business does something wrong, the customer tells 12 to 15 people. Think back to the last time that you had a great dining experience, and think to when something went wrong or the food was not so great. The number of good experiences generally outweigh the bad. The unpleasant experience can have a greater effect on our senses; therefore, it leaves a more vivid and long-lasting memory.

Suggestions for Success

The customers' perception of the restaurant's concept is an important factor in success. Once the restaurant is open, quality feedback from customers is important. Does the concept need adjustment? Observe and talk with customers. What does the wait staff overhear? Are their tips good? Are certain menu items ordered more often than others? What menu items are left on the plate? Are the portions too large or too small? Consider carefully how the market you have created reacts to your concept. Repeat customers and word of mouth endorsements are priceless.

The SBDC web site (<http://www.commerce.state.il.us>) provides the following list of 15 reasons why businesses fail:

1. Lack of experience

2. Lack of capital
3. Poor locations
4. Inventory
5. Equipment
6. Poor credit practices
7. Personal expenses
8. Premature expansion
9. Bad attitude
10. Too many expenses
11. Poor collections
12. Low sales
13. Inventory mismanagement
14. Competition
15. Crime

Additional Assistance

The Illinois Restaurant Association is the trade association for Illinois-based restaurant/food service establishments. For more information on membership and benefits contact them on-line at: www.illinoisrestaurants.org or:

Illinois Restaurant Association
200 N. LaSalle St., Suite 880
Chicago, IL 60601
800/572-1086

The Illinois DCEO has programs and publications available to help in opening and operating small businesses. The First-Stop Business Information Center of Illinois publishes a handbook entitled *Starting a Business in Illinois*, which provides general business start-up information, tax requirements, information for businesses with employees, poster display requirements, and information regarding business registration in Illinois. The handbook is available through the Internet or by contacting First Stop directly:

First Stop Business Information Center
620 E. Adams Street
Springfield, IL 62701
800/252-2923 or TDD 800/785-6055

Small Business Resource Centers provide useful, free information for entrepreneurs. Several reports are available on the web (at <http://www.webcom.com/seaquest/sbrc/reports.html>) or by contacting the Small Business Resource Center directly:

The Small Business Resource Center
C/O Sea Quest
184 May Avenue
Monrovia, CA 91016
Fax: 626/359-2228

The following are titles of reports available from the SBA Resource Center that are helpful to restaurateurs:

- *How To Prepare an Effective Business Plan*
- *How To Raise Money To Start Your Own Business*
- *Questions To Answer Before You Buy a Franchise*
- *How To Start a Catering Service*
- *How Much Is Your Business Worth?*
- *Survival Tips for All Kinds of Small Businesses*
- *How To Get Free Radio Advertising for Your Business*
- *Achieving Excellence in Sales and Salesmanship*
- *Inside Secrets of Free Publicity*

The reports are comprehensive and cover a variety of topics regarding finding and starting a business and running a business more effectively.

Other resources to consider are state universities. Many have business development or research centers. For example, the Illinois Institute for Rural Affairs (IIRA) at Western Illinois University (WIU) provides economic and community development assistance in rural Illinois counties. IIRA also administers the Rural Economic Technical Assistance Center (RETAC), which provides direct technical assistance and is an excellent source for a variety of economic data, including industry pull factors, traffic counts, and secondary research. For more information about IIRA and RETAC services, contact them at the following addresses:

Illinois Institute for Rural Affairs and
Rural Economic Technical Assistance Center
Western Illinois University
1 University Circle
Macomb, IL 61455-1390
800/526-9943
309/298-1031
Fax: 309/298-2142
<http://www.iira.org>

There are several ways to start in the restaurant business. Measure the pros and cons, and compare the necessary investment with the amount of money available to invest. Experienced restaurateurs and business experts are the best resources for advice to help start and keep a restaurant from becoming one of the many businesses that fail each year. Once relationships are established, continue to communicate after the restaurant is operational.

References

- Bygrave, William D. 1994. *The Portable MBA in Entrepreneurship*. New York: John Wiley & Sons, Inc.
- Dun & Bradstreet. 1998. *DB MarketPlace* (4.0 CD Rom).
- Entrepreneur Magazine Group. 1996. *Entrepreneur Business Start-up Guide—Starting A Restaurant* (No. 1279). Irvine, CA: Entrepreneur Magazine Group.
- Financial Profiles of the Small Business and Introduction to Financial Statement Ratios* (5th ed.). 1995. Folly Beach, SC: Halcyon Group.
- Goldman, Keith. 1993. Concept Selection for Independent Restaurants, *Cornell Hotel & Restaurant Administration Quarterly* (December).
- National Restaurant Association (NRA). 1983. *Conducting a Feasibility Study for a New Restaurant*. Washington, DC: The Research Department, National Restaurant Association.
- NRA. 1998. *1998 Restaurant Industry Pocket Factbook*. Washington, DC: National Restaurant Association. Available from <http://www.restaurant.org/research/pocket/index.htm>
- NRA. 1995. *Restaurant Industry Operations Report 1995*, National Restaurant Association, Exhibit A-13 Full Service Restaurants (Average Check Per Person Under \$10) Statement of Income and Expenses-Ratio of Total Sales, Income Before Taxes. Washington, DC: National Restaurant Association.
- Restaurant Industry Operations Report*. 1994. Washington, DC: National Restaurant Association and Deloitte & Touche LLP.
- Small Business Administration (SBA). n.d. Available from <http://www.business.uab.edu/school/sbdc/LoanProg.html>
- Small Business Development Center. *Fifteen Reasons Why Businesses Fail*. Available from <http://www.commerce.state.il.us/>
- U.S. Bureau of Census, Customer Services, Washington, DC 20233, Phone: 301/457-4700, Fax: 301/457-4714

Appendix A: Feasibility Checklist

Perhaps, the most crucial problem you will face after expressing an interest in starting a new business or capitalizing on an apparent opportunity in your existing business is determining the feasibility of your idea. Getting into the right business at the right time is simple advice, but advice that is extremely difficult to implement. The high failure rate of new businesses and products indicates few ideas result in successful business ventures, even when introduced by well-established firms. Many entrepreneurs strike out on a business venture convinced of its merits, but they fail to evaluate its potential. This checklist should help you evaluate a business idea. It is designed to screen out ideas that are likely to fail before you invest extensive time, money, and effort in them.

Preliminary Analysis

You should realize your personal limitations and seek appropriate assistance where necessary (i.e., marketing, legal, financial). Few people have expertise in doing a feasibility study. A feasibility study involves gathering, analyzing and evaluating information by answering: “Should I go into business?” Answering this question involves a preliminary assessment of both personal and project considerations. Financial statistics are available from most businesses, trade and industry associations, private companies, banks, universities, public libraries and government agencies.

General Personal Considerations

The first series of questions ask you to do self-introspection.

Are your personality characteristics such that you can adapt to and enjoy small business ownership/management?

Do you like to make your own decisions?

Do you enjoy competition?

Do you have willpower and self-discipline?

Do you plan ahead and get things done on time?

Can you take advice from others?

Can you adapt to changing conditions?

[Do you like working with people?]

The next series of questions stress the physical, emotional, and financial strains of a new business.

Do you have the physical stamina and emotional strength to handle a business?

Do you understand that owning your own business means working 12-16 hour days, maybe six days a week and holidays?

Are you prepared to lower your standard of living for several months or years?

Can you afford to lose your savings?

Specific Personal Considerations

Do you know why you are considering this business opportunity?

Do you know which skills and areas of expertise are critical to the success of your business?

Do you possess these skills and know how to effectively utilize them?

Can you find personnel who have the skills, abilities, and expertise you lack?

Can you perform the feasibility study or have the time or money to do so?

Will this business opportunity effectively meet your career aspirations?

General Project Description

1. Describe the business you want to enter.
2. List the products/services you want to sell/offer.
3. Describe who will use your products or services.
4. Why would someone buy your product/services?
5. What kind of location do you need?
6. List product/service suppliers.
7. List your major competitors (who provide similar products or services).
8. List the labor and staff you require to provide your products/services.

Requirements for Success

To determine whether your idea meets the basic requirements for a successful new project, you must answer one of the following questions with a “yes.”

1. Does the product/service/business serve an under-served need?
2. Does the product/service/business serve an existing market in which demand exceeds supply?
3. Can the product/service/business compete with existing competition because of an “advantageous situation” i.e., better price, location, etc.?

Major Flaws

A “yes” response to these questions indicates the idea has little chance for success.

1. Are there any causes (i.e., restrictions, monopolies or shortages) that make required factors of production unavailable (i.e., unreasonable cost, scarce skills, energy, equipment, technology, material, process, or personnel)?
2. Are capital requirements for entry or continuing operations excessive?
3. Are there any extraordinary circumstances that would make financing hard to obtain (i.e., bankruptcy or bad credit)?
4. Are there potential detrimental environmental effects?
5. Are there factors that prevent effective marketing?

Desired Income

The following questions should remind you that you must seek both a return on your investment in your own business as well as a reasonable salary for the time you spend in operating that business.

1. How much income do you desire?
2. Are you prepared to earn less in the first 1-3 years?
3. What minimum amount of income do you require?
4. What financial investment is required for your business?
5. How much could you earn by investing this money?
6. How much could you earn by working for someone else?
7. Add the amounts in 5 and 6. If this income is greater than what you can realistically expect from your business, are you prepared to forego this additional income to be your own boss with only the prospects of more substantial profit/income in future years?
8. What is the average return on investment for a business of your type?

Preliminary Income Statement

You need to know the business income and expenses. Show profit/loss and derive operating ratios on income statements.

1. What is the normal markup in this line of business, i.e., the dollar difference between the cost of goods sold and sales, expressed as a percentage of sales?
2. What is the average cost of goods sold as a percentage of sales?
3. What is the average inventory turnover, i.e., the number of times the average inventory is sold each year?
4. What is the average gross profit as a percentage of sales?
5. What are the average expenses as a percentage of sales?
6. What is the average expenses net profit as a percent of sales?
7. Take the preceding figures and work backwards using a standard income statement format and determine the level of sales necessary to support your desired income level.
8. From an objective, practical standpoint, is this level of sales, expenses and profit attainable?

Market Analysis

The primary objective of a market analysis is to arrive at a realistic projection of sales.

Customer Base

1. Define the geographical areas from which you can realistically expect to draw customers.
2. What is the makeup of population in these areas, average family size, age distribution and per capita income?
3. What do you know about the population growth trend in these areas?
4. What is the consumer's attitude, shopping/spending patterns of business?
5. Is the price of your product or service important to your target market?
6. Can you appeal to the entire market?
7. If you appeal to only a portion of the market, is that segment enough to be profitable?

Competition

1. Who are your major competitors and their strengths/weaknesses?
2. Are you familiar with factors concerning your competitors' price structure, product lines (quality, breadth, width), location, source of supply, promotional activities and image from a consumer's viewpoint?
3. Do you know of any new competitors or competitor's plan for expansion?
4. Have any firms of your type gone out of business lately? If so, why?
5. Do you know the sales and market share and profit levels of each competitor?
6. Do you know whether the sales and market share and profits of each competitor are increasing, decreasing or stable?
7. Can you compete with your competition?

Sales

1. Determine the total sales volume in your market area.
2. How accurate is your forecast of the total sales? Is it based on concrete data?
3. Is the estimated sales figure "normal" for your market area?
4. Is the sales per square foot for your competitors above the normal average?
5. Are there conditions or trends that could change your forecast of total sales?
6. Do you plan to mark down products occasionally to eliminate inventories?
7. If you do not carry over inventory, have you adequately considered the effect of mark-down in your pricing? (Profit margin may be too low.)
8. How do you plan to advertise/promote your product/service?
9. Forecast the total market share you can realistically expect—as a dollar amount and as a percentage of your market.
10. Can you create enough competitive advantages to achieve the market share in your forecast of the previous question?
11. Is your sales forecast greater than the sales amount needed to guarantee your minimum income?

12. Are you optimistic/pessimistic in your forecast of sales?
13. Are you willing to hire an expert to refine the sales forecast if needed?
[This is what a good supplier can do for you.]

Supply

1. Can you make an itemized inventory list of operating supplies needed?
2. Do you know the quantity, quality, price ranges, technical specifications and name/location of potential sources of supply?
3. Do you know delivery schedule, credit terms and sales of each supplier?
4. Do you know the risk of shortage for any critical materials or merchandise?
5. Do you know if the price allows you to achieve an adequate markup?
6. Do you know which supplies have an advantage relative to transportation costs?

Expenses

1. Do you know your necessary expenses, rent, wages, insurance, utilities, advertising, and interest, etc.?
2. Do you know which expenses are direct, indirect or fixed?
3. Do you know how much overhead will be?
4. Do you know how much selling expenses will be?

Miscellaneous

1. Are you aware of the major risks associated with your product/business/service?
2. Can you minimize these major risks or are they beyond your control?
3. Can these risks bankrupt you?

Venture Feasibility

1. Are there major questions remaining about your proposed venture?
2. Do the above questions arise because of a lack of data, management skills, or a “fatal flaw” in your idea?
3. Can you obtain the additional data and management skills needed or correct the “fatal flaw” in your idea?
4. Are you aware that there is less than a 50-50 chance that you will be in business two years from now?

Reprinted from: First-Stop Business Information Center, Illinois Department of Commerce and Economic Opportunity. 1996. Starting a Business in Illinois. Springfield: Illinois Department of Commerce and Economic Opportunity, pages 25-28.

Appendix B: Market Characteristics

Market Characteristics of Counties with a Population of Greater Than 50,000

County	Eating Establishments	Total Employees	Total Sales (\$millions)	Avg. Employees	Avg Sales (\$millions)	Total County Population	Population per Eating Place
Cook, IL	8,831	128,465	4,861.10	21	1.0	5,376,741	609
Du Page, IL	1,758	29,849	1,032.10	17	0.6	904,161	514
Lake, IL	1,199	17,769	584.9	21	0.9	644,356	537
Will, IL	605	7,396	144.4	19	0.5	502,266	830
Kane, IL	525	8,508	289.3	23	1.0	404,119	770
Winnebago, IL	479	7,267	140.7	21	0.5	278,418	581
Mchenry, IL	396	4,209	78.9	17	0.4	260,077	657
Madison, IL	429	6,931	107.2	21	0.5	258,941	604
St Clair, IL	394	5,859	82.7	22	0.4	256,082	650
Sangamon, IL	381	6,017	122.7	22	0.7	188,951	496
Peoria, IL	346	5,703	104.5	23	0.6	183,433	530
Champaign, IL	363	6,306	143.6	24	0.8	179,669	495
Mclean, IL	254	5,073	74.9	27	0.6	150,433	592
Rock Island, IL	248	4,696	112	23	0.7	149,374	602
Tazewell, IL	220	4,258	81.6	26	0.7	128,485	584
Macon, IL	179	3,098	32.4	24	0.4	114,706	641
La Salle, IL	239	3,741	120.9	21	0.8	111,509	467
Kankakee, IL	170	2,317	67.3	19	0.8	103,833	611
De Kalb, IL	147	1,894	26.9	18	0.3	88,969	605
Vermilion, IL	117	1,907	25.6	21	0.4	83,919	717
Adams, IL	108	1,645	37.6	20	0.6	68,277	632
Williamson, IL	97	1,407	15.9	20	0.4	61,296	632
Whiteside, IL	97	1,190	33.9	16	0.6	60,653	625
Jackson, IL	120	2,005	20.4	24	0.3	59,612	497
Knox, IL	93	1,112	14.1	17	0.3	55,836	600
Kendall, IL	82	728	17.6	15	0.4	54,544	665
Coles, IL	99	1,762	24.6	23	0.4	53,196	537
Ogle, IL	89	643	24.2	11	0.5	51,032	573
Henry, IL	90	1,154	32.1	19	0.6	51,020	567

Source: Dun & Bradstreet, MarketPlace, 2003.

Market Characteristics of Counties with a Population Between 25,000 and 50,000

County	Eating Establishments	Total Employees	Total Sales (\$millions)	Avg. Employees	Avg Sales (\$millions)	Total County Population	Population per Eating Place
Macoupin, IL	60	523	9.7	11	0.3	49,019	817
Stephenson, IL	88	1,095	25.9	17	0.5	48,979	557
Boone, IL	49	652	5.9	21	0.3	41,786	853
Marion, IL	73	989	14.8	19	0.3	41,691	571
Jefferson, IL	59	933	9.8	22	0.4	40,045	679
Livingston, IL	59	588	11.1	14	0.3	39,678	673
Franklin, IL	56	575	9.7	16	0.3	39,018	697
Fulton, IL	47	466	8.2	15	0.3	38,250	814
Grundy, IL	61	1,045	32.9	23	0.8	37,535	615
Morgan, IL	51	673	7.9	18	0.3	36,616	718
Lee, IL	56	553	10.7	13	0.3	36,062	644
Clinton, IL	43	379	8.1	13	0.3	35,535	826
Bureau, IL	69	619	7.3	12	0.2	35,503	515
Christian, IL	58	583	13.1	13	0.4	35,372	610
Effingham, IL	74	1,470	31.7	26	0.7	34,264	463
Randolph, IL	54	490	7.3	13	0.2	33,893	628
Mcdonough, IL	60	808	8.6	21	0.3	32,913	549
Iroquois, IL	47	407	9.7	13	0.3	31,334	667
Logan, IL	52	705	9.1	20	0.3	31,183	600
Montgomery, IL	44	546	21.6	17	0.8	30,652	697
Woodford, IL	48	633	13.8	18	0.5	27,799	579
Monroe, IL	49	669	11.5	22	0.5	27,619	564
Saline, IL	36	443	5.7	18	0.4	26,733	743

Source: Dun & Bradstreet, MarketPlace, 2003.

Market Characteristics of Counties with a Population Between 10,000 and 25,000

County	Eating Establishments	Total Employees	Total Sales (\$millions)	Avg. Employees	Avg Sales (\$millions)	Total County Population	Population per Eating Place
Perry, IL	35	363	3.5	16	0.3	23,094	660
Shelby, IL	21	229	3.7	15	0.3	22,893	1,090
Jo Daviess, IL	53	743	18.7	17	0.4	22,289	421
Fayette, IL	27	332	4.6	20	0.4	21,802	807
Jersey, IL	31	354	5.1	15	0.3	21,668	699
Crawford, IL	30	203	3.2	9	0.2	20,452	682
Hancock, IL	28	234	3.7	10	0.2	20,121	719
Douglas, IL	46	552	15.5	16	0.6	19,922	433
Edgar, IL	27	179	2.9	10	0.2	19,704	730
Warren, IL	24	295	4	16	0.3	18,735	781
Union, IL	29	234	3.9	18	0.4	18,293	631
Bond, IL	23	223	12.8	12	1.1	17,633	767
Pike, IL	25	281	4.6	17	0.3	17,384	695
Wayne, IL	15	181	2.6	15	0.3	17,151	1,143
Clark, IL	31	399	2.7	18	0.2	17,008	549
Mercer, IL	17	171	2.2	13	0.2	16,957	997
De Witt, IL	30	351	9	15	0.4	16,798	560
Carroll, IL	40	261	4.5	9	0.2	16,674	417
Piatt, IL	24	194	2.4	11	0.2	16,365	682
Richland, IL	29	290	3.6	15	0.2	16,149	557
Mason, IL	27	224	3.4	9	0.2	16,038	594
Lawrence, IL	28	217	4.4	9	0.2	15,452	552
White, IL	18	212	2.9	14	0.2	15,371	854
Massac, IL	34	294	5	12	0.2	15,161	446
Washington, IL	19	188	13.5	12	1.0	15,148	797
Greene, IL	18	169	3.2	12	0.2	14,761	820
Clay, IL	21	120	2.7	8	0.2	14,560	693
Moultrie, IL	21	205	3.9	11	0.3	14,287	680
Ford, IL	27	203	3.3	10	0.2	14,241	527
Cass, IL	21	169	2.3	13	0.2	13,695	652
Marshall, IL	32	352	8.3	18	0.5	13,180	412
Wabash, IL	17	233	3.9	17	0.4	12,937	761
Johnson, IL	9	63	2	9	0.3	12,878	1,431
Menard, IL	10	140	2.3	16	0.4	12,486	1,249
Cumberland, IL	12	122	1.8	14	0.2	11,253	938
Jasper, IL	10	86	1.7	12	0.3	10,117	1,012

Source: Dun & Bradstreet, MarketPlace, 2003.

Market Characteristics of Counties with a Population of Less Than 10,000

County	Eating Establishments	Total Employees	Total Sales (\$millions)	Avg. Employees	Avg Sales (\$millions)	Total County Population	Population per Eating Place
Alexander, IL	10	63	1.1	7	0.1	9,590	959
Hamilton, IL	7	38	0.7	8	0.1	8,621	1,232
Henderson, IL	5	35	0.8	12	0.2	8,213	1,643
Pulaski, IL	6	37	0.9	6	0.2	7,348	1,225
Schuyler, IL	16	159	2.7	12	0.3	7,189	449
Edwards, IL	5	18	0.4	5	0.1	6,971	1,394
Brown, IL	9	64	1.2	9	0.2	6,950	772
Gallatin, IL	12	31	1.1	4	0.1	6,445	537
Stark, IL	11	70	0.3	14	0.1	6,332	576
Putnam, IL	12	50	1.1	6	0.1	6,086	507
Scott, IL	7	58	1.3	10	0.2	5,537	791
Calhoun, IL	16	155	3.4	11	0.2	5,084	318
Hardin, IL	5	22	1.1	4	0.2	4,800	960
Pope, IL	3	61	1.1	20	0.4	4,413	1,471

Source: Dun & Bradstreet, MarketPlace, 2003.

Appendix C: Business Profile

Restaurant / Catering- SIC 5812

GENERAL INFORMATION

The majority of foodservice establishments in Illinois fall under the jurisdiction of a county/local health department. State law requires foodservice establishments to employ a Certified Foodservice Sanitation Manager. For more information contact:

Illinois Department of Public Health
Division of Food, Drugs and Dairies / Office of Health Protection
Food Program
535 West Jefferson St.
Springfield, IL 62761
(217) 782-7532

Buildings must be maintained by owners, occupants or leasees in compliance with standards and rules established by the Office of the State Fire Marshal (OSFM) to avoid injury by fire or collapse. Local governments share jurisdiction with the OSFM. For more information contact:

Office of the State Fire Marshal
Fire Prevention
James R. Thompson Center
100 West Randolph, Suite 11-800
Chicago, Illinois 60601
312-814-2693

All retailers must register with the Illinois Department of Revenue for an Illinois Business Taxpayer Certificate of Registration in order to collect and remit sales tax on all retail sales. Contact the Department of Revenue at the address shown in section V of this document.

ECONOMIC SUMMARY

<i>Product/Service</i>	<i>No. of Businesses</i>	<i>Total Employees</i>	<i>Total Sales (\$millions)</i>	<i>Average Employees</i>	<i>Average Sales (\$millions)</i>
Eating places	10,122	93,26	11,646.80	18.00	2.40
Fast food restaurants and stands	3,328	53,564	11,608.80	19.00	5.90
Ethnic food restaurants	2,182	36,479	888.10	20.00	0.50
Pizza restaurants	1,947	20,917	380.00	16.00	0.40
Eating places, nec	1,100	19,974	15,504.50	26.00	23.10
Family restaurants	940.00	28,710	771.40	32.00	1.10
Ice cream, soft drink and soda fountain stands	543.00	5,373	115.50	13.00	0.30
Steak and barbecue restaurants	254.00	6,620	201.20	31.00	1.40
Seafood restaurants	169.00	6,625	88.00	42.00	1.50
Lunchrooms and cafeterias	81.00	3,04	31.10	43.00	0.60
Total/Average	20,666	274,564	41,235.40	20.00	3.60

Source: Dun & Bradstreet, Marketplace, April 1997

REGISTRATION

If the name of a business is different from the owner(s) exact, full, legal name(s), the Illinois Assumed Name Act requires Sole Proprietorships and Partnerships to register with the office of the city or county clerk where the business is located.

Under the Illinois Revised Uniform Limited Partnership Act of 1986, limited partnership filings became centralized with the Secretary of State. The Division has a Chicago office, which should only be used for filing purposes. Contact the Limited Partnership Division at:

Room 357, Howlett Building 17 North State, Room 1137
 Springfield, Illinois 62756 Chicago, Illinois 60602
 Voice 217/785-8960 Voice 312/793-2872
 TDD: 1-800/252-2904

A Limited Liability Company (LLC) is the non-corporate form of doing business that provides its owners with limited liability, flow-through tax treatment and operating flexibility through participation in management of the business. The LLC is well suited for every type of business venture, except banking and insurance which are prohibited by Statute. Examples of acceptable businesses are: farming, agricultural services, mining, construction, manufacturing, transportation, wholesale and retail trade, investment companies, insurance agents, real estate brokers, all types of real estate ventures (except real estate appraiser), hotels, personal and business services, automotive sales and services, amusement and recreation, health services, accounting, architecture and other professions, just to name a few. Many are family owned and others are closely held. Additionally, the multitude of sole proprietorships in Illinois could obtain personal limited liability protection by restructuring as an LLC with a minimum of two owners. The LLC form is not likely to be attractive, however, when it is expected that the interests of the business will be widely-held or publicly traded, because flow-through tax treatment is unlikely to be available to such businesses. For a packet containing organization information, write or call:

Limited Liability Company Division
 Room 359, Howlett Building
 Springfield, Illinois 62756
 Voice: 217/524-8008
 TDD: 1-800/252-2904

Corporations and S Corporations must register with the Secretary of State's Office. Booklets are available upon request on organizing domestic corporations (headquartered in Illinois) or foreign corporations (headquartered out of state or out of country). Contact the Secretary of State, Business Services:

Howlett Building 17 North State
Room 328 Room 1137
Springfield, Illinois 62756 Chicago, Illinois 60602
Voice: 217/782-6961 312/793-3380
TDD: 1-800/252-2904

TAXES

Federal - General Partnerships, Limited Partnerships, Limited Liability Partnerships, Limited Liability Companies, Corporations and S Corporations all must have a Federal Employer Identification Number (FEIN). Sole Proprietors that DO NOT pay wages to one or more employee(s) or file excise tax returns (including returns for alcohol, tobacco or firearms sales) may use his or her social security number. Otherwise, Sole Proprietorships must have a FEIN. The Internal Revenue Service has created "Your Business Tax Kit." Included in this kit is the IRS's criteria for determining whether a worker is an employee or an independent contractor as well as a Tax Guide for Small Business and various registration forms. For a free tax kit call or write:

Internal Revenue Service
Forms Distribution Center
PO Box 8902
Bloomington, Illinois 61702-8902
Voice: 1-800/829-3676
TDD: 1-800/829-4059

State - If you plan to hire employees, buy or sell products wholesale or retail, or manufacture goods, you must register with the Illinois Department of Revenue (IDOR). A registration kit can be obtained by contacting the Illinois Department of Revenue at 1-800/732-8866, TDD: 1-800/544-5306 or by writing or visiting Revenue at:

100 West Randolph 101 West Jefferson Street
Suite C-300 PO Box 19030
Chicago, Illinois 60601 Springfield, Illinois 62794-9030
Voice: 1-800/732-8866
TDD: 1-800/544-5304

EMPLOYEES

Workers' Compensation:

All employers must provide workers' compensation to cover employee's accidental death, injury or occupational diseases arising out of the course of employment. Worker's compensation coverage is most commonly arranged through private firms or agents. Annual premiums are based on company payroll, loss experience and type of business. Temporary workers who receive no other company benefits must be covered under workers' compensation. For further information contact:

Illinois Industrial Commission
100 West Randolph, 8-200
Chicago, Illinois 60606
Voice: 312/814-6611
TDD: 312/814-2959

Unemployment Insurance:

If your business hires employees, you may be required to make unemployment insurance contributions to the Illinois Department of Employment Security (IDES). To determine liability, complete a “Report to Determine Liability” form and submit it to: Illinois Department of Employment Security, Unemployment Insurance Division:

401 South State 555 South Pasfield
Chicago, Illinois 60605 Springfield, Illinois 62704
312/793-4880 217/782-2790
TDD: 312/793-9350 (Statewide)

Poster Display Requirements:

Federal and state laws require certain posters be displayed on business premises to inform employees of their workers’ compensation rights and benefits. Businesses with 15 or more employees must display the “Equal Opportunity Is THE LAW” poster, available from the Equal Employment Opportunity Commission, 800/669-3362, TDD: 800/669-6820. Businesses with one or more employees must display the “Occupational Safety & Health Administration’s Safety” poster, “Family Medical Leave Act”, “Fair Labor Standards Act” and the Employee Polygraph Protection Act” posters. These posters are available by contacting the US Department of Labor at 312/353-0127. The Illinois Department of Labor (IDOL) requires employers to display the “Notice to Employers and Employees” poster which describes all IDOL and most state posting requirements for Illinois businesses.

Labor Laws:

Businesses also must comply with the Illinois Wage Payment and Collection Act, Minimum Wage Law, Six Day Work Week Law, Child Labor Law and the Toxic Substance Disclosure Law. For information on these laws contact the IDOL at 217/782-6206 or 312/793-2800.

LOCAL REQUIREMENTS

Many communities require businesses to be licensed or registered and comply with local zoning ordinances. Contact the city or county clerk for information on licensing, zoning, inspections, sign restrictions, and other local requirements.

INFORMATION RESOURCES

Many resources are available to help start a business. An excellent resource for general business information is the Illinois Department of Commerce & Economic Opportunity (DCEO) handbook, Starting a Business In Illinois. This publication also includes a feasibility checklist and a business plan outline. For information regarding state licenses, permits, registrations and assistance programs contact in the First Stop Business Information Center by calling 800/252-2923, or on-line via the World Wide Web at <http://www.ilcommerce.com>. For assistance in determining Federal licenses, permits, registrations and assistance programs contact the Federal Information Center at 800/688-9889.

LOCAL ASSISTANCE & RESOURCES

The Illinois Small Business Development Center Network is a valuable resource for new and expanding businesses in Illinois. Within the Network are: Small Business Development Centers provide individual

counseling and training seminars on management, marketing and financial issues that concern starting and operating small businesses, as well as assistance in preparing a business plan; Procurement Technical Assistance Centers that help businesses identify and compete for government contracts; International Trade Centers that offer counseling, research data and training materials for businesses entering the global marketplace; a Small Business Innovative Research Center that provides counseling, training and technical assistance for technology-oriented entrepreneurs;

Small Business Incubators providing businesses with sheltered environments during their early stages of development. Also available to new or expanding entrepreneurs are the Offices of Minority and Women's Business Development which respond to individual, local and regional advocacy needs of those business populations. Information on any Network participant or the Offices of Minority and Women Business Development is available by contacting DCEO's Business Development Hotline, at 800/252-2923.

The federal government's Small Business Administration (SBA) provides several programs and services, including training and educational programs, advisory services, publications, financial programs and contract assistance.

The SBA also offers specialized programs for women business owners, minorities, veterans, international trade and rural development. For more information call the SBA at 312/353-4528 or 217/492-4416, TDD: 312/886-5108 or 217/492-4418.

The Service Corps of Retired Executives (SCORE) and the SBA conduct seminars at various locations in Illinois on starting and operating a business, and provide individual counseling. For more information on SCORE, phone 312/353-7723, TDD: 312/886-5108.

Your local library is an excellent source of information. Contact your local library for a listing of publications related to the kind of business you are interested in starting.

Note: Every effort has been made to ensure that the information contained in this document is comprehensive and accurate. However, this is not a legal document and should not be used to determine legal liability.
1/98

Downloaded from DCEO, Small Business Division, Business Profile: Restaurant / Catering
<http://www.commerce.state.il.us/>

[Illinois Department of Commerce and Economic Opportunity]

[ILDCEO Small Business Division]

[Illinois First Stop Business Information Center]

Appendix D: Restaurant Financial Profiles

Table 1. Balance Sheet Data for Eating and Drinking Places—SIC No. 5812S

	Average Dollars	As Percent of Total Assets
Assets		
Cash and Equivalents	\$31,377	9.5
A/R—Trade (net)	5,651	1.7
A/R Progress Billings	0	0.0
A/R Current Retention	0	0.0
Inventory	20,343	6.2
Cost and Estimated Earnings in Excess of Billings	0	0.0
All Other Current	30,243	9.2
Total Current	87,614	26.6
Fixed Assets (net)	214,214	65.1
Joint Ventures and Investment	1,505	0.5
Intangibles (net)	9,050	2.7
All Other Non-Current	16,832	5.1
Total Assets	\$329,216	100.0
Liabilities		
Notes Payable—Short Term	\$18,938	5.8
Current Matured Long Term Debt	14,832	4.5
Accounts Payable—Trade	24,329	7.4
Accounts Payable—Retention	0	0.0
Billings in Excess of Costs and Estimated Earnings	0	0.0
Income Taxes Payable	1,508	0.5
All Other Current	21,638	6.6
Total Current	81,245	24.7
Long Term Debt	162,679	49.4
Deferred Taxes	2,585	0.8
All Other Non-Current	9,793	3.0
Net Worth	72,913	22.1
Total Liabilities and Net Worth	\$329,216	100.0

Reprinted from: *Financial Profiles of the Small Business and Introduction to Financial Statement Ratios* (5th ed.). 1995. Folly Beach, SC: Halcyon Group, page 149.

Table 2. Ratios for Eating and Drinking Places—SIC No. 5812S

Liquidity Ratios	Median
Current Ratio	1.1
Quick Ratio	0.5
Sales/Receivables	151.5
Days' Receivables	2.4
Cost of Sales/Inventory	15.3
Days' Inventory	23.9
Cost of Sales/Payables	12.8
Days' Payables	28.5
Sales/Working Capital	134.4
Days' Working Capital	2.7
Coverage Ratios	
Earnings Before Interest and Taxes/Interest	2.0
Cash Flow/Current Maturity Long Term Debt	2.9
Leverage Ratios	
Fixed Assets/Tangible Net Worth	3.4
Total Liabilities/Tangible Net Worth	4.0
Operating Ratios	
Percent Profit Before Taxes/Tangible Net Worth	21.0
Percent Profit Before Taxes/Total Assets	4.1
Sales/Net Fixed Assets	4.0
Sales/Total Assets	2.6

Reprinted from: Financial Profiles of the Small Business and Introduction to Financial Statement Ratios (5th ed.). 1995. Folly Beach, SC: Halcyon Group, page 149.

Table 3. Income Data for Eating and Drinking Places—SIC No. 5812S

	Average Dollars	As Percent of Total Assets
Sales/Revenue	855,908	100.00
Variable Disbursements		
Cost of Goods/Cost of Contracts	311,139	36.40
Advertising	21,474	2.50
Bad Debts	122	0.00
Car/Delivery	2,057	0.20
Commissions	863	0.10
Freight	48	0.00
Taxes/Licenses	14,395	1.70
Travel and Entertainment	3,346	0.40
Total Variable Disbursements	353,445	41.30
Contribution	502,463	58.70
Fixed Disbursements		
Bank Services Charges	1,220	0.10
Amortization of Intangibles	4,657	0.50
Depreciation/Depletion	24,829	2.90
Dues and Publications	445	0.10
Employee Benefit Program	4,661	0.50
Insurance	12,444	1.50
Laundry and Cleaning	3,757	0.40
Leased Equipment	2,618	0.30
Legal/Professional	5,519	0.60
Office Expense	1,895	0.20
Outside Labor	2,075	0.20
Pension/P.S./Payroll Taxes	20,295	2.40
Rent	36,971	4.30
Repairs and Maintenance	14,234	1.70
Supplies, Operating	12,005	1.40
Utilities	29,710	3.50
Salaries—Officers	32,400	3.80
Payroll	206,050	24.10
Interest	13,696	1.60
Miscellaneous Expenses/(Income)	59,602	7.00
Total Fixed Disbursements	489,082	57.10
Pretax Profit	13,381	1.60
Dollar Sales Breakeven	833,113	

Reprinted from: *Financial Profiles of the Small Business and Introduction to Financial Statement Ratios* (5th ed.). 1995. Folly Beach, SC: Halcyon Group, page 150.

Appendix E: Business Plan Checklist

Title Page

- ___ List name of business and name of owner(s), business address, telephone and fax numbers.
- ___ Show date business plan was originally prepared and any revision dates to identify most current version.

Plan Summary (develop last; place first)

- ___ Identify the business as a new venture or expansion of current business. If existing business, summarize history.
- ___ Identify your products and/or services.
- ___ Summarize financial needs: state amount of loan requested, expected interest rate and length of loan, for what purpose(s) you will use the requested funds (e.g., real estate, equipment, inventory, working capital, etc.), and how loan will be repaid (usually from cash flow and retained earnings of business).

Management

- ___ Indicate legal structure of business organization.
- ___ Identify owners, officers, and other key personnel. List addresses, phone numbers, and percent of business ownership.
- ___ Describe responsibilities for all key personnel and emphasize management expertise.
- ___ Identify management consultant team: attorney, accountant or tax preparer, insurance advisor, other.

Marketing Plan

- ___ Describe industry history and trends. How might current trends affect your business?
- ___ Identify number and kinds of firms in your industry.
- ___ Show a basic understanding of the importance of appropriate target marketing. Describe your target market(s) and what criteria you used to select them.
- ___ Describe your geographic market area and projected market share.

Competitive Analysis

- ___ Identify your competitors and explain how you investigated them.
- ___ Estimate competitors' market share and financial resources.
- ___ Consider your competitors' strengths and weaknesses compared to those of your company as you discuss the following four categories:

Product/Service

- ___ Describe your product and/or service line(s).
- ___ What makes your product or service beneficial to the potential customer? Compare to competitors.
- ___ Analyze your product/service life cycle and identify current stage.
- ___ Discuss intellectual property rights (patents, copyrights, trademarks) or other legal or technical protection for your products/services.
- ___ Discuss plans for expansion of product lines or for new product development.

Place (Location/Distribution)

- ___ Analyze pros/cons of business location and physical features of the building relative to your competitors.
- ___ Indicate that you have investigated local zoning laws.
- ___ Describe facility location and general demographics of the neighborhood, city, or target market area.
- ___ Is site owned or leased (state terms of lease)?
- ___ Comment on location costs (rent, property taxes, utilities, maintenance).
- ___ Explain any planned capital or leaseholder improvements or expansion.
- ___ Explain how you will get your products and/or services to the customer. Show consideration of any alternative distribution systems.

Pricing

- ___ Describe pricing for each product/service.
- ___ Explain your sales terms and discounts.
- ___ Discuss your pricing policies and constraints—compare with competitors' pricing strategies.

Promotion

- ___ Identify your public relations and advertising strategies. Discuss which types of media (print, radio, television, direct mail, trade shows, etc.) you will use to promote your business and why.
- ___ Establish an advertising budget.

Operations

- ___ State hours of operation. Note any seasonal variations in sales or hours of operations.
- ___ Identify special equipment or materials needed to produce your products or deliver your services.

- ___ Explain plans for equipment acquisition, lease, and/or schedule of replacement. List approximate costs and methods of financing.
- ___ Describe production planning, methods, and specific procedures you will apply to maintain efficiency and technical competitive edge. Identify how physical store or plant layout supports this system.
- ___ Identify key suppliers, usual terms and conditions of delivery and payment, and projected dollar value of purchases per year.
- ___ Discuss importance of establishing and maintaining a positive purchasing/vendor relationship.
- ___ Describe your recordkeeping system. Identify who will prepare financial statements and tax returns (owner, employee, or accountant/bookkeeper).
- ___ Explain your inventory management and control practices.
- ___ Explain your credit and accounts receivable policies.

Human Resource Management

- ___ Identify the key functions or departments in your business.
- ___ Describe staffing plan, number of employees, and key personnel. Prepare organization chart if structure warrants.
- ___ Identify which functions will be subcontracted and which will be handled by employees. Indicate who will prepare payroll and complete required reports (owner, employee, or accountant/bookkeeper).
- ___ Discuss recruitment strategies and hiring time frame.
- ___ Specify proposed salary schedule.
- ___ Discuss commission structure (if applicable).
- ___ Outline employee benefits program.
- ___ Discuss employee training (initial and continuing).
- ___ Discuss employee evaluation and termination policies.
- ___ Demonstrate understanding of and compliance with government agencies which regulate human resource management practices.
- ___ Identify unions which may be affiliated with your business and how they may affect your operation.

Quality Control/Customer Service

- ___ Discuss your specific quality control standards and monitoring procedures for each product/service.
- ___ Identify how you plan to overcome potential quality problems with raw materials or purchases.
- ___ What policies and procedures will you employ to avoid lawsuits?
- ___ Describe warranty/servicing and return policies for your products or services.
- ___ Indicate your intent to inform all employees about your quality control and customer service policies.

Regulatory/Environmental Issues

- ___ Identify any federal, state, or local agencies or industry programs that could regulate or impact your business.
- ___ Consider potential environmental impact.
- ___ If your business creates a waste stream, describe how you will handle it.

Financial Data (minimum requirements)

- ___ If currently in business, submit historical data for last three years or since inception—include income tax returns, income statement, balance sheet, monthly cash flows. Be prepared to furnish aging of accounts receivable/payable.
- ___ Determine initial startup or expansion costs.
- ___ Prepare minimum of three years' cash flow projections (first two years by month, third year annualized). Show sales seasonality (variations in income and expenses) if applicable to your business.
- ___ Document sources and uses of new funds.
- ___ Prepare personal financial statements for all owners/guarantors.

Appendices/Exhibits

This section should document any items that are not or cannot be addressed in the narrative, such as:

- résumés of owners, officers, and other key personnel
- pictures of unique products
- pictures of location exterior/interior
- copy of lease agreement
- copy of distribution or franchise agreement
- copies of patents and other intellectual property protection
- copies of contracts for the purchase of your product/service
- copies of operating licenses or permits

Reprinted from: Small Business Development Center. 1996, January. *Business Plan Checklist*. Macomb, IL: Western Illinois University, Small Business Development Center.

Notes

Notes