

Chapter 1

What You Need to Know about Home-Based Business

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Congratulations! You've decided to start a home-based business. We welcome you as you join with millions of others who have already made a decision to start a home-based business. According to the Small Business Administration (SBA), there are about 23.7 million businesses in the United States today. Of this total, 99.7 percent are small businesses (defined by the government as businesses with fewer than 500 employees), or about 23.6 million. Of these, just over half — about 11.8 million — are home-based businesses.

That's a *lot* of home-based businesses!

Take it from us: Owning your own home-based business may be the most rewarding experience of your entire life. And not just in a financial sense (although many home-based businesspeople find the financial rewards to be significant), but also rewarding in the sense of doing the work you love and having control over your own life.

Of course, every great journey begins with the first step. In this chapter, we provide you with an overview of this book, taking a look at the basics of home-based business — including getting started, managing your money, avoiding problems, and moving ahead. Finally, we'll consider some of the good news — and the bad — about starting your own home-based business and knowing when it's time to make the move.



Paul and Sarah's journey home

Paul and Sarah began working from home before it was fashionable for anyone other than people in the construction trades, writers, artists, and craftspeople to do so. In fact, the neighbors wondered whether Paul was unemployed. (Paul's first home business was doing political and public-affairs consulting.)

Sarah actually led the way home, to set up a psychotherapy practice as a way of reducing the stress she felt in her prior government positions and to actively raise Paul and Sarah's young son. Says Sarah, "I didn't feel I had many choices as a working mother. Juggling a successful career and motherhood meant being exhausted most of the time and not being able to do either job with the dedication I wanted. I was determined, however, to have both a career and a family, so I did my best in a difficult situation." Doing her best meant a trip to the hospital with a stress-related illness where the doctor told her she would die if she didn't change her lifestyle — that was her wake-up call. She left her secure government job and opened a private psychotherapy practice in her home. In the 25 years since she did that, Sarah hasn't regretted her decision for even one day.

For Paul, the decision wasn't an easy one, and it took some time for him to get used to the idea of having a home-based business. "Initially, I was hesitant about working from home," Paul says. "I had concerns about the image it might create and worried that I wouldn't get my work done. So when I started my own consulting firm, I opened a downtown office and hired a secretary." As time went on, Paul spent less time at his downtown office and more time working at home. Eventually, he decided to close the downtown office altogether and invited his secretary to join him in his home office.

At first, Paul and Sarah's businesses were separate, but in 1980 they decided to write a book about working at home. They wished such a book had existed for them when they got started. More and more people were asking them how they did it, indicating they wanted to work at home, too. That book, *Working from Home*, is now in its fifth edition, and they've written 15 others. For excerpts from those books, as well as daily messages, tips, and support, visit their Web site at www.workingfromhome.com.

Home-Based Business Defined

A *home-based business* is, not surprisingly, a business based in your home. Whether you do all the work in your home or on customers' or third-party premises, whether you run a franchise, a direct-sales operation, or a business opportunity (described in the next section), if the center of your operations is based in your home, it's a home-based business.

The Basics of Home-Based Business

Each part of this book is dedicated to a specific aspect of the home-based business process. In the sections that follow, we take a peek at the topics to be covered within each of these parts.

What kind of business will it be?

Once you decide you're going to start your own home-based business, you're left with two questions: Exactly what kind of home-based business should you start, and what's the best way to market your products or services?

There are two major types of home-based businesses: businesses you start from scratch and businesses you can buy. The latter category of home-based business is further split into three types: franchises, direct selling, and business opportunities. Whether you prefer to march to your own drummer or get a business-in-a-box depends on your personal preferences: whether you like to create systems (or follow those of others) and how much structure you like.



The advantage of a business you start from scratch is that it can be molded to your preferences and to existing and emerging markets, and thus provides a boundless variety of possibilities. Businesses started from scratch account for the majority of viable, full-time businesses — in other words, they tend to be more successful over the long run than businesses you can buy. (In their book *Finding Your Perfect Work*, Paul and Sarah provide an appendix with characteristics of over 1,500 self-employment careers and hundreds of examples in the book of unique businesses that people have carved out for themselves.)

Each type of home business that you can buy, on the other hand, has its own spin. Here are examples of the three different types.

Franchise

A *franchise* is an agreement in which one business grants another business the right to distribute its products or services. Some common home-based franchises include the following:

- ✓ American Leak Detection (water/gas leak detection)
- ✓ Merry Maids (cleaning service)
- ✓ Kinderdance International (teaching dance to preschoolers)

- ✓ ServiceMaster (cleaning service)
- ✓ Terminix Termite and Pest Control (pest control)

Direct selling

Direct selling involves selling consumer products or services in a person-to-person manner, away from a fixed retail location. There are two main types of direct-selling opportunities:

- ✓ **Single-level marketing** is making money by buying products from a parent company and then selling those products directly to customers.
- ✓ **Multi-level marketing** involves making money through single-level marketing and by sponsoring new direct sellers.

Some common home-based direct-selling opportunities include the following:

- ✓ Amway/Quixtar (household cleaning products)
- ✓ Discovery Toys, Inc. (toys)
- ✓ Longaberger Company (baskets)
- ✓ Mary Kay, Inc. (cosmetics)
- ✓ Nikken, Inc. (wellness technology)

Business opportunities

A *business opportunity* is an idea, product, system, or service that someone else develops and offers to sell to others to help them start their own, similar business. (One way to think of a business opportunity is that it's any business concept you can buy from someone else that's not direct-selling or a franchise.) Your customers and clients pay you directly when you deliver a product or service to them. Here are several examples of business opportunities that can easily be run out of one's home:

- ✓ Balloon Wrap, Inc. (balloon gift wrap)
- ✓ Cardservice International (transaction service provider)
- ✓ Home Video Studio, Inc. (video studio)
- ✓ Rhino Linings USA, Inc. (truck bed liners)

Interested in finding out the names of more companies and how to get in touch with them? *Entrepreneur* magazine (at www.entrepreneurmag.com) and gosmallbiz.com also have extensive information on business opportunities you can buy. You can also do an online search for companies on Google (www.google.com), using the keywords *business opportunity*.



So once you decide on a business and get it started, you've got to market your products or services and persuade people to buy them. You can choose conventional methods of promotion, such as advertising and public relations, or you can leverage new selling opportunities, such as the Internet, to your advantage. Or you can (and probably should) do both. It's your choice — you're the boss! Check out the rest of Part I for more information on choosing and marketing your business.

Managing your money

Money makes the world go 'round, and because this is your financial well-being we're talking about, it's very important to have a handle on your money. This means you've got to do the following:

- ✓ **Find the money you'll need to start up your business.** The good news is that most home-based businesses require little or no money to start up. For the rest of you, there are lots of sources of start-up capital, including friends and family, savings, credit cards, bank loans, and more.
- ✓ **Keep track of your money.** For most of us, this means using a simple accounting or bookkeeping software package, such as QuickBooks, Quicken, or Microsoft Money, to organize and monitor your business finances.
- ✓ **Set the right price for your products and services.** Set your prices too high, and you'll scare customers away; set them too low, and you'll be swamped with customers, but you won't make enough money to stay afloat. Be sure to charge enough to cover your costs while generating a healthy profit.
- ✓ **Obtain health insurance, and plan for your retirement.** When you've got your own business, you're the one who needs to arrange for health insurance and setting up IRAs, 401(k)s, or other retirement plans for the day when you're ready to hang up your business and ride off into the sunset.
- ✓ **Pay taxes.** As someone famous once said: *The only things you can count on in life are death and taxes.* Well, taxes for sure.

Be sure to check out Part II of this book for lots of detailed information on managing your money.

Avoiding problems

Eventually, every business — home-based or not — runs into problems. As the owner of your own business, it's very much in your interest to avoid problems whenever possible and to deal with them quickly and decisively

when they can't be avoided. Some of the problems you'll potentially deal with include the following:

- ✔ **Legal issues.** After a good accountant, the next best friend of any business owner is a good attorney. Keep one handy to help you deal with the inevitable legal issues when they arise.
- ✔ **Working with support services.** Finding skilled and reliable outside support services — lawyers, accountants, bankers, business consultants, and insurance brokers — is not necessarily an easy task, especially if your business is in a small town where you're pretty much stuck with what you've got.
- ✔ **Scams and ripoffs.** There are loads of home-based business scams out there, and it seems that more appear every day. Part of avoiding scams and ripoffs is remembering these words: *If it looks too good to be true, it probably is!* Don't rush into any business opportunity; take your time and fully explore it before you sign on the dotted line.

Want to avoid problems in your home-based business? Good. Simply move on to Part III, and you'll be well on your way to doing just that.

Moving ahead

One of the best things about owning your own business is watching it develop, mature, and grow. A growing business is the gift that keeps on giving — all year 'round, year after year. So to keep your business moving ahead, consider doing the following:

- ✔ **Maintain a serious business attitude.** Just because your business is located at home instead of in a big office building downtown, that doesn't mean that you shouldn't treat it like the business it is. While you can have fun and work all kinds of creative schedules, don't forget that business is serious, too, and that you've got to treat your business like a business if you hope to be successful.
- ✔ **Institute a truce with your friends and family.** Moving forward with your business requires that you minimize disruptions caused by loved ones, neighbors, friends who work in regular jobs, and anyone else who can distract you from your work. Do whatever it takes to avoid the negative impacts of such disruptions to your business.
- ✔ **Grow.** For many businesses, growth can turn an operation that is doing well financially into an operation that is doing *great!* Growth allows you to take advantage of economies of scale that might be available only to larger businesses, to serve more customers, and to increase profits. For these reasons and more, growing your business should always be on your agenda.



Peter's personal journey to independence

When Peter Economy graduated from Stanford University with majors in human biology and economics, he had no idea what he wanted to do for work, aside from some vague notion that he should “get into business.” He worked a number of jobs, starting in the federal government as a contract negotiator and then moving into the private sector for many years as an administrative manager before ending up back in local government. As time wore on, working for others became less and less palatable to him, and becoming his own boss became a seductive proposition. In 1990, Peter was fortunate to be approached by his good friend Bob Nelson to write a book on the topic of negotiation. Although Peter had no real desire to write a book, a bit of gentle persuasion (and the promise of a \$2,500 advance) helped bring him around. This first book, *Negotiating to Win*, started him on a new career as a business writer.

In time, Peter was able to seriously consider devoting himself fully to starting a home-based business as a professional writer. In 1997, he

got the kick in the pants he needed to make the move when he was told that, due to funding cuts, he would be laid off from his local government job. And although a week later his employer found additional funds and asked him to stay, he already had one foot out the door, and there was no turning back.

Today, Peter runs his own home-based writing business. He works harder than he ever has before but has the satisfaction of knowing that every bit of work he does has a direct payoff for him and his family — not some distant company owners or shareholders. But although he works harder than ever, he also gets to spend far more time with his wife and kids than he ever did before, and the commute to his office has been reduced from half an hour each way to about 30 seconds. Is he happy? Yes. Would he go back to working a regular nine-to-five job? Not on your life!

Do you have specific questions or comments for Peter? He'd love to hear from you. Visit his Web site at www.petereconomy.com, and drop him a line.



To discover in-depth information on these particular topics, be sure to check out Part IV sooner rather than later.

Should you leave your full-time job and ramp up your part-time business?

Ask yourself several questions:

- ✓ Has there been a steadily growing flow of new customers over your time in business?
- ✓ Has your business, even though part-time, been producing a steady flow of income through seasonal or other cycles typical of the business?
- ✓ Are you turning away business because of limits on your time? If not, can you see that if you had the time to market or take on more customers, they would be there?

If you can answer at least two out of these questions in the affirmative, it's a good sign that it would be safe to leave your job. Of course, you should also be aware of any developments that could worsen the outlook for your business to grow, such as pending legislation, new technology, the movement of the kind of work you do outside the United States (*outsourcing*), or the decline of an industry your business is dependent on.

If your work has been providing you the contacts you have used to build your part-time business, it's important you find ways to replace these.

Breaking the umbilical cord of a paycheck is an uncomfortable step for most people. So the closer the current income from your business is to producing the money you need to pay your basic business and living expenses, the more confident you can be.

The Good News and the Bad

Surprise, surprise: There's both good news and bad when it comes to starting your own home-based business. The good news is that the good news probably outweighs the bad for most of us. So in the spirit of putting our best foot forward, let's start with the good news.

Reasons to start a home-based business

When you start a home-based business, you're leaving behind the relative comfort and security of a regular career or 9-to-5 job and venturing out on your own. How far out you venture on your own depends on the kind of home-based business you get involved in. Many franchises provide extensive support and training, for example, and *franchisees* (someone like you) are able to seek advice from experienced franchisees or from the *franchisor* (the party selling a franchise opportunity) when and if it's necessary. This support can be invaluable if you're new to the world of home-based business.

At the other end of the spectrum, some business opportunities offer little or no support whatsoever. If you're a dealer in synthetic motor oil, for example, you may have trouble getting the huge, multinational conglomerate that manufactures the oil to return your calls, much less send you some product brochures. Training or extensive, hands-on support if you run into the inevitable snags? Nope — that's not going to happen.

Which brings us to the good news about starting and running your own home-based business:

- ✔ **You're the boss.** For many owners of home-based businesses, just this is reason enough to justify making the move out of the 9-to-5.
- ✔ **You get all the benefits of your hard work.** When you make a profit, it's all yours. No one else is going to try to take it away from you (except, perhaps, the tax man — see Chapter 10).
- ✔ **You have the flexibility to work when and where you want.** Are you a night owl? Perhaps your most productive times don't coincide with the standard 9-to-5 work schedule that most regular businesses require their employees to adhere to. And you may find that — because interruptions from co-workers are no longer an issue and the days of endless meetings are left far behind — you're much more productive working in your workshop than in a regular office. With your own home-based business, you're the one who decides when and where you work.
- ✔ **You get to choose your clients and customers.** The customer may always be right, but that doesn't mean you have to put up with one who mistreats you or gives you more headaches than they're worth. When you own your own business, you can fire the clients you don't want to work with. Sounds like fun, doesn't it? (Believe us, it is!)
- ✔ **You can put as much or as little time into your business as you like.** Do you want to work for only a few hours a day or week? No problem. Ready for a full-time schedule or even more? Great! The more effort you put into your business, the more money you can make. You get to decide how much money you want to make and then you can work the kind of schedule that will help you meet your goal.

These reasons to be on your own are just the tip of the iceberg. When you add it all up, you're left with one fundamental reason for owning your own home-based business: freedom.



Admittedly, starting a home-based business isn't for everyone. In fact, for some individuals, it can be a big mistake. If, however, you have an entrepreneurial spirit, and you thrive on being independent and in charge of your life, a home-based business may be just the thing for you.

You have only one life to live. If you're tired of working for someone else, being second-guessed by your boss, or having your creativity stifled; if you're full of great ideas — ideas you know will lead you to success if you have the opportunity to put them into practice; if you long for something better, we have a message for you: There is something better. It's called a home-based business. And when you find the business that's right for you, it can change your life and the lives of those around you.

The pitfalls of home-based businesses

Starting a home-based business is not the solution to every problem for every person. Although many home-based businesses are successful, and the people who started them are happy with the results, more than a few home-based businesses end up causing far more headaches than their owners anticipated. Starting your own business is hard work, and there are no guarantees for its success.

So the next time you're lying on your sofa, dreaming of starting your own home-based business, don't forget some of the potential pitfalls:

- ✓ **The business is in your home.** Depending on your domestic situation, working in your own home — a home filled with any number of distractions, including busy children, whining spouses or significant others; television; loaded refrigerators; and more — can be a difficult proposition at best.
- ✓ **You're the boss!** When you're the boss, you're the one who has to get you motivated to work hard every day — there's no one standing over your shoulder (except maybe your cat) watching your every move. For some people, focusing on work is very difficult when *they* are put in the position of being the boss.
- ✓ **A home-based business is (usually) a very small business.** As such, you will likely be more exposed to the ups and downs of fickle customers than larger businesses are. Not only that, but also, if a customer decides not to pay, it could be devastating to you and your business.
- ✓ **You might fail or not like it.** There are no guarantees that your business is going to be a success. Failure might cost you dearly, including financial ruin (no small number of business owners have had to declare bankruptcy when their businesses failed), destruction of personal relationships, and worse. Not all small businesses close due to financial problems. The Small Business Administration has found that at the time of closing, one out of three businesses is financially sound.

Regardless of these potential pitfalls, starting a home-based business remains the avenue of choice for an increasing number of people. Are you ready to join them?

Understanding when you're ready to make the move

Many people talk about starting a home-based business, and many dream about becoming their own bosses. Making the transition from a full-time career to self-employment, however, is a big change in anyone's life. Are you



really ready to make the move, or should you put the idea of having your own home-based business on the back burner for a while longer?

To help you decide, take the following quiz. Circle your answer to each of these questions, add up the results, and you'll know for sure!

1. How strong is your drive to succeed in your own home-based business?
 - A. I can and I will be a success. Period.
 - B. I'm fairly confident that if I put my mind to it, I will succeed.
 - C. I'm not sure. Let me think about it for a while.
 - D. Did I say that I wanted to start my own business? Are you sure that was me?
2. Are you ready to work as hard as or harder than you have ever worked before?
 - A. You bet — I'm ready to do whatever it takes to succeed!
 - B. Sure, I don't mind working hard as long as there's something in it for me.
 - C. Okay, as long as I still get weekends and evenings off.
 - D. What? You mean I'll still have to work after I start my own business? Isn't that why I hire employees?
3. Do you like the idea of controlling your own work instead of having someone else control it for you?
 - A. I don't want anyone controlling my work but me!
 - B. That's certainly my first choice.
 - C. It sounds like an interesting idea — can I?
 - D. Do I have to control my own work? Can't someone control it for me?
4. Have you developed a strong network of potential customers?
 - A. Yes, here are their names and numbers.
 - B. Yes, I have some pretty strong leads.
 - C. Not yet, but I've started kicking around some ideas with potential customers.
 - D. I'm sure that as soon as I let people know that I'm starting my own business, customers will line up.

5. Do you have a plan for making the transition into your home-based business?
 - A. Here it is — would you like to read the executive summary or the full plan?
 - B. Yes, I've spent a lot of time considering my options and making plans.
 - C. I'm just getting started.
 - D. I don't believe in plans — they crimp my style.
6. Do you have enough money saved to tide you over while you get your business off the ground?
 - A. Will the year's salary that I have saved be enough?
 - B. I have six months' expenses hidden away for a rainy day.
 - C. Three months' worth.
 - D. I'm still trying to pay off my college student loans.
7. How strong is your self-image?
 - A. I am self-esteem!
 - B. I strongly believe in my own self-worth and in my ability to create my own opportunities.
 - C. I feel fairly secure with myself; just don't push too hard.
 - D. I don't know — what do you think?
8. Do you have the support of your significant other/family?
 - A. They're all on board, an integral part of my plan, and have been assigned responsibilities.
 - B. They're in favor of whatever makes me happy.
 - C. I'm pretty sure they'll support me.
 - D. I'm going to tell them about it later.
9. If it's a necessary part of your plan, will you be able to start up your home-based business while you remain in your current job?
 - A. Sure — in fact, my boss wants in!
 - B. If I make a few adjustments in my schedule, I can't see any other reason why I can't.
 - C. Would you please repeat the question?
 - D. Maybe I'll be able to work on it for a couple of hours a month.

10. What will you tell friends when they ask why you quit that great job?
- A. I'm free at last!
 - B. That the benefits clearly outweigh the potential costs.
 - C. I don't know; maybe they won't ask.
 - D. I'll pretend that I'm still working for my old organization.

Tally up the numbers, and compare your result with the ranges of numbers below. Give yourself 5 points for every A answer, 3 points for every B, -3 for every C, and -5 for every D.

By comparing your total points with the points contained in each of the six following categories, you can find out whether you're ready to jump into your own home-based business:

25 to 50 points: Assuming you were honest with yourself as you answered the preceding questions (you were, weren't you?), you're ready! What are you waiting for? There's no time like the present to take the first step on your journey to success with your own home-based business. Whether you decide to drop your day job or work into your new business gradually, you're ready to give it your all. Read this book from cover to cover for tips on making your endeavor a raging success.

1 to 24 points: You're definitely warming up to the idea of starting your own home-based business. Consider starting your own business in the near future, but make sure to keep your day job until you have your venture well under way. Read this book from cover to cover to get a better idea of how to make a relatively painless and successful transition from your present career to owning a home-based business.

0 points: You could go either way on this one. Why don't you try taking this test again in another month or two? Our advice? Read this book cover to cover before you begin your own home-based business.

-1 to -24 points: Unfortunately, you don't appear to be quite ready to make the move from career to your own home-based business. We strongly recommend that you read this book from cover to cover and then take this test again in a few months. Maybe working for someone else isn't the worst thing that can happen to you.

-25 to -50: Forget it. You were clearly born to work for someone else. Take this book, and sell it to a co-worker.

More than 50 or less than -50 points: Hmm . . . we have a problem. Either you're getting a little rusty in your addition tables, or you hit the wrong key on your calculator. Try again!



Keeping up with the scuttlebutt

Q: I've never regretted starting my own business, but the one thing I do miss is being in the middle of the corporate buzz. How can I can stay connected with what's going on downtown?

A: The first step is to figure out just what you're missing from being in the buzz of corporate life. Being part of the daily routine of an organization provides people with a whole array of experiences. Some, like office politics and dreadfully dull meetings, are a joy to get away from. But others leave a void that you must find ways to refill, such as the following:

- ✓ **Feeling like you're part of the downtown business community:** Even when you're working from home, it's important to get out of the house and participate in the business world. Join the chamber of commerce, and go to luncheons, after-work mixers, or evening meetings. Get active in various civic and charitable activities in your community. These can lead to valuable business relationships while keeping you up with what's going on in town.
- ✓ **Getting in on the inside information and latest scuttlebutt in your field:** You can replace this need by becoming active in a local chapter of your professional or trade association or by participating in their online listserv or forum. To find professional and trade associations in your field, do a search on the keyword *association*.
- ✓ **Establishing the esprit de corps from being part of a group that's working together toward a goal:** If you crave experiences like this, affiliate with others and work on joint projects instead of working strictly solo.
- ✓ **Finding moral support and positive peer pressure to stay focused — someone to bounce ideas around with, celebrate victories, and commiserate disappointments with:** To fulfill this need, form a group of colleagues with whom you can meet weekly over lunch and call regularly to spur one another on toward your goals.
- ✓ **Seeking out the expertise of superiors you can turn to for advice, getting honest feedback, or talking over strategies and crucial decisions:** If you're missing this type of interaction, seek out a mentor, form an advisory board for your business, or hire a consultant whose experience you respect. Some professional associations have formal mentor programs that offer this kind of contact. If yours doesn't, suggest that they consider adding such a service — or even volunteer to help organize it.
- ✓ **Using the Web:** Though it's not a substitute for face-to-face contact, you can use the Web to locate other individuals, networks, and organizations in your own community through, for example, the message board operated by a trade or professional group you belong to.

Are you ready to make the move to starting a home-based business? If the quiz indicates otherwise, don't worry — plenty of opportunities will be out there in the future. When you're ready for them, they'll be ready for you. If you're ready, congratulations! The rest of this book shows you what you need to do to make owning a successful home-based business a reality.