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Home-Based Business — Will It Work for Me?

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The entrepreneurial spirit has captured your imagination and you are considering going into business for yourself. You see other people's successes and say, "I can do that, too" or "I can do better than that." You are exploring options and looking for more information. You are off to a great start. The more questions you ask, and the more you learn about yourself and your business idea, the greater your chances of making the correct decisions.

Define your goals

What do you want from life? Where are you trying to go? What are you trying to build? A home-based business must be compatible with your goals, talents and resources. Some people may see being in business for themselves as the ultimate goal. Most people, however, work as a means to achieve goals, rather than work as a goal in itself.

A home-based business is a good way to combine your human, financial and material resources to produce a product or service the market demands. If the demand is great enough and the business is managed successfully, you will earn a return from those resources. If a higher return is possible by doing something else, according to economic theory, you will do it. In other words, you and your family should choose your activities and investments to maximize personal and household happiness and satisfaction. This is possible only if family goals are known and family members are committed to reaching them.

Think about your family goals; discuss them with your family. List these goals on a piece of paper. Some goals are short-term, others long-term. Beside each goal on your list, write a date by which you would like to achieve that goal. Then list the steps required to achieve that goal and costs, if any. Given your intended business venture, will it help or hinder your ability to reach each goal. For example, short-term goals that require substantial amounts of money may be incompatible with the financial demands of a beginning enterprise. Finally, ask if starting a home-based business is the best way to reach those goals.

Many households have established a home-based business to generate income. Various estimates suggest that between 10 and 23 million Americans currently work for pay in their homes. These figures include people who work out of their homes for others; they are not all home-based businesses. Whatever the work, the reasons for choosing to work at home are numerous. A few of the most often cited are:

- Eliminating child care costs,
- Increasing family income,
- Being your own boss,
- Eliminating an expensive commute and a necessary wardrobe,
- Profitably expressing a special talent, hobby or interest,
- Combining the busy lifestyle of parenting with that of outside work,
- Creating flexible working hours,
- Establishing a retirement occupation, and
- Lowering the cost of starting a new business.

Success takes hard work

Commitment to a goal does not guarantee success. You must work hard. Your personal traits, skills and interests must be compatible for success in your business venture, too.

Honestly appraise your personality traits. Use the following list to assess your personality against those of successful business managers. Check those that describe you to determine your business personality profile:

- Enthusiastic
- Organized
- Like people
- Self-starter
- Perseverer
- Achiever
- Determined
- Leader
- Responsible
- Trustworthy
- Disciplined
- Creative
- Curious
- Independent
- Industrious
- Decision maker
- Sincere
- Physically energetic
- Emotionally secure
- Confident
- Resourceful

If the "checked" list is longer than the "non-checked" list, you probably have the personality traits necessary for managing the average home-based business. However, you should closely examine the two lists in relation to the business you are planning. Is the "non-checked" list really important to what you want to do? Would a business partner who is strong where you are weak fit into your business plans? For example, if you plan to produce art works or crafts for sale, would the business be better off if you distributed your work through a wholesale outlet or consignment shop rather than if you sold it directly to consumers?

In addition to the traits necessary to manage a business, you must have skills that suit the business you have planned. A close examination of your skills in relation to potential endeavors can also help you find a niche in the marketplace. Review your background to establish the fit between you and your future.

Consider these points:

- Age,
- Formal and informal education,
- Relevant life experiences,
- School subjects you enjoyed most,
- Present and past occupations and duties,
- Reasons you left previous jobs,
- Aspects of past jobs you enjoyed most,
- Enjoyable recreational activities,
- Most enjoyed reading subjects, and
- Environment you like best: Indoor or outdoor? City or country?

As you answer these questions, you will find certain occupations that fit your likes and dislikes. When a business idea fits in either category, write it down. As you eliminate possibilities and focus on others, you are zeroing in on a potential money-making idea that is personally satisfying.

The investment

Are you willing to work long hours and make personal sacrifices to help the business grow? Is there something you would be willing to sacrifice to devote more time and personal commitment to the business? Are you comfortable engaging in speculation, both personal and financial? Are you comfortable with success? Can you accept failure?

You should answer these personal questions and a positive, go-ahead feeling should accompany your answers. Remember to ask yourself whether those who are investing in this venture with you — your family members — are as positive in their responses as you are.

Your home-based business will sometimes involve the whole family. Listen to your spouse's and children's opinions. Do they think this business is a good idea? Are they willing to help when needed? Are they willing to recognize the additional demands on your time and to accept responsibility for certain household tasks? Is your house and household ready to accommodate a work space, extra traffic, an area for business records and, possibly, inventory?

Many businesses fail because of poor management and inexperience. Juggling home and business management can be difficult. The investment of housing space and family members' time can be tricky, and the competing demands can be unsettling. Be open to your family members' opinions. Their personal energies, pride, lifestyle and even their community reputation are also being invested and are, therefore, at risk.

Any business will also require some financial investment. Do you plan to finance this endeavor yourself, or do you plan to borrow the money required? If you plan to borrow, what family assets are you comfortable using as security against a loan? If the business fails, will the failure jeopardize your family's financial future? When do you expect to become profitable — to experience a return on your investment?

Of course, without risk there is no return. However, know what you are willing to put at risk. To secure financing, you must be able to show why you expect a return from your enterprise. Projecting future cash flows and money needs is difficult, but you must incorporate such projections into your business plan.

The business plan is a crucial step to success. You should write it down. In researching your idea, you will have completed much of the necessary work. You then need to compile the data in a single document. MU Extension business and industry specialists and the Small Business Administration periodically conduct workshops that aid you in preparing your business plan. Call your local MU Extension center for more information.

Legal and social constraints

While a home-based business operates out of a household, it is also part of a neighborhood, community and state. Each may have legal and social constraints the business must consider.

Any home-based business comes under the jurisdiction of city, county, state or federal laws. These laws vary and every entrepreneur must thoroughly investigate them. Legal sanctions include observing regulations, obtaining appropriate licenses, meeting bonding requirements and paying taxes. For example, you must follow health department requirements when handling food. If self-employed, you have to pay income and sales tax quarterly, or you may need a local business license or bonding if you handle other people's money.

Many communities have local zoning laws that limit the kinds of business activities conducted at residences. You can get copies of these laws from your local city hall or county courthouse.

Even if your town or county has no formal laws governing the businesses you may conduct from your home, your business must co-exist in your neighborhood. If your business causes increased traffic, loud noises or unpleasant waste, your neighbors will be displeased. Similarly, if your business forces you to forgo social activities, your neighbors and friends may feel snubbed. Talk to your neighbors and your friends as much as possible before getting into business to avoid disputes after you are in business.

The market profile

Because you want to sell your final product or service, you must develop a profile of the market you wish to reach. Are your potential customers working mothers, teenagers, single men or senior citizens? Each market segment has its own characteristics. You must study them and cater to them. What is the income level of your prospective customers? Where do they live, shop and relax? The more you know about your customers, the better you will be able to serve their needs. You can get statistics — such as population, age, income, occupation and traffic patterns — from your local chamber of commerce, your extension community development specialist, your regional planning commission or others. If you can't find the data you want, you might be able to conduct market research to find the information needed. Again, MU Extension staff members could assist you in designing your research plan.

You should always remember the four Ps of marketing: Product, Price, Place and Promotion. Your product must be sold at a price that is consistent with its quality and your cost of production. If it costs you more to produce the item than you can sell it for, you will not be in business long. Similarly, if customers can purchase a higher-quality item at a lower price, the lines waiting to buy your product will be short. The place you sell your product is closely tied to the image you wish to promote for your product and self. Think about these Ps when planning your business venture and when studying the marketplace.

Look around

Before you actually start a home-based business, look around you. Test your business idea with friends and relatives. Seek their counsel and advice. Explore possibilities of business assistance and explore any association or guild related to your product or service. Perhaps a successful entrepreneur who operates a business like yours in another market could offer advice. Ask questions such as:

- What were the biggest problems you encountered in the first year of operation?
- What professional organizations or guilds do you find most beneficial?
- What experiences or knowledge would have helped you at the start of your business?
- How do you set your prices?
- How do you advertise? How have you advertised in the past and did you stop? Why?
- Do you do your own bookkeeping? If so, what type of system have you adopted?
- Do you need a license to operate?
- What tax management system have you found most beneficial?
- What services have you found it advantageous to purchase (lawyer, tax accountant, secretarial)?

If the answers to these questions identify potential problem areas, seek assistance from professional business consultants or product/service associations. Such product/service associations can provide the contacts for your continued professional development. Issues relating to pricing, marketing, advertising and state-of-the-art production techniques are central to trade association publications and meetings. Such information is not only educational but will also help you stay in touch with your competition.

Bottom line

Although many successful home-based businesses exist, those that have failed far outnumber those that succeed. It is fair to say many who closed their operations could still be in business if they had asked more questions and listened to realistic answers before entering the venture. You can't foresee everything, and certainly problems will arise. When problems do arise, seek answers before the problems severely affect business performance. If you are willing to work and seek answers, if you have a market for your product or service and if you have a sense of humor, you can succeed.

References

- Eubank, Wanda; Owen, Alma; and Padgitt, Chloe, *Home-Based Business — Have You Got What It Takes?* Slide-

tape narrative, August 1985.

- *Statistics and Predictions About Home-Based Businesses*, compiled by the National Association for the Cottage Industry, 1984.
- Stephenson, Mary J., *Starting a Homebased Business*, Cooperative Extension Service, University of Maryland, 1984.

Wanda Eubank, Department of Environmental Design, and Chloe Padgitt, extension assistant, assisted in writing this publication. It is one in a series of publications on home-based business and part of a project called "Alternatives for the 80s" to help generate more income for Missourians.

Related MU Extension publications

- MP596, Home-Based Business — Market Your Product
<http://extension.missouri.edu/p/MP596>
- MP597, Home-Based Business — Selling by Consignment
<http://extension.missouri.edu/p/MP597>
- MP598, Home-Based Business — Pricing Your Work
<http://extension.missouri.edu/p/MP598>
- MP629, Home-Based Business — Packaging for Shipping
<http://extension.missouri.edu/p/MP629>
- MP630, Home-Based Business — Keeping Records
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