

Home-Based Business . . . Is It For Me?

Kathleen Tweeten
Community Economic Development Specialist

Dale Zetocha
Director of Technology Transfer



NDSU EXTENSION SERVICE
North Dakota State University, Fargo, ND 58105

AUGUST 1999

Table of Contents

INTRODUCTION	3
CHOOSING THE BUSINESS	3
SPOTTING OPPORTUNITIES AMONG SCAMS	3
DECISION TO ENTER A HOME-BASED BUSINESS	4
Advantages and Disadvantages	4
Other Factors To Consider	4
CAN YOU LIVE WHERE YOU WORK . . . AND WORK WHERE YOU LIVE?	4
SEARCHING FOR FINANCING	5
Local Banks	5
Government Programs	5
Small Business Administration	6
Loan Request Review	6
BUSINESS STRUCTURES	6
Sole Proprietorship	6
Partnership	7
Limited Liability Company	7
Corporation	8
Cooperatives	8
MARKETING	9
Market Potential	9
BUSINESS MANAGEMENT AND IMAGE	10
Customer Relations	10
ADVERTISING, PROMOTION AND DISTRIBUTION	10
SETTING THE RIGHT PRICE	12
RECORDKEEPING	14
TAX CONSIDERATIONS OF HOME USE	15
Business Expense Deductions	16
LICENSES, PERMITS AND ZONING	16
INSURANCE-RISK MANAGEMENT	17
TIME MANAGEMENT TACTICS	17
EMPLOYEE RELATIONS	18
SUMMARY	19
ACKNOWLEDGMENT	19
REFERENCES	19
ONLINE RESOURCES	19
APPENDICES	20-31

Introduction

The 1990s were called the "Decade of the Entrepreneur." More people are starting home-based and micro businesses than ever before. People are turning their skills, hobbies and ideas into profitable ventures. This can be a satisfying experience. The endeavor is usually something a person enjoys doing or is very skilled at doing. It allows for flexibility so you can work around your family and work schedules. It also gives you the independence of being your own boss.

The words **entrepreneur** and **entrepreneurship** come from the French word "**entreprendre**," which means "**to undertake**." An entrepreneur is someone who organizes, operates and takes the risk in a business venture, expecting to gain a profit. Entrepreneurship refers to the process of planning, organizing and operating a business.

A home-based business is not for everyone. For many people it will be a supplemental income source for retirement or extra income for the family. In fact, only 46 percent of home-based and micro business owners recently surveyed cited that making lots of money was a motivation for starting their own business. Seventy-eight percent of business owners stated that having more control over their lives was an important reason, and 90 percent said they would go into business again. So, even though you may not get rich from such an endeavor, it may be worth the effort to try your idea out to see if it would be successful. Remember, entrepreneurs may not see a profit right away; it will depend on the type of business.

There are several facets to consider when starting a home business. Determine if there will be a market for your products or services and if such an endeavor is possible. This is crucial before a large amount of money is spent. The business may not be feasible. Too many businesses fail because people do not test their market plan and manage the business properly. Information from Link Research in a 1996 survey of 5,000 Home Office Computing readers reported that 20 million businesses found the most challenging business tasks to be 1) marketing to gain additional business; 2) time management; 3) financial record keeping; 4) avoiding overhead when possible; and 5) assistance in managing varied responsibilities.

This publication will identify and address many of these factors. If you decide to pursue a home-based or micro-business, careful planning and consideration of these topics will help increase the chances of success and in some cases prevent you from making an unwise investment or help avoid unnecessary risks.

Choosing the Business

A home-based business can be either product-oriented or service-oriented. Product-oriented businesses are usually two types: a) selling products made by you, family members and/or employees (like raw materials such as fabrics or tanned leather, kits like yarn/pattern and knitting needles, partially finished items like unpainted bird houses or completed articles such as jewelry and belt buckles) or b) selling products manufactured by others and either purchased by you for resale or sold on an order basis. Services may involve performing a service at the place of business (word processing, tutoring, bookkeeping or child care) or at another location (house painting, carpet cleaning or consulting). To determine or confirm your business idea(s), examine your interests, skills and abilities, education/training, and experiences.

You must enjoy doing the work involved. Just because you make super apple pies or wooden toys doesn't mean that you would want to create them six days a week. Perhaps you would rather teach others to make pies or toys! Teaching requires a totally different set of skills and interests than doing the actual work yourself. See (Appendix A) for a list of business ideas.

Spotting Opportunities Among Scams

There are many other enterprises that are operated out of a home. As you consider a business beware of scams. As technology expands and because of the growing interest in the home-based business community, a large number of individuals and companies have organized to meet the needs of budding entrepreneurs. Many of these companies, however, are more interested in selling a worthless business idea to someone instead of helping them develop a real small business opportunity. So check it out! The old adage "if it seems too good to be true, it probably is" holds true. See (Appendix B) "Opportunities Questionnaire." Evaluate all ads carefully, and if you suspect it's a scam notify the Attorney General's Office before investing in a business opportunity.

You must thoroughly evaluate the potential for the business you plan to operate. Obtaining good advice can help prevent you from making expensive mistakes which often lead to failure.

Decision to Start a Home-Based Business

While being in any kind of business has certain basic requirements, a home-based business has additional ones. Self-discipline is very important. Working for others means that many responsibilities are shared with other employees. Being in business for yourself means you carry the whole load. Some people don't want all of the responsibility of licenses, regulations, taxes, insurance, keeping records, advertising and pricing, etc. Are you willing to take on these responsibilities?

Depending on the business, you may find it very confining, stressful, expensive and physically exhausting. On the other hand, being on your own can be very stimulating, financially rewarding and satisfying.

A home-based business may cause problems within the family. You need the full support of spouse, children and others. They need to take you and your business seriously. What help can you expect or do you need from family members? Use of their money, skills and time often make the difference between success and failure.

Will you have adequate time to spend with your family? Doing work part-time or postponing starting a business a few years may enable you to better prepare for starting a business and allow you more time with your family when they particularly need you.

Lack of planning and insufficient financial backing join poor management as the main reasons why businesses fail. Improve your odds of success by moving slowly and carefully in starting a business and you can join the 95 percent of those who succeeded in their first year and the 85 percent who are still in business and doing very well after three years.

Advantages and disadvantages

Advantages of a home-based business include having a flexible schedule; integration of family and work responsibilities; less involvement with others in a regular work environment, such as power struggles and red tape; no commuting time (unless you travel to a customer's home or place of business); control of your own personal environment (temperature, light, work breaks, etc); self-determination and independence; increasing personal fulfillment; seeking and setting personal goals; enhancing creativity; and remaining in a community or moving with a spouse to a new community even when jobs are scarce or not available.

Disadvantages of a home-based business include needing to know a lot of information to operate a business

successfully; the risk involved in operating a business; conflict in ownership of time (When is it my "own" time and when is "business" time?); lack of guaranteed employee fringe benefits; many competing roles and responsibilities (producer, promoter, bill collector, customer service representative); lack of job security; loss of home space use by family; interruptions; lack of self-discipline; little opportunity to delegate tasks to others; long hard hours, and legal requirements including zoning regulations. Being committed to a business may mean lack of freedom to do other things and to go as you please.

Other factors to consider

The decision to go into business is based on a thorough study of factors such as the potential market, sales promotion and advertising, location, making the product or setting up the service, delivery of the product and profit potential. Consultation with a small business expert such as a Small Business Administration Service Corps of Retired Executives Association (SCORE) counselor or the Small Business Development Center (SBDC) staff (1-800-445-7232) will help you decide if the particular small business would be feasible and help find answers to the following and other related questions: How likely is it that the business will be profitable? What is the competition? Is there a long-time need for the product or service, or is it a fad-type item? Are you an expert in producing the product or service?

"Can You Live Where You Work... and Work Where You Live?"

A unique situation occurs when a business is operated out of the home. Conflict can result from the infringement of the customer/business interaction on family functioning. A family and business does not integrate successfully in the same space without some planning. Five areas of family functioning are likely to be affected.

Family cohesion. Each household will need to answer the following: 1)What will the business demand from the home space? 2)What does the family need from the space in the home? 3) How can you develop a management plan for household space use that best accommodates your family and your business?

Personal and family time schedules. If the schedules of family members are fixed and intermeshed (one car and each person needs to be on time for various commitments), a business would have to meet this time schedule. It would be difficult to retail items such as paintings and crafts if customers stop by anytime.

Use of space. Is your business one which requires storage space, an area for customer interaction, specialized tools and equipment, or convenient access for pickup and delivery? Is confidentiality a problem? The arrangement of space may affect ongoing family activities. The most convenient part of the house for customer interaction, pickup and delivery is often the most shared and public parts of the house (kitchen, living room, etc.).

Space separations must be maintained for deductions as business expenses for tax purposes. One must determine if this part of the house has too many uses that are part of the pattern of your family's life to also be used in the business.

There are many different types of home-based businesses, but they can be grouped into broad categories: production/service; consulting or counseling; sales or marketing and mail order. These different types of businesses have different space needs. Thinking about what category describes your business can help you begin to think about space needs. Think about storage space, space for tools and equipment, production space, area to meet with clientele, pickup and delivery and office space.

The Neighborhood. How do your neighbors feel about a business in the neighborhood, and do city and county codes permit your business to be established in the neighborhood? Higher traffic in the neighborhood may cause disenchantment among friends and neighbors. A seamstress may consider fitting garments at the client's house or secure alteration business through a clothing store or dry cleaners in order to preserve the character of the neighborhood, for example.

Shipping and deliveries could be made to a U.S. postal service box or parcel service branch office to avoid unwanted truck traffic.

Risk handling behavior. Another aspect of family functioning which relates to a business at home is the family's attitude toward risk. Some are risk seekers who look for opportunities to be tested, willingly take financial risks, and promote novelty and change in their lives. Others tend to avoid change and desire a secure environment at home and around the family.

For complete information and worksheets order, "Can You Live Where You Work...And Work Where You Live?", publication 354-306, from the Virginia Cooperative Extension Service, Distribution Center, Landsdowne St., Virginia Tech, Blacksburg, VA 24061-6192. Publication cost is \$1.50.

Searching for Financing

Inadequate capital is the cause of many home business failures even though most home-based businesses require a limited amount of start-up money. There are several sources to consider when looking for financing for your business. But first you need to consider how much money you are going to need. Consider all of the expenses of starting up your business and add on at least three months of operating costs. Do a cash flow analysis as given in Appendix I to determine capital needs. The SBDC (1-800-455-7232) can assist you with developing and completing your cash flows. When you know what you need, start looking for sources of capital. Experienced business owners recommend that at least half, if not more, of your business investment should come from personal savings. This can include profit shares or early retirement funds, real estate equity loans, cash-value insurance policies, or credit card advances. (**Note:** credit card interest rates may be very high compared to other sources of capital.) If you do not have enough startup money, consider borrowing from friends and relatives who believe in you and your business plan. But remember to do it on a business-like basis by writing up a loan agreement that specifies the amount borrowed, the length of the loan period, the interest rate, schedule of payments, and any collateral.

Banks are sometimes reluctant to lend to owners of new businesses because the business has no background of proven success. If you are persistent, have a good business plan, demonstrate through market research that there is a market for your product or service, and can prove your worthiness as a business owner, you will find many ways to finance your business. Possible loan sources include commercial finance companies and savings and loan associations. Following are other sources for loans:

Local banks

Banks generally limit loans for start-up expenses to 50 percent of the money needed. Loan officers look for borrowers with good credit ratings and sound business plans. Interest rates and repayment plans vary from bank to bank, so comparison shop for the loan that is best for your circumstances.

Government programs

Federal, state and local governments have several programs designed to help finance new ventures and small business. Local programs differ from community to community, so check with your local economic developer, SBDC, chamber of commerce or the Regional Planning Council in your district. In addition, a good source of information for

capital in North Dakota is the One Stop Capital Shop Business Information Center located in the Bank of North Dakota (call 1-800-544-4674).

Small Business Administration

The best known source for small business assistance is the Small Business Administration (SBA).

SBA doesn't provide direct loans but guarantees loans. The loan is made through a commercial bank, but SBA may guarantee up to 90 percent of the bank loan if repayment ability is indicated from the potential earnings of the business. A business must prove that it is unable to secure reasonable financing from other sources to receive financial assistance from SBA. Women and minorities may qualify for special loan programs. Contact the SBA office to get more information at: Small Business Administration, 657 2nd Avenue North, Fargo, North Dakota 58102.

Loan request review

A loan officer's primary concern when reviewing a loan request is whether or not the loan will be repaid. Lenders usually use the five C's of credit when evaluating your credit-worthiness: these are character, capacity, capital, collateral and conditions.

Character centers on the borrower's integrity, trustworthiness and attitude toward honoring outstanding credit obligations. Do you intend to repay the loan?

Capacity deals with you or your firm's repayment ability. This is frequently evaluated on the basis of past history, income and in-depth credit analysis. The most useful measures of the ability to repay are a cash flow statement (Appendix I) and a projected business income (profit and loss) statement (Appendix J) which can help determine if the business will generate enough income to pay expenses and cover loan payments. These should be provided along with a personal income statement (Appendix K) covering one year's operation.

Capital refers to your general financial position with special emphasis placed on tangible net worth or financial health. A lender needs to know what is owned (assets) and what is owed (liabilities). After the required amount of capital is determined, the lender will analyze where this money will come from. A personal balance sheet (Appendix L) and a projected balance sheet (Appendix M) for the business should be submitted to the lender. Lenders need evidence that you have personally made a sizable financial commitment. They know from experience that it is easier for you to back out if you do not have your own money at risk.

Collateral is represented by assets that you can pledge as security for the loan. A list of collateral to be offered should be provided. These can include home, vehicles, or stock shares. Before pledging them, think about the effects of losing them if the business fails.

Conditions refers to market conditions, including trends in the overall business economy, trends in your community, the seasonal character of your business, the nature of your product or service, and the amount of competition in your trade area.

Lenders look more favorably on loan applications when the people applying for the loan have done their homework and provide them with the necessary personal and financial information.

All business owners, large and small, should develop a working relationship with their primary lenders, establish a credit history and keep your lenders current on information concerning your business.

Business Structures

One of the early considerations for people starting a small home-based business is to determine the best form of organization and ownership. There are five basic types of business organizations: sole proprietorship, partnership, limited liability company, corporation and cooperative. The form of organization used depends on the type of business, how many owners or investors are involved, and how tax and liability issues will be handled. The basic forms of business organization including advantages and disadvantages are discussed here.

Sole proprietorship

The sole proprietorship is a business owned and operated by one person for profit. The business owner is responsible for all financing, management decisions and liabilities of the business. Special trade names used to do business must be registered with the Secretary of State.

Advantages:

- Owner in direct control (your own boss)
- Low start-up (organizational) costs
- Least government regulated
- Ease of formation and simple structure
- No double taxation
- Business losses can offset personal income
- Owner receives all profits

Disadvantages:

- Total (unlimited) personal liability
- Limited financial resources (capital)
- Lack of continuity as a result of disability or death of owner
- Owner may have limited managerial expertise
- All profit is taxed as personal income
- Can expand with only "after tax dollars"

Partnership

A partnership provides the opportunity to pool the capital and management resources of two or more individuals to conduct business. If a spouse is joint owner of the business you have a partnership. The two types of partnerships that exist are general partnership and the limited partnership.

A **general partnership** is fairly easy to establish. Special trade names used to do business must be registered with the Secretary of State. Although not required by law, a written partnership agreement drawn up by an attorney should be used to clarify business arrangements and avoid misunderstandings. The partnership agreement should include a list of the rights and responsibilities of each partner and their heirs, the management and continuity arrangements for the business in the event of death or disability of one of the partners, the profit distribution plan, a buy-out agreement, expulsion or addition of partners, appraisal of assets, and any special conditions or arrangements that may affect any of the partners through operation of the business. When signed by all partners, the agreement is an enforceable contract.

Advantages:

- Simple organization
- Additional personal resources (financial and managerial)
- The right to select partners
- Low start-up (organizational) costs
- Limited outside regulation
- No double taxation

Disadvantages:

- Costs more than sole proprietorship
- Unlimited liability for all partnership obligations
- Lack of continuity in event of death or disability of one partner
- Sharing of profits

- All profits are taxed as personal income
- Difficult to raise additional capital
- Hard to find suitable partners
- Divided authority (limited decision-making)

The **limited partnership** permits investor involvement with liability limited to the amount of the investment or the amount agreed to in the limited partnership agreement. The partnership must include at least one general partner who has general liability for the debts of the limited partnership. The general partner usually manages the business. The limited partner usually exercises no control over the business of the partnership but is merely an investor.

Advantages:

- General partner maintains control of the business
- Limited partner can invest with a limit on personal liability
- Easy way to secure capital
- Business not taxed directly

Disadvantages:

- More complex to organize
- Limited partner has no control over the business
- General partner has unlimited personal liability for the obligations of the business
- Lack of continuity in event of death or disability of one partner
- Must maintain certain records according to state laws

Withdrawal of one partner or the addition of another automatically terminates a partnership unless the partnership agreement provides otherwise. Business liquidation can be avoided by a partnership agreement covering ownership transfer and continuity of the business operation. You must file a Certificate of Limited Partnership with the Secretary of State.

Limited liability company

A limited liability company is a cross between a partnership and a corporation, with mostly partnership characteristics. The owners of the business are called "members."

Advantages:

- Moderately easy to set up and operate
- Profits are taxed once
- Moderately easy to liquidate
- Limited legal liability

Disadvantages:

- Some formalities are required in setup
- May or may not terminate upon death or withdrawal of member, depending upon operating agreement
- Must prepare and adopt an operating agreement

Corporation

A corporation is a separate legal entity (artificial person) distinct from its owners, the shareholders. It can enter into contracts, be liable for any obligations, and must pay taxes on earnings.

A corporation attracts capital investment funds by selling shares of stock in the company to investors or by trading stock for assets. Generally, stockholders are not liable for claims in excess of the current value of their shares. Corporate officers may be required to personally guarantee bank notes or loans and, therefore, are personally liable for the obligation. Other creditors can generally only lay claim to the assets of the corporation.

Advantages:

- Legal entity
- Specialized management
- Transferable ownership
- Perpetual life
- Easier to raise capital
- Many tax advantages
- Limited personal liability

Disadvantages:

- Closely regulated
- Most expensive to organize and liquidate
- Charter restrictions
- Complex organization and management
- Extensive record keeping necessary
- Double taxation

One corporate form to consider by small businesses is the "S" corporation (Sub-chapter S Corporation). The "S" corporate structure should be considered when the following factors are present:

- Owners expect operating losses
- Large dividends are anticipated
- The owner's individual tax rates are lower than the corporate rates
- There are 35 or fewer stockholders
- The corporation has only one class of stock
- It is a domestic corporation

The "S" corporate structure, for smaller businesses, allows a tax burden shift to shareholders. It is not taxed, but it must file an informational return allocating profits or losses to shareholders.

An attorney and an accountant should be used to help draw up the articles of incorporation. Their expertise can help to avoid the many problems and possible pitfalls of establishing a legal corporation.

Cooperatives

A cooperative is a type of business formed by a group of people to obtain services more effectively or more economically than they can get on their own. Members of cooperatives own, finance and operate the business for their mutual benefit.

The need for assistance with the following problems has prompted some home-based business people to form cooperative organizations:

- Limited access to markets due to rural isolation that may result in a lack of awareness of what is marketable in metropolitan areas and having to accept whatever price is offered locally.
- Limited access to sources of supply due to the same rural supplies for production. This may result in supplies having to be purchased in relatively small quantities and at retail prices.
- Lack of business training to turn a producer into a successful business person. Training in design skills and business management is needed.

While the cooperative approach does not assure success of any enterprise, it does provide a method to bring together the resources needed to overcome many problems.

Like a sole proprietorship, partnership or corporation, a cooperative must operate as a business if it is to succeed. Competent planning and management are essential for an effective cooperative. The members of a cooperative must work together and manage (or oversee management) for the cooperative to be successful.

Cooperatives are similar to corporations with a few exceptions, which are:

- Ownership benefits in proportion to use
- Democratic control — one vote per patron
- Service at cost
- Limited return on equity capital

All income is distributed to members on a participation basis. Therefore, cooperative organizations come under no state or federal income tax liability.

The needs of home-based business people differ somewhat, depending on location, type of product, skill levels and other factors. Each cooperative membership must determine what is needed and how those needs can be met. Some of the questions that need to be answered before forming a cooperative include:

- Does a need exist for an income-producing activity, and if so, could a cooperative provide a possible solution?
- Does sufficient interest exist in the community or region to make formation possible?
- Is a cooperative likely to be successful and beneficial to its members?

Surveys may be used to identify potential members, producers, benefits and needs. If there is sufficient interest, an organization committee should be formed to set up the cooperative. Some of the responsibilities of this committee are to: sign up potential members, draft the bylaws and other legal organization papers, file the articles of incorporation, and arrange the first meeting of members. An attorney should be retained by the committee to ensure that proper legal procedures are followed in setting up the cooperative.

Marketing

After you know what type of business you want to start, it is necessary to research the options for selling your product or service. Marketing includes all activities involved in getting goods and services to the customer from the producer, such as market research (potential), advertising and promotion, pricing and customer relations. A good marketing plan is just as important as a good business plan.

Market potential

Some people will study the market and design a product or service to fill the needs identified. Others will design a product or create a service and then look for a place to market it by creating a demand in the market for the product or service. Both systems can work well depending on the product or service, although the first method is generally more successful.

The first step is customer identification. Develop a customer profile to help determine if the idea or business will be successful and to direct advertising and promotional efforts. For example, you will want to identify if you will be marketing to mothers of preschoolers, single men or women, dual career families, senior citizens, adolescents or other specific groups. Additional information such as educational background, income levels, type of housing, etc., may be needed.

Trade associations can provide information on the customer profiles for the types of businesses they represent. Additional census information concerning characteristics of the population for North Dakota can be obtained from the State Census Data Center, NDSU, Fargo, North Dakota 58105 (National census information can be obtained through the Internet under U.S. Census Data) city directories, plat books and your local NDSU Extension Service, chamber of commerce and economic developer may be helpful for local information.

One aspect of determining the market for your product or service is to identify your competition, if any. Are there similar products or services offered? Compare the quality, features and value of your product or service to the competition. Identify the attributes that you should emphasize to create a unique need or to be most appealing to the customer. You may have to offer special services, such as pickup and delivery or credit card payment, to increase the appeal of your product or service.

Determine what share of the market you should strive for. Would that share of the business be worth all of the effort? Determine if there is room for you and your competitors, and potential for expanding the market. If there is no competition, find out whether your product or service can be promoted successfully to create a demand for it.

Marketing is a continuous process, and you should not neglect it once you launch your business. You need to be aware of trends and changes in your market so you can respond to them. If your product or service is not selling, consider changing it, its price or name, the function of the product or service, or your distribution channel.

Remember, perseverance and flexibility can keep you in business. If you establish the fact that people need and will pay for your product or service, identify the appropriate market and appeal to those customers' particular needs, you should have a successful business.

Business Management and Image

Experts on home-based business management report a direct relationship between certain business management practices and income produced. These practices include having a highly serious attitude about the business; maintaining a well-equipped office; using the yellow pages for advertising; using professionals for advice; securing a business bank account; incorporating the business; operating within all local, state and federal laws and regulations; making sure the telephone is answered during business hours; hiring employees; belonging to professional associations, and using delivery services. Other practices that are important to a good business image are being well groomed and appropriately dressed; having an orderly and clean workplace; posting your business hours and following the schedule; having good quality printed materials; maintaining good customer service, and using good manners at all times.

Customer Relations. Good customer relations are essential for any business. Money spent on advertising and promotion could be wasted if the customer is not treated appropriately. Business people and their employees should deal with customers in a manner that neither offends them nor allows them to take advantage of you or your business.

Establish business policies on dealing with customers before you open for business. Try to anticipate problems, objections, or special situations that may occur and determine how you want to deal with them. Try role playing possible situations that employees of your business may encounter.

Strive to convince customers that you are genuinely interested. Providing a good product or service reinforces this. Work that fails to satisfy you or the customer is a poor advertisement for your business. According to consumer surveys, a person who has had an unpleasant experience with a business will tell on average 9 to 10 other people. Some may tell as many as 20 people or more.

Solving complaints promptly may not only bring customers back, but they will have something positive to talk about. Customers who have had a good experience with a business will tell an average of five other people, some of whom may become new customers.

Business cards. A professionally printed card is an asset to almost any business. Include your name, address, phone number, products or services you provide and an attractive logo if you have one. Cards done on personal computer are appropriate if attractive and look professional.

Letterhead and envelopes. Printed letterhead shows your customers that you are a professional business person. You may want to announce your business by mailing notices to prospective customers. Letterhead stationery may also be necessary when purchasing materials and equipment for your business. Many wholesale outlets will not sell to you without it.

Business phone line. The business phone should have a separate line and be answered promptly during business hours by a person or answering device.

Advertising, Promotion and Distribution

The difference between advertising and promotion is that advertising is easier and more effective once you identify your customers and determine market potential. This will help you to determine when, where, what and how to advertise. Advertising lets prospective customers (target market) know about your product and makes them want to buy from you. Effective advertising gets the right message to the right audience at the right time plus is measurable so you can determine if it is increasing sales. It creates a business image in the customer's mind, increases customer information, about the business and attracts customers.

Choose forms of advertising and the distribution method by their appropriateness to your business. Remember to use a mix of advertising methods. Experts say to not spend your entire advertising budget on one type of media. Take advantage of every opportunity to promote your business. Promotion can be done through news stories of your grand opening or local radio news programs.

Computer marketing. The newest form of advertising and marketing is on-line. It is estimated that over \$1 trillion worth of commerce will be done over the Internet by the year 2002, and that most of the products sold will be by entrepreneurs. Advertising can be done for little cost on local bulletin boards and community pages, to sizable monthly fees for sophisticated marketing services. To sell on-line you will need to establish an attractive web page with quality pictures and exact descriptions of your products. You will also need to be ready to accept credit card orders. An advantage to marketing this way will be your access to a much larger market.

Word of mouth. Word-of-mouth advertising can be a powerful medium for a home-based business in the local area. It is sincere, believable and unsolicited. It is also uncontrollable, so you will want to make sure that it is positive advertising. It is largely up to you to make sure that your

product and the experience your customers tell others about is the kind of advertising you want. Be professional and prompt, meet deadlines, keep appointments, and do not accept more work than you can deliver. These good business practices and friendly hospitality will enhance your business and make people want to come back. It takes time to build a reputation.

Brochures/Hand-Out Flyers. A brochure or flyer can be small, inexpensive and attractive and is an excellent method to advertise your business. Get advice from a printer or hire a graphic designer to help with the layout of pictures, text and lettering. Do not invest money in these items if you did not consider how either will be used or who it will be used for and it is constructed in such a way that it will be opened, read and responded to. They have many uses but are wasted if not well planned.

Direct mail. Mailing brochures or letters to businesses or people likely to become customers may be helpful when you first open your business. Mailing again at regular intervals throughout the year also may help but you must keep an up-to-date mailing list. Direct mail is most effectively used on clients within a 50 mile radius of your business if it is only used to advertise and **not for orders**. If orders are taken, distance is no object. It adds a personal touch as a direct communication between you and your customer. Mailing can be expensive and should be weighed with the other options.

Bulletin boards. Post professional looking brochures, flyers or business cards on public bulletin boards in restaurants, grocery stores, laundromats, apartment complexes, schools or anywhere visible to your target market. It is common courtesy to ask permission to post. Some locations specify where posters can be used or may not permit their use.

Newspapers. Contact the local editors and tell them about your new service or product. An editor may want to do a feature story, especially about your grand opening. Getting an article may be easier if you can tie into the activities of a charitable organization, a benevolent group or a community activity. Include a black and white picture and send along a news release. An article like this is promotion and not advertising, but may be very effective.

Newspaper advertising should be done on a consistent basis. People need to see your ad several times before it will stick in their minds. Ask to have your ad placed in the same place each week and preferably on a page that is highly read. Placement does make a significant difference in whether or not an ad is noticed. Color and size also make a difference but do cost more.

Classified ads are usually inexpensive and appropriate for a small business. Run ads in local newspapers and shoppers' guides in your community.

Shows and displays. Depending on your type of business, it may be appropriate to display some of your work in a public library or bank along with your business cards for people to take. You can also use road signs.

Other businesses. You may want to advertise in a business that is complementary to yours. For example, a fabric store for alterations or gourmet food store for cooking classes. This type of advertising benefits both businesses.

Yellow pages. Check with the phone company for the time of printing for the next book. Be sure to get your business name in the white pages and consider a yellow page ad. A listing in the yellow pages can be helpful but may have a charge, so check with your local phone company. Always consider your customer. Would a potential customer consult the yellow pages looking for your type of product or service?

Local radio and TV. Many radio stations have local talk shows. Call the directors and see if they are interested in discussing your new business. Radio ads give you the flexibility to choose the audience that will hear your advertisement. This can be done by choosing the station and time of day the ad is broadcast. The radio sales agent can help you to design your ad to meet your goals.

Television ads can be effective but are very expensive to produce and run. Local cable companies may provide low cost space on their cable access page. Distribution can also be accomplished via television. Shows like QVC and other home shopping shows are popular and effective, but you must have a significant supply on hand that can be shipped immediately. Infomercials are also gaining in popularity but are very expensive to produce and air.

Specialties. You may want to offer matchbooks, pens, calendars, decals, balloons or other tokens of appreciation for doing business. Many of these items have long-term use and make good seasonal gifts. You could print stickers or labels to attach to every product. However, labels may be expensive. Weigh the cost and the advantages of the items depending on your particular business.

Telemarketing. Telemarketing is a sales approach that is done entirely by the phone. It may be selling to customers who call or calling potential customers.

Selling on Consignment. You may choose to sell on consignment, where the retail store displays your products, advertises and sells them for you. For this service, they

charge a flat fee of 30 to 50 percent of the selling price. The store generally pays its consignors once a month for merchandise sold. A consignment store should reflect a neat and friendly yet businesslike appearance. Other merchandise in the store should be similar in quality to yours. The store owner should be able to suggest realistic selling prices for your products.

Since you own the products until they are sold, the store is not responsible for theft or damage. Another disadvantage is that your money is tied up in the merchandise until it is sold. It's in your inventory, not the store's. If an item does not sell, it may be returned to you in less than salable condition or be out of date. Inspect written agreements carefully. Make sure to include all of the details you find necessary to protect your investment, including length of shelf time.

Chamber of Commerce. Joining the local chamber of commerce and other professional organizations is a good opportunity to make valuable contacts and participate in community activities. It also helps makes your business visible.

Additional ideas and information can be obtained from the following:

- Read magazines, trade journals and observe competitor ads in newspapers.
- Talk with public relations people and others who promote products and services to find out the best ways to advertise your business.
- Attend trade shows. The wholesalers and distributors have excellent ideas on what they would do if they were in your shoes. If you are wholesaling, visit with your suppliers. Gain contacts to meet with others who are in a business similar to yours. If you are not in their market or potential market, many will be glad to share their expertise.
- Consult people in the franchise business or in unrelated franchises if you are considering this form of business. Determine how they reach their clientele and learn their repeat sales techniques and the preferences of those customers.
- Depending on the suitability of your business, don't overlook parades, mall shows, gallery shows, street fairs, summer festivals and county fairs.

Plan your advertising based on a set budget. This can be determined by spending:

- The same amount as last year.
- What the competition does.

- A percentage of your sales.
- To meet your objectives (example: increase sales by 10 percent).

Regular, steady, targeted advertising attracts more customers than splashy, appeal-to-no-one advertisements. Zero in on your specific target audience with cost-effective advertising. Plan an appropriate advertising theme using the name of your business and featuring a logo (if you have one). People tend to remember and trade where there are catchy (not overly cute) names, slogans and logos.

Setting the right price

What you charge for your product or service can range from an educated guess to an orderly analysis of the cost to produce the product or service, the overhead of your home-based business, and the profit you want. Those who guess are risking the success of their endeavor.

Other factors which influence the price are type of business (retail, service or product), quality of the product, competition, demand for the product, pocketbook status of your customers, and weather or seasonality. Realistic prices attract customers and build sales volume. Whether you are high priced so only a select few can afford your product or service or lower priced for greater appeal, be sure the return is enough to be profitable. You won't last long if too few come to your door or if your prices are so low you do not make a profit.

The total cost of producing a product or service is composed of direct costs + labor + overhead costs. This cost information is used as a basis for setting prices and profits. The more exact the figure the greater your chance for success. You may wish to consult your trade association and your accountant to learn what the best current practices, cost ratios and profit margins are for your business. A good information source on calculating ratios is "Rural Retailers: Financial Profile of High-Profit, Medium-Profit and Low-Profit Firms", North Central Regional Extension publication NCR555. Call Michigan State University at (517) 355-0240 for cost and how to order a copy.

Costs – The **direct material cost** includes parts or merchandise, supplies, shipping, handling and storage, etc., anything that is directly related to the production of the product or service. The **labor** costs include all wages paid to employees, including the owner. Exact labor time is needed. This cost includes fringe benefits, Social Security, Workers Compensation, holidays, vacations, hospitalization and other labor-related costs.

The **overhead cost** includes all job-related costs except the direct materials and labor listed above. Included are utilities, interest, clerical, supply and janitorial employees, taxes, depreciation, insurance and transportation. A portion of the total overhead cost is added to each product price or service fee, so these overhead costs will be paid for over the year. Overhead expenses can be determined as a percentage of direct costs plus labor. To determine the overhead percentage for the business, add up the total overhead expenses for a year. Next, divide the total amount of direct costs + labor for the year into the first figure.

Overhead Expenses/(Direct Costs + Labor) = Overhead Percent

For example, if direct costs plus labor for a year added up to be \$10,000 and overhead expenses for the year added up to \$2,000, that would be \$2,000 divided by \$10,000 for an overhead of 20%. This percentage should be re-evaluated on an annual basis.

Profit. Profit is the income left over after all direct costs, labor, and overhead expenses have been paid. To do this a profit factor or profit margin must be calculated in initial pricing. The profit factor is added to get the final price.

Total Costs + Profit = Price

Generally adding a 10 to 20 percent or more profit margin (% of direct costs + labor + overhead expenses) is standard for most home-based businesses. A mistake many owners make when first starting out is not adding in a profit margin to their pricing strategy. If this is not done, there will be no money for growth or expansion of the business.

Retail Price. Up to this point you have only figured your wholesale price. To figure the retail price a retail margin must be added. This is usually two to three times the price.

Price x Retail Margin = Retail Price or (Direct costs + Labor + Overhead Expenses + Profit) x Retail Margin = Retail Price.

The percentage a retailer adds to the wholesale price he pays for an item is called the markup. If you wholesale and retail you must be careful not to compete or undercut your wholesale customers. For example, an artisan wholesales pottery to gift shops and also sells the pottery directly to customers at craft fairs. The artisan should sell the pottery at retail prices at the craft fairs.

Break-even analysis. Prices charged must exceed total costs or there is no reason to be in business. To look at the big picture in pricing you need to do a break-even analysis or the point at which sales are exactly equal to costs. The basic equation used for this is: sales = variable expenses + fixed expenses. For example, let X represent the number of units to be sold to break even or zero profit. Suppose the cost per unit of X is \$.45, the selling price per unit is \$1.00, and there is a fixed cost of \$275

to manufacture product X. How many units of X must be sold to break even?

$$\begin{aligned}
 1.00X &= .45X + 275 \\
 1.00X - .45X &= 275 \\
 .55X &= 275 \\
 X &= 275/.55 \\
 X &= 500
 \end{aligned}$$

In this case 500 units of X must be sold to cover all costs. In dollar terms, the break-even point is \$500 in sales of product X (500 units @ \$1.00 per unit).

Using the same example, suppose you want a profit of 20 percent of sales. You would simply add 20 percent of \$1.00 to the top of your equation or $1.00X = .45X + 275 + .20(1.00X)$. Now to cover all costs and make a 20 percent profit on sales, 786 units must be sold for a total sales volume of \$786.00 (\$1.00 times 786).

Other Pricing Considerations. As with all businesses, prices will vary depending upon your clientele, competition and demand. Remember to base your prices on a fair market value and not personal preference. In the service area there may be some things you'd rather do and others you'd rather not do. Charge the same hourly rate for all of your work.

Some service providers double the expense of the job. Others add a commission fee to the cost while a third group charges a flat hourly fee. As with all business practices, it's wise to figure the various methods and choose the one which fits your business best and returns the profits you need.

Evaluation – To find a reasonable price, take the highest and the middle price range of similar products or services to determine the market value of your own. As a rule of thumb take half of this retail price average. Is your wholesale price similar? If your price is higher, you'll need to lower your overhead or improve your production. Avoid cheapening your materials and supplies, for this will affect the quality of your product. If you cannot produce at a competitive price, drop the item(s) from your line.

Customer and Competition – If customers question the price you ask by comparing the products to ready-made products or other handcrafted items, you might stress the quality of custom work and the skill or talent needed to produce it. You may provide personal service that others do not. Do not compromise yourself or your products.

Limit discounts to family and friends, and discount only as low as the wholesale price. If competitors sell for less than you do, don't be tempted to lower your price. You probably have other advantages to your product and services you can stress — gift wrapping, delivery, a wider

selection, etc. If the lowered price continues for an extended time and your business is hurt, you may have to lower your overhead costs to enable you to lower the price, change the product so it is no longer in competition or discontinue that particular item.

What the Market Will Bear. Understanding the market and what customers will or will not pay directly impacts pricing. Sometimes the cost of producing the product or service is too high, and no matter how great it is the market is just not willing to pay the price. On the other hand, maybe the market will pay a much higher price than the actual cost of producing the product or service.

Record Keeping

Money is the lifeblood of any business and keeping track of the flow coming into and going out of your business is essential to its survival, growth and profit. Good financial records are used to help show how profitable your business is, identify areas where profitability can be improved, revise price lists, remember clients and prepare complete and accurate tax returns.

Records need not be complicated or elaborate. The key to an effective and efficient bookkeeping system is to get it set up right in the first place. It must be simple to use, easy to understand, reliable, accurate, consistent and designed to provide information on a timely basis. An accountant can assist you in setting up your books or advise you on the use of a record keeping computer software program like Quicken® or QuickBooks®. Many small business owners are finding that bookkeeping software and computer spreadsheets cut their bookkeeping time substantially and provide quick and easy access to business information.

Every home-based business should use a business checking account separate from your personal checking account. The business checkbook is the simplest system for only a few transactions. All disbursements of cash must go through the checkbook. Deposit slips can be used for sales transactions. Record on each check and deposit slip the details of each transaction. Every check needs a written document to support it, such as an invoice, payroll summary, or bill statement. Reconcile the checkbook with your bank statement monthly to provide a frequent summary of revenue and expenditures.

A more complete system uses the checkbook plus a cash receipts journal and a cash disbursements journal to record each transaction. Additional forms may be needed depending on the type and volume of business. Inexpensive journals and business forms are sold in variety stores, stationery stores and business supply firms.

The **cash receipts journal** (Appendix C) has columns for various categories of receipts with a line for each receipt including date, source of cash and total amount. Depending on the type of business, the column categories may be by type of merchandise or service or even by departments. All columns of the cash receipts journal should be totaled each month with year-to-date totals after each month.

A **sales slip** (Appendix D) is essential to record the merchandise or service sold, especially if you have several transactions which cannot be immediately entered in the cash receipts journal or offer sales on credit. Carbon sales slips provide both you and the customer with a record of the purchase. Choose a sales slip which includes customers' names and addresses that can be used in developing mailing lists.

Information from each sales slip can be easily recorded in the cash receipts journal or a sales journal if it is a charge sale. In some cases, daily or weekly summaries of sales should be entered. This should be done on a regular schedule for ease of comparing.

The **cash disbursement journal** (Appendix E) can have columns for various categories of expenditures with a line for each expenditure including date, check number, payee, description of expense or purchase and total amount. The column categories may be merchandise for resale, supplies, interest, utilities, taxes, occupancy costs, services performed, owner's salary and other common purchases or expenditures depending on the type of business. All columns of the cash disbursements journal should also be totaled each month with year-to-date totals after each month.

An **invoice** (Appendix F) is a bill submitted to you by a vendor or supplier for the merchandise you receive from them. The invoice may be attached to the merchandise, mailed separately with each order, or mailed at specified intervals (usually monthly). Always check the invoice against the merchandise received. Some vendors allow only five days to inspect the merchandise and confirm the invoice amounts. Then place the invoices in the "bills" file so you can pay them when due.

Deductions

A business person deducts cost of operations (expenses) for tax purposes and for determining profits and losses. Some deductible expenses include: maintenance of equipment, supplies (business cards, postage, envelopes, record keeping supplies, etc.), insurance, licenses, interest, utilities, taxes, advertising, mileage if you use your automobile for business, professional update expenses (books, magazines, costs to attend workshops or classes), professional

services (lawyer or accountant) and contract labor. Billings for other expenditures or services will usually have a customer copy (invoice) which should be recorded in the cash disbursements journal when paid and kept in the file for tax purposes.

A person using a personal automobile for business purposes must keep a log of the mileage if the vehicle is not used full time in the business. A simple notebook organized similar to the sample auto log provided will be sufficient (Appendix G). A standard mileage deduction allowed by IRS can be used. Alternatively, actual expenses or the business portion of gas, oil, repairs, depreciation, etc. may be deducted if it is to your advantage to do so. This method requires accurate records (and receipts) throughout the year. *If a standard mileage rate is not used in the first year of service for a vehicle you may not use it in future years.*

Some home-based business people hire independent contractors to do work for them from time to time. If you do, make sure that you check with an accountant or the IRS for submission of the required forms.

An **inventory control card** for each item may be needed for some businesses when purchasing merchandise for resale. This will help you keep a record of the merchandise and how much money is tied up in these items. A semi-annual physical inventory (count) should be taken to confirm the amounts on hand and on record to detect any losses or discrepancies. The sample inventory control card (Appendix H) shows the maximum and minimum number to keep in stock, the number of items received, the number sold and the balance on hand. This information can be obtained from sales slips and purchase invoices. Inventory can include more than finished products. For a manufacturer it includes unused materials.

Tax Considerations of Home Use

When you operate a business in your home, additional expenses for the home may be deducted. The IRS has certain criteria that must be met in order to take a business deduction for your home.

A "home," for tax purposes, includes a house, apartment, condominium, mobile home, boat, or similar property. It also includes other structures on the property such as an unattached garage, studio, barn or greenhouse.

If you operate a business out of your home, you are allowed to deduct a proportion of the costs for operating and maintaining your home as a legitimate business expense. In order to take a deduction for using part of

your home in business, the following parts must be used **exclusively and regularly**:

- As the principal place of business for any trade. Beginning in 1999, your home office generally will qualify as your principal place of business if two tests are met: you use it exclusively and regularly for the administrative or management activities of your trade or business, and you have no other fixed location where you conduct substantial administrative or management activities of your trade or business.
- As a place to meet or deal with your patients, clients, or customers in the normal course of your trade or business.
- In connection with your trade or business, if you are using a separate structure that is not attached to your house or residence, such as a studio, garage, or barn. This structure does not have to be your principal place of business or the place where you meet patients, clients, or customers.

Exclusive use means that you must use a specific part of your home only for the purpose of carrying on your trade or business. If you use part of your home as your business office and also use it for personal purposes, you have not met the exclusive use test. If a personal computer located in the business part of your home is used for both personal and business activities, the home business deduction would not be allowed.

Regular use means that you use the exclusive business part of your home on a continuing basis. The occasional or incidental use of a part of your home does not meet the regular use test even if that part of your home is used for no other purpose. An occasional sale of a hobby item would not qualify as regular use.

Two exceptions to the exclusive use test are for the storage of inventory and as a day-care facility. Expenses relating to the use of part of your home for storage of inventory or product samples may be deducted if all of the following tests are met:

1. The inventory must be kept for use in your trade or business.
2. Your trade or business must be the wholesale or retail selling of products.
3. Your home must be the only fixed location of your trade or business.
4. The storage space must be used on a regular basis.
5. The space used must be a separately identifiable space suitable for storage.

Expenses can be deducted by using a part of your home on a regular basis to provide **day-care services** if the following two requirements are met.

1. You must be in a trade or business of providing day-care for children, persons 65 or older, or persons who are physically or mentally unable to care for themselves.
2. The owner or operator of the day-care business must have applied for, been granted, or be exempt from having a license, certification, registration, or approval as a day-care center or as a family or group day-care home under any state law.

The portion of the expenses of the home that can be deducted for business use is usually determined on an area basis (square-foot) or on a time-usage basis. The area used for business purposes should be divided by the total area of the home. For example, a 120 square foot area of a 1,200 square foot home would provide a 10 percent rate for business expenditure deductions.

$$\frac{120 \text{ sq. ft.}}{1200 \text{ sq. ft.}} = .10 \text{ or } 10\%$$

The deductions for day-care facilities must be figured on a time-usage basis. The days used for business should be multiplied by hours used per day, then divided by the total available hours per year. To determine the percentage rate for business expenditure deductions. Example:

$$\frac{220 \text{ days of child care} \times 8 \text{ hours/day} = 1760}{\begin{array}{l} 8.76 \text{ hours} \quad 8,760 \\ (365 \text{ days} \times 24 \text{ hours}) = 20\% \end{array}}$$

BUSINESS EXPENSE DEDUCTIONS

The overriding rule on home business expenses is that you may not have a loss (for tax purposes) resulting from deductions for the business use of your home. You can carry over expenses to the next year. Expenses for the business use of the home can be deducted in the following order:

1. Real estate taxes, mortgage interest and casualty losses, if any. The portion allocable to business use is deductible.
2. Direct expenses that benefit only the business part of the home, which include painting or repairs made directly to the specific area of the room used for business (except day-care). These direct expenses are fully deductible.
3. Other indirect expenses such as rent, utilities and services.
4. Depreciation -- a portion of the value of the home and equipment used in the business is deductible.

If you sell your home after taking a business deduction on the depreciation, you must recognize any capital gain or loss on that business portion regardless of whether you buy another home or not.

All expenses listed above are subject to the income limitation (no loss for tax purposes) as mentioned.

A useful IRS publication, No. 587 entitled "Business Use of Your Home," is available. Anyone considering taking home business deductions should obtain a copy by calling the IRS toll free number at 1-800-829-1040 or talk to an accountant for up-to-date information or check the IRS website at http://www.IRS.ustreas.gov/plain/forms_pub.html

Income and expenses of a home-based business are reported on schedule C (Form 1040). Supporting schedules for depreciation, self-employment tax (social security), etc. may also be required.

Licenses, Permits and Zoning

Federal, state and local governments regulate and tax businesses for several reasons, such as raising revenues, protecting the public from dangerous substances and fraud, and protecting businesses from unfair or illegal competition. If you are starting a business, you will want to determine in advance the licenses, permits, filing requirements and taxes required by various agencies. It can be very frustrating when trying to purchase supplies, applying for a loan, or filing a tax return, to find out that you need some type of business permit or I.D. number.

Some of the more common requirements needed in North Dakota are a sales tax permit for retail sales from the state tax department, operating licenses by type of business, and registering trade names and filing articles of incorporation with the secretary of state. Additional requirements which may be in effect if employees are hired include: obtaining an employer identification number from the IRS, state and federal income tax withholding, F.I.C.A. (Social Security) withholding tax, unemployment insurance and worker's compensation. Information on the filing requirements and the names and addresses of various agencies to be contacted in North Dakota are found in NDSU Extension Service circular 752, "Business Reports, Forms and Licenses Required in the State of North Dakota." This publication is available on the NDSU Extension Service web page at: <http://www.ag.ndsu.nodak.edu/ced>. New Business Registration forms are available from the NDSU Extension Service, 4023 North State Street, Suite 30, Bismarck, North Dakota 58501 or call 701-328-5134.

Many cities and counties have zoning ordinances that restrict certain business activities (hazardous materials or products, etc.) to designated areas. There may also be local guidelines regulating business activities, such as the use of advertising signs, lighting, parking, etc. Town residents, especially, should know about local ordinances before making any major investment in the business. In some residential neighborhoods, it may be possible to have the area spot-zoned for your home business.

A zoning use permit is needed when making significant renovations or additions to your home to accommodate the business (changing from residential to commercial use) or if the commercial use of the building is changed. The permit is required so the building can be certified safe for the operation of the business and the safety of your customers. Building permits, especially in cities and towns, are required when erecting a new building or remodeling an existing one. Local or state building inspectors should be contacted to determine the building code requirements.

Insurance – Risk Management

As the owner and operator of a business, you have more exposure to liability and property loss than when living in a home used strictly as a residence. Homeowner's insurance will not cover claims related to business in your home. If a customer comes to your home and falls on the steps, your homeowner's insurance may not cover any legal action because the customer was in your home on business. It may also not apply if a customer's property or even your own equipment used in your business is lost or damaged by fire or theft.

Some insurance companies can add a rider or endorsement to a homeowner's policy to cover home businesses. A separate policy, which is more costly, may be needed for some types of business. Consult your insurance agent to determine the most appropriate coverage for your home business.

Consider the following insurance coverages when exploring your business insurance needs with your agent:

- Liability insurance to cover the property of others, bodily injury, damages such libel and slander, and operations of hired independent contractors for which you are held liable. A blanket liability insurance policy can also cover legal fees and court costs.
- Extended coverage rider for windstorm, hail, smoke, explosion or vandalism protection.

- Special protection to cover loss by fire or theft of business record, cash, other business documents and property, including tools and inventory.
- Product liability insurance for many businesses, especially food and clothing processing and manufacturing.
- An endorsement or rider to your personal automobile policy for business use if it's used to make deliveries or for other business.

An umbrella policy that covers all forms of liability can be purchased. The cost of the coverage varies depending on the business to be insured, location and the insurance company.

Worker's compensation insurance is required as soon as you hire an employee. Employers must contact the Worker's Compensation Bureau, 500 Front Avenue, Bismarck, North Dakota 58504, (701) 328-3820. As a sole proprietor or partnership, you are not required to pay Worker's Compensation on yourself or partner. It is optional but may be to your advantage to do so. If incorporated, you become an employee of the corporation and must pay for the coverage.

Remember the main purpose of insurance is to enable you to continue your business and lifestyle if a misfortune occurs. Identify and prioritize your risks to avoid being underinsured or overinsured. It may be necessary to consult with more than one insurance agent, compare the coverages, and determine what is adequate for you and your business. Always be certain to have something in writing stating what your business coverage is. This is especially important if your business liability is being insured under a personal homeowners or automobile policy.

Insurance risks will change over time. For example, an increase in your supply inventory may exceed your insurance coverage and signal a need to increase the coverage. Annually review your insurance coverage and the risks you face with your agent.

Time-Management Tactics

Time is a resource we all have the same amount of, yet some people seem to get more done in their 24 hours than other people do. Time is the one resource that can only be used, not saved, borrowed or wasted. Juggling time for home and work can be a special problem for those who work at home.

To plan better for time use, you need to know how you are currently using your time. Some things you may need to consider:

- Record how time is used.
- Analyze what you recorded to see how it related to the business.
- Look at each category and separate those activities that had to be done at a specific time and those that could be done anytime.
- Decide which are time wasters, controllable and uncontrollable.
- Determine if there are things that needed to get done that were left undone and why.
- Think about ways to improve the effectiveness of your use of time.

Keeping a daily log from time to time and analyzing it in this fashion will provide a reality check on how time is being used and provide incentive for “plugging the gaps” between how time is being used and the goals for work and home. Some basic suggestions for planning time include:

- Schedule based on your business plan and priorities.
- Look at what needs to be done for the week and determine which of those items go in “today’s schedule.”
- Put items that have to be done at a certain time on the schedule first.
- Arrange storage areas and work centers so items used frequently are at your fingertips.
- Do more than one thing at a time. Some tasks require minimal concentration, and this time can be used to plan other activities.
- Learn to say “No” if your involvement in too many activities becomes a problem. Don’t spread yourself too thin.
- Recognize the time of day when you are most productive. Do the important tasks during this prime time.
- Delegate as many tasks as you can. Identify certain jobs (home or business) that can be handled by other family members.
- Prevent a crisis. Don’t procrastinate so that a failure to act becomes an urgent matter.
- Divide major tasks into many small, manageable tasks.
- Look at ways to improve every task you undertake. Try to find ways to make them quicker, easier, simpler and less tiring.
- Plan ahead and anticipate problems before they occur.
- Think through jobs so you can work efficiently. Careful organization can prevent the loss of valuable time.

Look at your schedule the first thing in the morning and don’t become distracted. Time is a tool. It is one of the resources of your business. How you use this resource may be one of the most important factors in the success of your business. You may need to let family and friends know that just because you work from the home, you still have to maintain business hours.

Employee Relations

Most home-based businesses start out with only one person in the business. In some cases, family members may have certain duties relating to the business. As the business grows and becomes more successful, it may be necessary to hire people to work for you.

The people you hire represent your business to the public. Sloppy workmanship and lack of pride in the product or service can make a potentially good product or service unacceptable in the market place. The image portrayed and the ultimate success of the business depends on the people working for you.

A job description including all duties assigned to the position should be clearly outlined in writing before hiring an employee. An individual’s skills should fit the job to be performed. Although friends and acquaintances are considered one of the best sources for new labor, caution is advised in hiring friends. Let the applicant’s qualifications be the deciding factor.

Hiring an employee is just the beginning. The first few days on the job are critical in setting an employee’s perspective and attitude and making the job meaningful. Orienting the employee to the job and the business will save time and money in the long run. Continuous in-service training may be necessary in some businesses to keep up with trends and to remain competitive.

Wages and any benefits should be agreed upon before the employee starts work. This should be formalized with a written document.

Employer expectations and the goals and objectives of the business must be clearly communicated to the new employee. Likewise, employee needs, goals and desires will need to be understood by the employer so that you can better motivate employees to be productive as well as gain self-satisfaction from the work that they do. This can be done through an annual performance appraisal.

Summary

This publication discusses several factors to consider in establishing a home-based business but not all of them. There are many others to consider that may be unique to a particular operation or situation. A complete study should be made to determine the feasibility of a home-based business prior to starting. A good place to start is by calling the Business Information Center at 1-800-544-4674 to find out about possible classes in your area and other available information.

Acknowledgments

Special recognition goes to the following individuals for their helpful suggestions and assistance.

Wally Kearns

State Director, N.D. Small Business Development Center, Grand Forks

Sharon Kickertz-Gerbig

Extension Agent for Stark/Billings Counties, Dickinson

Bridget John

Business and Marketing Specialist, Institute for Business and Industry Development, NDSU, Fargo.

Additional information

Southern Rural Development Center, "CASHING IN ON BUSINESS OPPORTUNITIES", SRDC #210, Mississippi State University, March, 1998.

Virginia Cooperative Extension Service, "Can You Live Where You Work...And Work Where You Live?", Publication 354-306, Virginia Tech, 1993.

Stephenson, Mary J., "Guide to Starting a Home Based Business," Bulletin 304, Extension Home Economics, University of Maryland, 1983-84.

Cooperative Extension Service, "Business for Profit" series 1149a-1149j, Iowa State University, 1984-85.

Cooperative Extension Service, "Starting a Business in Your Home" factsheets, Ohio State University, 1984.

Passewitz, Gregory, "Starting a Business In Your Home-Pricing," Ohio State University, Cooperative Extension Service, April, 1984.

Rice, Frederick H., "Starting a Home Based Business," University of Vermont, SBDC, 4A Laurret Drive, Winooski, VT 05404. Cost \$4.

Home business/small business – online resources

Small Business Administration (SBA)

<http://www.sba.gov/starting>

Service Corps of Retired Executives (SCORE)

<http://www.score.org>

U.S. Business Advisor

(one-stop access to federal government information, services and transactions)

<http://www.business.gov>

Internal Revenue Service (IRS)

(downloadable forms and instructions)

<http://www.irs.org>

U.S. Patent and Trademark Library

<http://www.uspto.gov>

One Stop Capital Center of North Dakota

<http://www.btigate.com/~onestop>

Small Business Exchange

<http://www6.americanexpress.com/smallbusiness>

Entrepreneur Magazine

<http://www.entrepreneurmag.com>

Trade Show Central

<http://www.tscentral.com>

Home Business Works

(long distance plans, travel, insurance, etc.)

<http://www.homebusinessworks.com>

Home Office Association of America (HOAA)

(benefits, resource articles and links)

<http://www.hoaa.com>

CCH Business Owner's Toolkit

<http://www.toolkit.cch.com>

Small Office

<http://www.smalloffice.com>

Small Business Advisor

<http://www.isquare.com>

The Small Business Journal

<http://www.tsbj.com>

The Franchise Handbook

<http://www.franchise1.com>

1800 My Logo (logos, slogans and jingles)

<http://www.1800mylogo.com>

NDSU Community/Economic Development

<http://www.ag.ndsu.nodak.edu/ced>

APPENDICES

Appendix A

Some money making ideas that have been tried include the following:

A Antique appraisal Antique dealing Appliance repair Automobile tuneup and repair	D Day care service Delivery service Doll and toy repairing Dollmaking and toymaking Dollhouse and miniature making	J Jewelry making	R Rug making
B Basketry Batik Bed and Breakfast Bicycle repair Bookkeeping Breadmaking	F Fruit and vegetable growing Furniture making and refinishing Furniture upholstery	L Lawnmower blade sharpening Leathercraft Library research service	S Scale-model making Scrimshaw Sewing Shopping service Stained glass
C Cakemaking and decorating Candlemaking Car, boat and mobile home waxing Catering Ceramics Chair caning Chimney sweeping Clerical assistance Clock repairing Closet organizing Clothes designing Cookiemaking	G Genealogical service Graphic design service	M Mail order business Messenger service Metalworking Mimeograph printing Modeling Music teaching	T Tax service Teaching* Telephone answering service Tour planning Tutoring Tourist home Typing
	H Hairstyling Hand lettering Herb growing and drying Home canning Home repair House cleaning House painting House sitting	N Needlepoint and embroidery	W Wallpaper hanging Weaving Window washing Writing Woodworking and wood carving
	I Interior decorating Inventory service	P Party planning Pet sitting Photography Picture framing Picture painting Plant decorating Printing and silk screening Pool cleaning and maintenance	<ul style="list-style-type: none">• Teach any skill you have that someone else wants.
		Q Quilt and applique	<p><i>Source: "Starting a Home Based Business" Fact Sheet 372, Mary J. Stephenson, Cooperative Extension Service, University of Maryland.</i></p>

My Home Business

Cash Receipts Journal						
DATE		SOURCE	TOTAL RECEIPTS	MERCHANDISE SALES	SERVICE SALES	MISC.
1	1	Capital invested from me	\$1500			\$1500
1	15	Sam Owens - product sales	\$210	\$210		
1	17	Dave Jones - service and repairs	\$75		\$ 75	
1	26	Bob Smith - down payment	\$56	\$ 56		
		TOTAL for JANUARY	\$1841	\$266	\$ 75	\$1500
2	1	Mary Davis - product sales	\$ 219	\$219		
2	6	Bank loan proceeds	\$ 500			\$ 500
2	7	Bob Smith - paid on account	\$ 144	\$144		
2	21	Sam Owens - sales and service	\$ 290	\$170	\$ 120	
2	27	John James - service and repairs	\$ 75		\$ 75	
		TOTAL for FEBRUARY	\$1228	\$533	\$195	\$ 500
		YEAR TO DATE	\$3069	\$799	\$270	\$2000

My Home Business

Cash Disbursements Journal						
Date	Check No	Payee-Description	Total Paid	Inventory for Sale	Supplies	Misc
1/7	001	XYZ Wholesale - purchase inventory	\$460	\$ 460		
1/8	002	ABC Supply Co. - service supplies	\$180			
1/9	003	Trade magazine - 1 yr subscription	\$ 15			\$15
1/29	004	Local newspaper - advertising	\$ 45			\$ 45
		TOTAL for JANUARY	\$ 700	\$ 460	\$ 180	\$ 60
2/5	005	XYZ Wholesale - purchase inventory	\$ 250	\$ 250		
2/10	006	ABC Supply Co. - service supplies	\$ 65		\$ 65	
2/20	007	Commercial Bank - loan repymt & interest	\$261			\$261
2/27	008	Local newspaper - advertising	\$ 56			\$ 56
		TOTAL for FEBRUARY	\$ 632	\$ 250	\$ 65	\$317
		YEAR TO DATE	\$1332	\$ 710	\$245	\$377

Appendix F

Invoice

Sold to _____		Invoice No. _____	
_____		Date _____	
Terms _____		Distribution Order No. _____	
Due Date _____		Customer Order No. _____	
Quantity	Description	Unit Price	Total

Appendix G

Auto Log (sample)

Business Mileage

Date	Odometer		Number of Miles	Purpose (who, where and why)
	Start	Finish		

Appendix I

MY HOME BUSINESS
Cash Flow Projections

DATE _____

	MONTH											
	1	2	3	4	5	6	7	8	9	10	11	12
Anticipated income												
Cash sales												
Credit sales payments												
Other cash income												
TOTAL INCOME												
Anticipated expenditures												
Cost of goods												
Wages												
Taxes												
Equipment expense												
Overhead												
Selling expense												
Advertising												
Transportation (delivery)												
Loan repayment (if applicable)												
Other cash expenditures												
TOTAL EXPENDITURES												

Source: Adapted in part from Mary J. Stephenson, Home Economics Department, Cooperative Extension Service, University of Maryland

Appendix J

Profit and Loss Statement												
	MONTH											
	1	2	3	4	5	6	7	8	9	10	11	12
Total net sales												
Cost of sales												
GROSS PROFIT												
Variable expenses												
Salaries												
Taxes												
Advertising												
Delivery expense												
Dues and subscriptions												
Legal and other professional fees												
Office supplies												
Telephone*												
Utilities*												
Other												
TOTAL VARIABLE EXPENSES												
Fixed expenses												
Depreciation*												
Insurance*												
Rent or mortgage*												
Taxes* and licenses												
Loan payment (if applicable)*												
TOTAL FIXED EXPENSES												
NET EXPENSES												
NET PROFIT/LOSS (before taxes)												

* This may be a certain percentage of household cost. Source: Adapted in part from Mary J. Stephenson, Home Econ Dept., Coop Extension Service, Univ Maryland

Appendix K

Personal Income Statement

Year _____

INCOME

- Wages or salary
 - Husband \$ _____
 - Wife _____
- Dividends and interest _____
- Capital gains and losses _____
- Rents, annuities, pension, etc. _____
- Other _____
- TOTAL INCOME \$ _____

TAXES

- Personal income taxes _____
- Social Security taxes _____
- TOTAL TAXES \$ _____

Amount remaining for living expenses and investment \$ _____

LIVING EXPENSES

Fixed

Variable

- | | Fixed | Variable |
|---|----------|----------|
| • Housing | | |
| Rent or mortgage payments | \$ _____ | \$ _____ |
| Utilities | _____ | _____ |
| Insurance | _____ | _____ |
| Taxes | _____ | _____ |
| Maintenance and repairs | _____ | _____ |
| Other _____ | _____ | _____ |
| • Food | _____ | _____ |
| • Clothing (including care and repair) | _____ | _____ |
| • Transportation | | |
| Gas | _____ | _____ |
| Repairs | _____ | _____ |
| Licenses | _____ | _____ |
| Insurance | _____ | _____ |
| Auto payments or purchase | _____ | _____ |
| • Recreation, entertainment and vacations | _____ | _____ |
| • Medical | | |
| Doctor | _____ | _____ |
| Dentist | _____ | _____ |
| Medicines | _____ | _____ |
| Insurance | _____ | _____ |
| • Personal | _____ | _____ |
| • Life insurance | _____ | _____ |
| • Other expenses | _____ | _____ |

TOTAL ANNUAL LIVING EXPENSES \$ _____

Amount remaining for savings and investments \$ _____

Source: Mary J. Stephenson, Home Economics Department, Cooperative Extension Service, University of Maryland.

Personal Balance Statement

Year _____

ASSETS		LIABILITIES	
Cash		Unpaid bills	
On hand	_____	Taxes	_____
Checking account(s)	_____	Insurance premiums	_____
Savings account(s)	_____	Charge accounts	_____
Money loaned to others	_____	Installment loans	
Investments		Automobile	_____
Savings bonds	_____	Other _____	_____
Stocks and bonds	_____	Loans	
Mutual funds	_____	Banks	_____
Cash value of:		Education	_____
Life insurance	_____	Other _____	_____
Annuities	_____	Mortgage loans	
Retirement fund	_____	Home	_____
Real estate	_____	Other _____	_____
Personal property	_____	TOTAL LIABILITIES	_____
Automobiles	_____		
Other		TOTAL ASSETS (minus)	_____
_____	_____		-
_____	_____	TOTAL LIABILITIES	_____
_____	_____		=
TOTAL ASSETS	_____	NET WORTH	_____

Appendix M

**MY HOME BUSINESS
Balance Sheet**

Date _____

CURRENT ASSETS

- Cash \$ _____
- Other investments _____
- Accounts receivable _____
- Inventory _____
- Other current assets _____

Total current assets

\$ _____

INTERMEDIATE and FIXED ASSETS

- Equipment and fixtures \$ _____
- Automobiles _____
- Real Estate _____
- Other assets _____

Total intermediate and fixed assets

\$ _____

TOTAL ASSETS

\$ _____

LIABILITIES

- Account payable \$ _____
- Notes payable _____
- Accrued expenses _____
- Loans payable _____
- Other liabilities _____

Total liabilities

\$ _____

Owners Equity

\$ _____

TOTAL LIABILITIES & OWNER'S EQUITY

\$ _____

Source: Mary J. Stephenson, Home Economic Department, Cooperative Extension Service, University of Maryland



EB-44

NDSU Extension Service, North Dakota State University of Agriculture and Applied Science, and U.S. Department of Agriculture cooperating. Sharon D. Anderson, Director, Fargo, North Dakota. Distributed in furtherance of the Acts of Congress of May 8 and June 30, 1914. We offer our programs and facilities to all persons regardless of race, color, national origin, religion, sex, disability, age, Vietnam era veterans status, or sexual orientation; and are an equal opportunity employer.

This publication will be made available in alternative formats for people with disabilities upon request, 701/231-7881.

2M-8-99; 2M-5-00