



HOME BASED BUSINESSES: DISPELLING THE MYTHS OCTOBER 2008

**COSE**  
Join your cause.



---

“The Council of Smaller Enterprises (COSE) is seeking to improve our understanding of home based businesses and their characteristics. In 2008, COSE conducted its first *Small Business and Home Based Business Survey of Firms*.”

---

In March 2006, the Council of Smaller Enterprises (COSE) launched the Home Business Network to support a large segment of our membership – those who run small businesses out of their home. As one of the nation’s largest small business support organizations, COSE exists to support the 2.5 million small business owners and employees in Ohio. As the Home Business Network has evolved over the past two years, it has become clear that there is a shortage of solid information about home based businesses, their characteristics and their operations.

Because solid information about these businesses and their characteristics is hard to find, many myths and preconceived notions exist about home based businesses. Many academics and entrepreneurial “thinkers” have regarded home based businesses with apathy; dismissing the impact and opportunity that home based businesses represent.

As such, COSE is seeking to improve our understanding of these companies. In 2008, COSE conducted its first *Small Business and Home Based Business Survey of Firms*. Our goal was to gain a better understanding of the disparities between home based businesses (HBB) and non-home based businesses (non-HBB), and the characteristics of these companies, so that COSE could both quantify the realities of operating a HBB and improve its support of the home based business sector.

Our findings were surprising and revealing. We admit that our anecdotal understanding of HBB in some ways was based on the myths that exist in popular culture about the HBB community. Our expectations about their level of experience, the stability of their operations, the level of their incomes and the nature of their challenges were influenced by that group think. We are pleased to present our findings and dispel some of the myths frequently associated with this sector of the small business community.

In fact, we have found that home based businesses are as experienced, as profitable, as stable and as focused on growth and success as non-home based businesses in our community. While they do have some unique challenges and issues, in general they are every bit the contributors to their households and to our economy as the broader base of small businesses in our survey. From household earnings to job creation, this survey indicates that home based businesses play a large role in our economy. We believe it is important for policy makers, the business sector and the community at large to recognize and support this segment of entrepreneurship as an important ingredient to the success of our local economy.

## SURVEY METHODOLOGY

---

“The resulting sample included 2,134 HBB and 3,206 non-HBB. We conducted an e-mail survey and secured over 400 responses from each segment.”

---

Over the last several years, we have been struck by the void in primary knowledge about the demographics, operating characteristics and psychographics of the HBB community. Beyond census data, which is difficult to extract and understand, Internet scans of available research turn up very little insight about these firms and their owners. Most of the information that can be found is first person accounts of direct experience or subjective advice and interpretation by those that represent themselves as a resource or provider to HBBs.

Even the membership associations and other organizations most often referenced as resources for HBB tend to focus more on advice about running the business or information about various HBB opportunities than providing a profile of the characteristics and needs of the HBB.

As a result of this lack of information, we embarked on a survey of our own. As part of establishing COSE's Home Business Network, COSE scanned all member data and identified firms that our records indicated had a residential address as their primary business address. Those firms became designated as a HBB. For our survey, we sampled both COSE HBB members and

COSE members that were not identified as HBB in order to compare and contrast the two groups. We further narrowed this list by removing those for which no e-mail address existed. The resulting sample included 2,134 HBB and 3,206 non-HBB. We conducted an e-mail survey with a target of receiving a response from 400 businesses in each category. We exceeded those numbers slightly resulting in a margin of error of about 4.7% at a 95% confidence level.

It should be noted that our survey was of COSE members only. We believe a slight bias may exist as COSE members are likely a sub-group of HBB that are more likely to be engaged in a sustainable level of business activity and more likely to desire or require health care and other benefits that COSE provides. Though we will be supplementing this research with findings from a broader population of non-member HBB, that work is still underway as of this publication.

COSE was identified as the survey sponsor and all surveys were received via e-mail and compiled by Cypress Research Group. The survey was conducted from August 28, 2008 through September 20, 2008.





“Our research led us to conclude that the broad perceptions that exist about home based businesses are not necessarily true. We learned several important things about the home based businesses in our survey that challenged these preconceived notions and dispelled some long held myths about these small businesses.”

### Home based businesses are born of desire, not desperation.

Our survey painted a picture about HBB that was far more optimistic than the one most often assumed and portrayed. Indeed, the loss of a job is a factor that contributes to the start of a new HBB, but that was a primary factor for only 21% of our respondents. More often, the birth of a HBB is a result of an employee no longer enjoying working for someone else (41%), deciding they could do what they were doing better on their own (30%), and with a higher income (28%). While 18% noted increased flexibility as a part of their decision making process, about 25% noted that they started their company to provide a product or service that they enjoyed. These reasons were similar in rank and magnitude to the reasons provided by non-HBB respondents about the start of their businesses.

Conventional wisdom holds that children and flexibility to meet their needs is a significant factor in the start of a HBB, also known as the “Mompreneur” trend. While this was a key factor for 29% of HBB starts, more than half (54%) report that children were not a factor at all in their decision to start their business, even

though those that started HBBs were more than twice as likely than the general population to have children at home when they started their business.

And starting these businesses required faith in their ability to make something happen for their family. As many find out when starting a business, there is no list of free grants or low interest loans just waiting for the new HBB. Sixty-five percent of our HBB respondents indicated their entrepreneurial seizure was financed by their personal savings. Credit cards and bank loans were also utilized but were less typically reported as a financing tool, by 11% and 7% respectively; and 5% tapped friends and family for help. Because overhead tends to be low and much of the capital for starting a HBB resides between the ears of the owner, 23% of the respondents indicated that no start-up financing was necessary.

### Home based business owners are both experienced and capable.

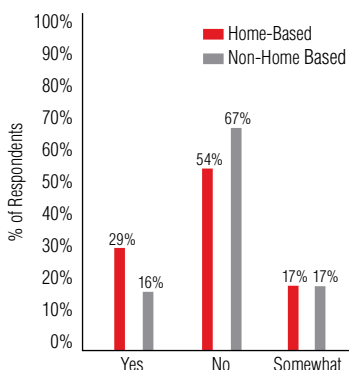
Many imagine the HBB owner as the responder to one of those work at home ads or the hobbyist that tinkers for spare change; however, those perceptions were disproved by our survey. In fact, 45% of the HBB owners in our survey had more than 11 years of industry experience providing the product or service they now provide from home. Further, only 22% jumped into an opportunity with less than one year of experience in their industry.

HBB respondents were as educated as their non-HBB counterparts, with more than 74% holding a college degree or better and a scant 10% having not had any college education.

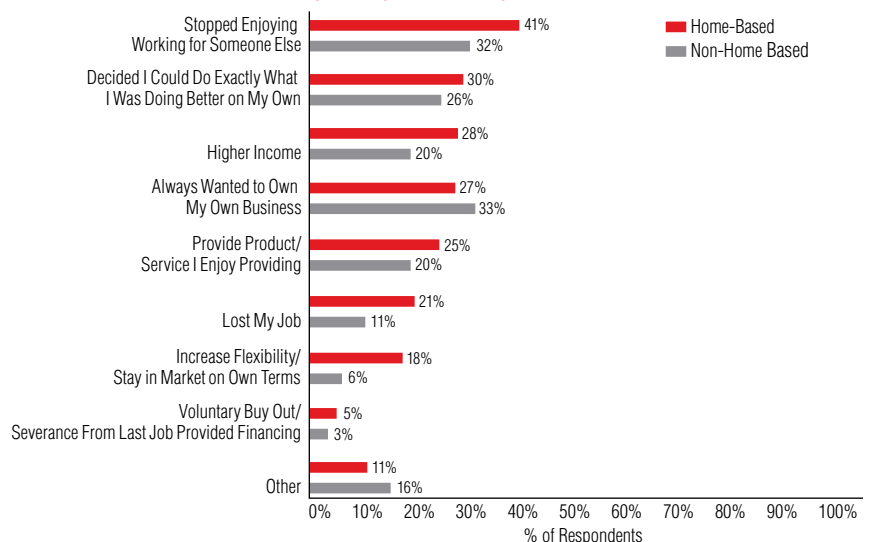
Seventy-four percent of the respondents were married, 93% were homeowners and 58% were between the ages of 31 and 50 when they started their HBB—representing a mature, stable demographic taking the leap to pursue their own thing. Only 14% of the respondents were 30 or younger and 28% were age 51 or older when starting their business.

And, again refuting the general perception, we aren’t talking about “Mompreneurs”—71% of the HBB respondents to our survey were men!

#### Were children a factor in starting the business?



#### Why did you start your business?



**Home based businesses face specific challenges in balancing their time and efforts.**

A quick Internet search on the challenges of being a HBB will turn up lots of information about the issues of isolation and loneliness and the concerns that HBBs have about projecting a professional image. While 15% of HBBs do report those issues as either “quite” or “most challenging,” they are by no means the issues most frequently reported as significantly challenging to HBB.

By far, the single biggest issue facing HBBs is marketing and sales with 63% of respondents reporting that as their most challenging issue. Forty-six percent of the non-HBBs responding also reported this as the single biggest issue facing their business.

More significantly however, when asked about some of the unique challenges they face, the HBBs that responded to our survey reported the three most challenging aspects of running their HBB were all related to managing their time and efforts. Almost half indicated that calling it quits for the day was one of their most challenging issues, while 38%

indicated maintaining separation of work and home life also ranked at the top of their list. In addition, 23% identified maintaining discipline as a major challenge. The discipline issue however, tends to decline with the age of the business, indicating that once HBB owners set their boundaries and establish a routine, they create a structure that works for them.

We tested a variety of other perceived challenges of HBBs. Interestingly, the perception that HBBs are concerned with finding professional meeting space or providers of business services or have concerns with local ordinances that impact them turned out to be an important challenge for only 5% to 15% of the respondents.

HBB owners also desire growth and face the same key challenges as other business owners to achieve it.

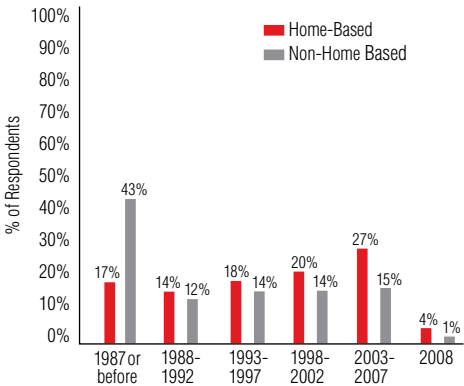
While HBBs are more likely to be satisfied with the current size of their operation (29% satisfied vs. 18% non-HBB owners), 69% of HBB owners say that they'd like to see their

businesses grow. This is slightly less than the 81% of non-HBB owners that seek growth. They, like other businesses, report that access to new customers or markets is their biggest barrier to growth, followed by access to capital and access to adequate skilled workers to meet demands. Even among HBB owners, access to skilled workers was the biggest barrier to growth for 12% of the respondents. The similarity in the challenges and concerns of HBBs and non-HBBs is striking.

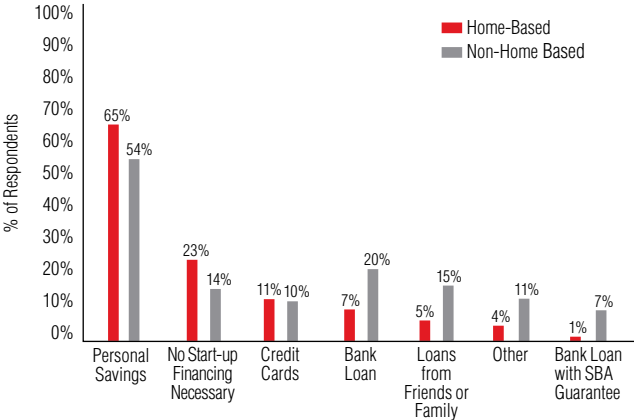
**Home based business owners are likely to stay home based business owners—and for good reasons!**

A common perception by observers of HBBs is that their current situation is temporary because they could be tempted by opportunities for “real” employment. Or perhaps they will eventually grow, landing the HBB in a traditional office space (outside the home) sometime in the future. Our research shows that neither perception is accurate.

Year business was started



Source of financing for business start-up



“When asked about the one thing they would change about their home based business, 34% of HBB owners wrote in “Nothing” — a final indication of their contentment as HBB owners.”

In fact, it seems the opposite is true. Almost 70% of those we surveyed have been in their HBB for more than five years and over 30% had more than 15 years of history running their current business. And, even with that longevity, there seems to be a high degree of satisfaction with their status as a HBB.

When asked the most likely reason they would leave their HBB, the single most frequent response was retirement or some other exit from the workforce. Only 24% indicate that they might be lured away by a new opportunity, but based on the responses, money doesn't seem to be the driver as much as the nature of that opportunity. In fact, only 14% of the business owners indicate that an opportunity that pays more would be a reason for leaving their current business, with more than half of those saying that the new opportunity would have to pay at least 50% more than their current HBB.

So even if they enjoy the business, they'll move when they get bigger — right? Wrong! Even though 69% of these business owners

indicate they desire growth in their business, 65% say they are likely to remain a HBB. Only 11% indicated their status as a HBB is temporary due to their current size; the remaining 24% reported being unsure of the longer term status of their business.

And, why should they change their status when 88% report that their status as a HBB has had either a positive or neutral affect on their business' ability to retain or attract new customers? Further, more than half of the owners have concluded that the fact that they are home based is not relevant enough to even bear mention to their clients and customers.

Why are they so committed? Forty percent report that the freedom and independence they have as a HBB owner is the most positive aspect of doing what they do. By far, freedom and independence are ranked as the most positive aspect at 40%, with the next highest ranked reason being their ability to juggle work and family issues at 15%, followed by 13% who indicated a higher income as the rationale.

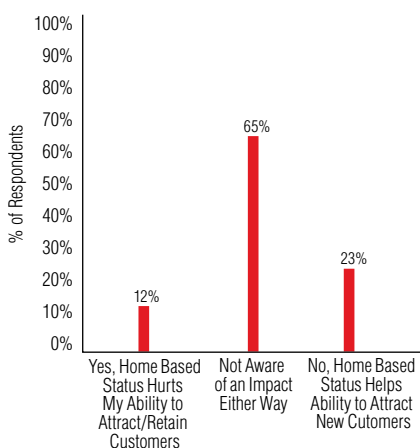
When asked about the one thing they would change about their home based business, 34% of HBB owners wrote in “Nothing” — a final indication of their contentment as HBB owners.

Challenges related to optimizing and organizing their space accounted for the bulk of the additional responses.

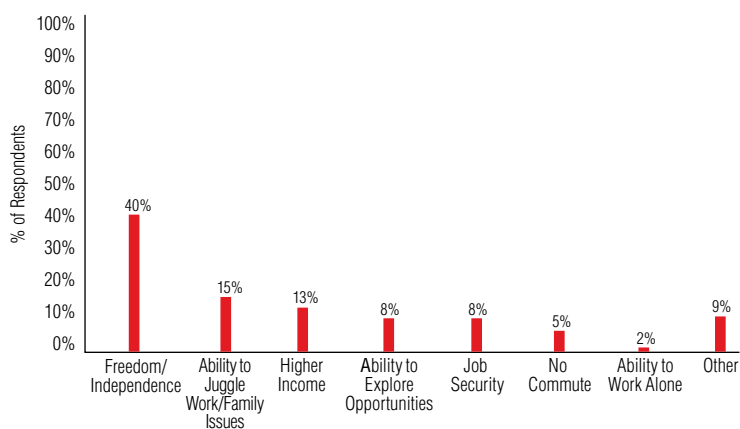
### Home based businesses are also creating jobs.

In addition to the owner, we were surprised to learn that almost half of all HBBs actually had one or more employees. And, 17% reported having three or more employees. Further, possibly shedding some light on why those businesses want to optimize their space, 98% of those companies with employees have at least one of those employees working alongside them in their home. Even more surprising, 11% of the respondents with employees indicated that three or more of those employees are working alongside them in their home office to support the business.

Ability to attract customers



Most positive aspect of a home based business



**In many other ways, home based businesses are not very different at all from other small businesses.**

HBB owners are adopting sophisticated business structures, earning as much money and working as hard as other small business owners.

Seventy-one percent of HBBs responding to our survey are organized as either limited liability corporations (LLC) (25%), Subchapter S Corporations (34%), or C Corporations (12%). The biggest difference between HBBs and non-HBBs is the propensity of HBBs to organize as sole proprietors—28% compared to just 6% of non-HBBs.

Significantly, the owner of a HBB is almost as likely to be the primary provider of household income as the owner of a non-HBB. Seventy-four percent of HBB owners reported that their income from the business was the primary source of income for their household. While this is slightly less than the 85% of non-HBB owners that play that role in their household, it indicates the seriousness with which a HBB operates. And, 17% report their HBB as a major secondary source of income for the household, while only 10% classify their income as a smaller supplemental source for their household.

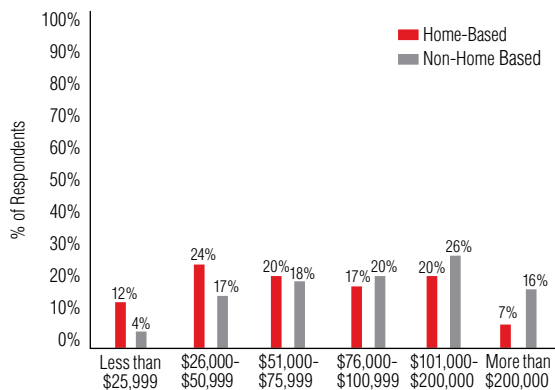
In addition, 77% of HBB owners report their business as the primary source of providing insurance and medical benefits for their families—again cementing the role of their HBB in meeting the primary needs of their family.

Given those results, you would expect these businesses to be doing well financially. Our survey results confirmed that. Seventy-nine percent of those surveyed had company revenues in excess of \$51,000 per year, with 27% reporting revenues of more than \$251,000 per year. More importantly, in a comparison of personal income received from the business between HBB and non-HBB, HBB fared well with 64% reporting personal income in excess of \$51,000 per year from their business. With Ohio’s 2007 per capita income at \$34,509, these business owners are doing much better than the average Ohioan and compare well with their non-HBB counterparts, of whom 80% report personal income in excess of \$51,000 per year from their business. With only 12% reporting less than \$25,999 in personal income from their business, it is clear that HBBs are serious endeavors, and not glorified hobbies.

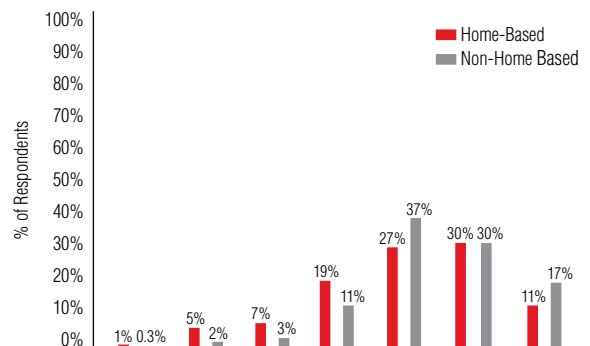
It would also be hard to classify HBBs as “part-time.” In fact, 87% of the HBBs in our survey reported working more than 31 hours per week, with 41% reporting work hours in excess of 51 hours per week. This is slightly lower than the 47% working 51 hours per week or more in non-HBBs. But, flexibility seems to be more evident in the life of the HBB owner with only 32% reporting they work normal office hours and another 52% reporting they break up their working time throughout the day, including weekends and evenings, which allows them to meet other daytime obligations. Unfortunately, like 22% of other business owners who report that they work “constantly,” 17% of HBB owners also share that characteristic.

HBB owners, like their office based contemporaries, do take time off for vacation in similar increments of time, varying from one week to more than four weeks per year. More than half of HBB and non-HBB owners take one to two weeks of vacation per year. Seventeen percent of HBB owners report taking no annual vacation, which is a bit higher than the 11% of non-HBB owners who deny themselves time away each year.

Personal income in 2007



Average hours worked per week



## CONCLUSION

---

“COSE is committed to the success of our region’s home based business community and will use the data gleaned here and the experience of our discussions with home based business owners to articulate and advocate on their behalf.”

---

### What does this mean?

#### How do we move forward?

What are the implications of this research? What can we do to best use this information to improve how we support HBBs and how we better appreciate their impact on our economy?

First, one of the biggest barriers to academics, economists and policy makers in recognizing the value of these businesses is that these businesses are hard to see. They don’t have signs in the window, we don’t see them come and go to the office and we have few methods for culling out their existence and their contribution. As such, we believe that a first step to better understand and draw out the value of these businesses is to improve what we do to recognize their existence, their concerns and their potential contributions by involving them in identifying their unique challenges and needs for support. Understanding more about the significance and credibility of these businesses demands that we improve how they are engaged in our community and how we support their efforts.

Second, organizations that can find ways to identify these businesses and then engage them in the work that they do will find a large army of capable, experienced and successful business owners to draw into their efforts. Home based businesses are a very significant part of our economy, and the skills of their owners and the contributions of their businesses are often and easily overlooked.

Third, like non-home based businesses, HBBs are launched when the owner tires of working for someone else and decides they can do the same work for higher pay with more flexibility on their own. With relatively low barriers to entry and similar take home pay, the HBB is a viable alternative for many talented and experienced people in the workforce. Therefore, employers should take heed

and ensure they continue to provide a satisfying work experience for their employees, especially in knowledge based work forces. Failure to do so could be the launching point for a potential competitor.

Fourth, marketers should be more aware of the opportunity that exists with HBBs. Experienced, educated and with incomes significantly in excess of per capita income in Ohio, HBB owners and the organizations that support them are “target rich” environments for the promotion of goods and services to these consumers and their households.

Fifth, COSE and organizations like it must take the lead on providing support and resources for these home based business owners. Though we may never achieve equal footing as it relates to the perception and goodwill of the general population to this class of job creators, we need to improve the awareness of how we can help these businesses meet their goals and contribute to our economy.

### COSE is Committed to Supporting the Home Based Business.

COSE is committed to the success of our region’s home based business community and will use the data gleaned here and the experience of our discussions with HBB owners to articulate and advocate on their behalf. They are an important constituency in the growth of our state and our country’s economy. As such, we need to continue to increase our understanding of these firms. In addition to providing valuable information about these small businesses, this research has also prompted a number of additional questions regarding what is beneath their success. As we seek to learn more, this knowledge will deepen our ability to better support these companies and their growth in our business community.





---

The COSE Home Business Network provides education, advocacy, networking and resources to a diverse community of Northeast Ohio business owners who operate out of their homes. The Home Business Network strives to unite home business owners, to highlight the powerful economic impact of home businesses, to increase their credibility and to celebrate their successes.

---



**COSE** | Council of Smaller Enterprises

The Higbee Building, 100 Public Square, Cleveland, Ohio 44113 216.592.2222  
[www.cose.org](http://www.cose.org)