

10 Key Things to Look for When Choosing a Home-Based Business

by David Lazear

Success Business Coach

Approximately 600 people get started in home-based businesses in the United States alone, EVERY SINGLE DAY!

Here are some statistics I've gathered from the **NBBTA** (National Black Business Trade Association) and the **SBA** (Small Business Association).

Rather than try to recreate or summarize the information, I've simply copied the information from their website. *There's some pretty powerful stuff here!*

*"Home-based business is a \$427 Billion a year industry. **That's more than the pharmaceutical industry, food industry, and consumer goods industry - combined!**" [emphasis mine]*

How? Because of the sheer numbers of people in business for themselves who are now working from home. The extremely low start-up costs, flexible hours, and the Internet are fueling the growth of the home business segment.

As of 2005 as many as 150 Million people, in North America alone, enjoy the freedom and benefits of owning their own (home-based) Internet business.

"Many entrepreneurs start firms from their homes - and stay there," states a November 2000 report from the SBA's Office of Advocacy. "This year, nearly 20,000 entrepreneurs grossed more than \$1 million operating from a home-based environment."

Here are some interesting Jeopardy®-type answers from these same websites (remember these, you may need them some day!):

- Increasingly, **people use their home to earn a primary income**, not only a secondary or supplementary income.
- **Home-based businesses represent 52 percent of all small firms** and provide 10 percent of the total receipts of the economy, about \$314 billion.
- Running and **owning a home-based business offers new owners a very inexpensive entry point**. Forty to 44 percent of all home-based businesses require less than \$5,000 for startup.
- The **use of technology**, the Internet, etc., allows home-based

businesses to work in concert with other entities without the need for daily face-to-face interaction.

- **The home-based business sector is growing in importance and diversity**, and offers opportunities for entrepreneurs and at-home professionals in every demographic and ethnic group.

According to **IDG** (International Data Group), a top national research firm, **there are between 34.3 million and 36.6 million home office households in the United States alone.** [emphasis mine]

Between 1999 and 2004, IDG predicts a 7.4 percent annual growth rate for households with income-generating home offices - almost seven times greater than the 1.1 percent growth rate forecast for all households. The growth rate for corporate telecommuter households is predicted to grow by 4.8 percent per year during the same period.

According to **The Success Factory International**, "America is in the midst of an extraordinary workplace transformation ... the home-based business phenomenon shows no sign of slowing down."

"Information technology (IT) has made it possible for e-commerce ... and has enabled small, medium-sized, and home-based businesses to compete more effectively in the global market.

E-commerce makes it possible for more people to start their own businesses. **The number of U.S. households that have a home-based business currently exceeds 12 percent.** [emphasis mine} - Office of Advocacy, Small Business Administration.

WOW! This is definitely the right time and the right place for you to explore getting started in your own home-based business.

However, even though this is exciting, it's also overwhelming (even baffling and frustrating!). As I'm sure you're aware, there are a plethora of home-based business opportunities available, each claiming to provide you THE pathway to financial independence where you can live the life of your dreams.

You can get into everything from your own home-based travel business, to online stores, to designing websites for others, to network marketing companies, selling phone services, data-processing and data entry, marketing low APR credit cards, buying real estate for nothing down, different programs of stock market investing, buying and selling mortgage notes, to filing out legal briefs, to _____ . (fill in the blank!)

What have you heard about (or tried!)? I must confess that I've tried at least five of these options listed above and several others not listed. Some have been good. Others were a huge disappointment and waste of my time and money.

So how do we sort through all of the "opportunities" to separate the wheat from the chaff"? I've developed a screening system involving 10 key factors which I use myself and I teach them to my business partners and clients whom I coach. It's not an exhaustive list by any means, but

it's a start.

1. **Longevity.** You want to look at the company's track record. How long have they been in business? You do not want to become involved with a company that is "here today, gone tomorrow". The number of new companies that go out of business in just a matter of years is staggering.

Check out when they got started. What has their growth been since their start? How does this compare with the industry of which they are a part?

2. **Tapped into futuric trends.** Spend some time researching who the company's target market is. Then look at current "market trends". A market trend is an economic movement where large numbers of people are moving in the same direction.

History shows that those who were first able to identify those trends and found ways to meet the needs of those trends, were able to create huge profits for themselves and others involved with them. They were able to get in front of the huge economic wave and ride it to financial freedom!

Just think about what it would have meant for you if you had been "riding the wave" of these trends:

• **Real estate investing**, the darling of the 70s (and beyond!). Fortunes were made in real estate then, and it continued well into the early years of the 21st Century.

• **Deregulated telecom**, the hit of the 1980s. This was an unbelievable event. Those who saw it and took advantage of it made millions – even multimillions!

• The biggie in the 1990s was **personal computing** (and still is to some extent!). Don't you wish you had bought stock in Microsoft® then? (I know I do!) If you did, you are likely retired today, living a lifestyle few even dream about, let alone achieve!

• The **health and wellness industry**. World famous economist Paul Zane Pilzer predicts the health and wellness industry will be the next trillion dollar industry by the year 2010!

With the obesity epidemic on the rise and baby boomers wanting to look good and feel good, this is one of the fastest growing industries in today's world.

• **The work from home industry**. Currently 14 million work from home and 13 million part-time and this is increasing by 600,000 each year!

• **E-commerce**, another huge trend today with hundreds and thousands of people everyday conducting business and buying on the internet.

3. **Consumable products.** You want a company that sells a product (or products) that people want and need and that they will consume or use up in some manner.

This creates a continual stream of customers who are reordering your product(s). If you're selling something like vacuum cleaners or camcorders, you'll make some good money on the initial, front-end sale, but the likelihood of reorders is pretty remote, at least in the near future.

4. **Company financials.** Check out the annual financial reports of any company with which you're considering getting involved. You're looking for strong, upward trends in its profitability.

Is it a publicly traded company? This is another strong indicator of its financial viability (although by no means the only such indicator). A publicly traded company is heavily regulated in how it conducts its business. They also have stockholders and a board of directors which holds them accountable.

5. **Initial investment (a.k.a. start-up capital).** Let's compare what it takes to get involved in a typical franchise business, such as a McDonald's® franchise with the requirements for a home-based business. Here are some of the figures you'll find interesting:

What It Takes To Build A McDonald's® Franchise:

- Strong business acumen needed with experience building a business from the ground up
- 1-week training at McDonald's® University
- Hands-On Management – you must run the restaurant yourself
- McDonald's requires a 20-year agreement

Initial Start-up Costs: \$905,200–\$1,746,000

(Source: www.mcdonalds.com)

Additional Start-up Costs:

- \$45,000 franchise fee (\$45,000 renewal fee after required 20 years)
- 12.5% ongoing royalty fees
- \$100,000–\$150,000 in miscellaneous start-up costs, such as initial equipment, inventory, accounts receivables, payroll and insurance

Total Additional Start-up Costs: \$145,000–\$195,000

Funding Restrictions:

- 40% personal cash investment for new locations; 25% for existing locations (balance may be paid in a maximum term 7 yr. bank loan)
- \$420,000–\$776,400 out-of-pocket CASH needed

Average annual income for McDonald's® franchisee is \$240,000 for each restaurant owned.

While I'm not able to share the initial business investment specifics of any home business but my own, I can assure you that it's **significantly lower** than the figures above! Typically this ranges from \$199 - \$2600

depending on your goals and what you want out of your business.

There will always be some start-up costs as well which typically are between \$200- \$500. This includes getting yourself set up with key tools needed to run a business from home such as a merchant account (so you can process credit card payments), printing business cards and stationery, additional equipment needs (phone, fax machine, photocopy, etc.), and any business licenses or documents that may be required by your state or province.

Again compare this with the "total additional costs" in McDonald's® example above.

6. Marketing system. In my experience, this is one of the most important things to investigate (if not THE most important!). The key here is the understanding system or process the company has for generating serious, highly qualified prospects for your products and/or your business.

A company that primarily relies on your "warm market" (family and friends) has VERY limited potential for growth. After all, once you've "hit up" all of these people, where do you go next?

If the company does not have a system which BRINGS TO YOU leads or prospects who are serious about and want your products and business opportunity, it's going to be next to impossible to grow your business at a rate that will make the kind of money you're likely looking for from your business.

Also beware of the many varieties of "cold call" approaches - hitting up strangers in shopping malls, phoning "opportunity leads" you purchase (which have often already been sold to 17 other people!) and any forms of random contacting people who have not already indicated an interest in what you have to offer.

The marketing system should bring highly qualified leads to you, who are excited about your products and opportunity, AND who really want to talk to you! If you're having to convince them of the value of what you're offering or forcing them to talk with you, you've already lost!!

7. Success ratios. Every home-based business will have some kind of disclaimer on their website, or in their materials letting you know that any figures reported on their site or in their materials are not guaranteed.

A person's success totally depends on their own motivation, skills, commitment, and work ethic. This is true with ANYTHING in life: getting an education, succeeding in a marriage, raising children, etc.

Nevertheless, every business has gauges whereby they monitor and forecast their success. It's all about the numbers - numbers of people who must be talked to make a sale.

They can also predict the success a new business partner can anticipate when all of other things mentioned above (motivation, skills, work ethic, etc.) are in place and if someone is serious, teachable, willing to work, and willing to follow the business building system the company has.

Study these then study yourself to see if you're willing to do what it takes to succeed.

8. **Ease of operation.** You want a business that is “turn key”, meaning you want to be able to start working the business day one.

Part of what you’re paying for with your initial investment is a proven, step-by-step system. You don’t want to have to “reinvent the wheel”, so to speak.

You DO want to be able to copy others who have been successful in the business.

Now you will always want to tweak things a bit to make them your own and to give them your unique stamp so you stand out and people want to work with you, but you don’t want to have to create the basic business systems on your own.

This should already be in place so you can go to work and start making money immediately.

9. **Individual growth potential.** I’ve already covered this when I was discussing “Success Ratios” above; but I want to hit it one more time with a slightly different emphasis.

You should be able to map out over time, when you’re going to meet the income and/or lifestyle goals and dreams that made you pursue a home-based business in the first place.

In a traditional job, you can more or less figure out your lifetime value: how much you’ll make during your employment (including raises and bonuses), what your retirement benefits will be (including social security, IRAs, 401K plans, etc.), and what interest on savings or investments you have are likely to produce. *(This of course assumes that you’re not laid off and that your company will still be in business!)*

It’s no different in a home-based business. You need to be clear on what **CAN** happen for you **IF** you are serious about your business and you truly work it as a business, not just a side hobby that you do when it’s convenient.

I got involved in my home business primarily because I wanted to build an early retirement for myself. I own a small training and consulting business, but I’m an independent consult. So my monthly income varies considerably. However you don’t retire on an income that’s up one month and down another.

I knew that what I needed was a business opportunity that would bring me significant passive residual income. I knew that, given my goal of an early retirement, I needed a business that , in a relatively short period of time, I could generate an income that did not rely on other people or my having to work everyday.

So when I was considering and trying different home-based businesses, this was always at the forefront of my deliberations; namely “Does this opportunity provide me with the potential to get what I want for my life and my family?”

VERY IMPORTANT: **You MUST look beyond the hype**, because they all claim to be the best opportunity since the invention of sliced bread. But it’s important you get your dreams and goals firmly in your mind, then

ask "Can this business take me where I want to go?", of course assuming I'm serious and willing to do the work.

10. **Training, Coaching, and Mentoring.** Finally, you want to understand as fully as possible what kind of training, coaching, and mentoring you'll be receiving in how to build and operate your business.

One of the keys I always look for is who's doing the training, coaching, and mentoring. Are they people who are themselves working the business and having success in the business?

I want my training, coaching, and mentoring to come from the trenches. I want people to share, from their own experience, what works and what doesn't.

I don't want theory. You shouldn't either.

Getting involved in a home-based business is a fantastic adventure. It can totally change your life. If you have questions or would like any help in getting started, please contact me. For me, getting started in this is the best financial decision I ever made in my life.