

## Planning a Home-Based Business

### Quick Notes...

A successful enterprise requires a plan, thought and persistence.

Before you decide on a home-based business look at the advantages and disadvantages.

Ask yourself what makes your proposed product or service distinctive from others.

Determine the costs that will be associated with your product or service and how much capital you need to start your business.

There are a variety of reasons why you may want to start a business in your home. Many new businesses are a response to a life crisis, such as a job lay-off, or a way to supplement family income.

A successful enterprise requires a plan, thought and persistence. Operating your own business calls for commitment to the business and its needs. Enthusiasm about your product or service is important, but decisions to get involved must include aspects of business management and a thorough assessment of your potential as a business person.

### Business Potential Checklist

The following checklist shows some traits that relate to success in business. Go through the list and check any that apply to you.

- I am a self starter.
- I like people and get along well with people.
- I am a good organizer.
- I don't mind working hard for something I want.
- I can make decisions.
- People can trust what I say.
- People can trust what I do.
- I stick with a project even when the going gets rough.
- I have good health and lots of energy.
- I am patient.
- I am a risk taker.
- I am creative and can see a new way to do something.
- I have a support group behind me that may include my family, friends, or other business people.
- I can separate my work life from my family time.

The more checks you have, the more similar you are to people with successful small businesses. Are there potential problem areas

that might require assistance? What are your most obvious strengths? If you lack several traits, develop a plan to add this expertise to your business. An outside consultant may be advisable.

### **Do You Want a Home-Based Business?**

There are advantages to doing business in your home: low overhead, no transportation costs, decreased child-care costs, and possible tax advantages. Weigh the advantages against the possible disadvantages in operating a business where you live.

It may be difficult to separate your work time from family time. There may be frequent interruptions from well-meaning friends who drop in or phone during work time. You may feel surrounded by your work or isolated from other people. Examine these concerns before you start your business to avoid problems and expenses later on.

If you have not made a decision about the type of business you want, examine your experience and educational background. Do what you know best. Consider turning a hobby or favorite pastime into a business. You must like what you do to have the enthusiasm and self-confidence necessary for success.

### **Know Your Product**

Be sure you know your product or service. Managers in the corporate world realize one important truth, "to get the edge on the competition one must have a product that is perceived as different from all the others and fulfills the wants and needs of customers better than any other product." This is called **product differentiation**. You must give customers a reason to buy your product over any others. There are several ways to make your product or service distinctive. Common strategies are lower price, superior quality, greater convenience, or faster service.

You can increase the perceived value of your product or service by the way you describe it. Customers buy benefits not features, which means customers are interested in what your product will do for them. Features are facts or characteristics about the merchandise or service that do not change. Benefits are ideas that appeal to the customer.

Try to think of three features or facts that describe your product or service. Features describe what the customer is buying. (Example: Clothing Business. Feature: Clothing is 100 percent wool.) Write the features of your business.

#### **Features:**

1. \_\_\_\_\_
2. \_\_\_\_\_
3. \_\_\_\_\_

Now think of a benefit for each feature. Benefits are the reason your customer will buy your product or service. List a benefit for each feature you identified. (Example: Clothing Business. Benefit: Wool will keep you warm in winter.) List the benefits of your product or service.

#### **Benefits:**

1. \_\_\_\_\_
2. \_\_\_\_\_
3. \_\_\_\_\_

Try to create a phrase or short sentence that instantly give the potential buyer a mental picture of your product or service. Consider any potential problems that need to be overcome and try to phrase them in a positive way.

Write a sentence or phrase that describes the benefits of your product or service to your customers.

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If your business is a service, you are selling your expertise and competence in your field. Think of your background as a feature and try to describe some benefits that you can offer your customers. For example:

Accounting Business  
Feature--expertise in financial planning  
Benefit--reconciled accounts,  
retirement plan, IRA's, etc.

### Determine the Cost

As an additional step determine the costs associated with your product or service. Consider your direct costs, such as materials, your indirect costs or overhead, and calculate a figure for your labor. Use the Costs Worksheet to help anticipate what your costs will be and how much capital you will need to start your business.

### Assess the Market

Determine what products or services are missing in your community and see if your business can fill the gap. Talk with friends and family members about your ideas.

Your business must provide benefits to you and your family in the form of supplemental income or personal satisfaction. List the possible benefits you expect.

1. \_\_\_\_\_
2. \_\_\_\_\_
3. \_\_\_\_\_
4. \_\_\_\_\_

Will the business you propose provide the benefits that you desire?

Before you get deeply involved with making or providing your product or service, consider the demand for your particular business. Will someone buy what you have to offer? Is your business a new idea, or has it been tried? Are there similar businesses in your community that would be your competition?

To assess the market in your community do the following.

**1. Collect information on industry trends for your business.** Ask your local library to help locate journals, magazines and books that relate to your business. Check the business sections of bookstores for new books about businesses like yours.

**2. Identify your customer.** Develop a profile of the potential customers. Determine the income level, educational level and other characteristics of your customers that will help you develop a successful marketing strategy.

**3. Talk to friends and neighbors.** Try to get candid and honest responses about your product or service. What form, shape or size would they want in a product of this sort? What capabilities do they expect in a service of this type? Would they buy it? Are they currently buying similar products or services? What price would they expect to pay?

**4. Know your competition.** Does someone else have a business like yours? What service do they offer and what do they charge? Have similar enterprises gone out of business during the last two or three years? Check with the Chamber of Commerce to help you identify similar businesses. Talk to people who have a similar type of business in another town. They may talk freely if they do not see you as potential competition.

Study the strategies that your competitors use to advertise and sell. Would similar techniques work for you? Do you need a different approach to attract attention? Radio stations and newspapers have a demographic breakdown of their listeners and readers. They can help you determine the market for your business.

### Marketing Strategy

Before you make a commitment to a particular product or service you may want to test the

market. Provide a limited number of actual items or a specific service that you can use to test the market.

1. Plan a home showing of your product to help you determine who will buy and how to reach them.
2. Organize a focus group of friends to evaluate your product or service. If you belong to a group or club you could allow members to give you feedback about your product or service.
3. Try to sell your product or service in a limited area.

Before you commit money to an advertising campaign, decide how much advertising you need. Sometimes word-of-mouth is all you need. Decide where the advertising will do the most good, and tailor your appeal to customers that are identified in your market research.

The type of advertising you choose must be right for your target customer. Use creative ways to reach the people that you expect to buy your product or service.

The method that you choose should be consistent with the image you want to present.

### **Low-Cost Suggestions**

- \* Business cards can help you sell your product or service. They are a reflection of the quality of your work.
- \* Send news releases to local newspapers if the product or service is unusual or new to the area, or particularly significant at a certain time of the year.
- \* Post attractive notices and business cards on public bulletin boards in grocery stores, etc.
- \* Run a continuous ad in the classified section of newspapers.
- \* Distribute circulars door-to-door that offer a special price or a bonus for a limited time.

### **Conclusion**

A plan can help make an informed decision about starting a business in your home. Do you have the persistence and time to operate your own business? Are you familiar with the benefits that your product or service will provide for customers? Have you carefully examined the costs associated with your business and investigated the marketplace? A home-based business will be a success if you think ahead.

Sources: 1) Benedict, Linda. *Home-based Business: Market Your Product*. University of Missouri Cooperative Extension, 1986. 2) Christenbury, Joyce H. *Designing a Successful Home-based Business*. Clemson University Cooperative Extension, 1987. 3) Hein, Clair. *Starting Your Business*. Iowa State University Cooperative Extension, 1984. 4) Hoffman, Babs, Hunt, Betsy, Urbonas, Kris, and Vidars, Sue (1990). Marketing for Artisans Workshop presented at the annual meeting of ACPTC in Denver.

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*Notes...  
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## Cost Sample Worksheet

Determine costs based on units of production or services rendered per month. Plan on the high side rather than the least expensive.

	<i><b>Total</b></i>	<i><b>Per Item</b></i>
<b>Labor</b>		
Hours per item times minimum wage or higher based on your needs and objectives	_____	
Salary of employees divided by number of items or services provided	_____	
<b>Production Costs (Direct Costs)</b>		
Materials (paint, fabric, wood, etc.)	_____	
Electricity	_____	
Machinery Depreciation (use of vehicles - fuel, wear, depreciation)	_____	
Training Costs (seminars, books, courses)	_____	
Other _____	_____	
_____	_____	
_____	_____	
<b>Total</b>	_____	
Divide by number of items produced in a month or services provided to find cost <b>per item</b>		_____
<b>Overhead Costs (Indirect Costs)</b>		
Advertising (advertisements, brochures, trade shows, business cards, stationery, etc.)	_____	
Professional Services (lawyer, accountant)	_____	
Loan Payments	_____	
Insurance (basic costs & deductible, payments anticipated)	_____	
Extra Phone Line/Answering Machine	_____	
<b>Total</b>	_____	
Divide total by number of items produced in a month or services provided to find cost <b>per item</b>	_____	
<b>Shipping and Handling</b>		
Box and Packing Materials		_____
Postage		_____
<b>Total per item</b>		_____
<b>Wholesale Price</b>		
(Add all amounts in last column for estimated cost per item)	_____	
<b>Retail Price and Profit</b> (double or triple wholesale price for products)		
For Services, add a comfortable profit		_____
<b>TOTAL COST PER ITEM</b>		
Ask yourself again:		_____
Who will buy your product or service?		
Does salary and profit make up for time invested?		
How risky is the investment of time, thought and money?		