



# Home-Based Business: An Economic Development Alternative

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Community leaders throughout Oklahoma are looking for ways to expand the number of well-paying jobs in their communities. By enhancing the individual's economic well-being, the community's economy will grow. At the same time, this also meets the individual's needs to increase personal income, enhance work responsibilities, and improve personal quality of life. A win-win situation develops when communities and individuals work together to achieve what are often mutually compatible goals.

In order for communities to expand job opportunities and the local tax base, state and local policy makers typically have relied on three economic development choices: (1) attract outside businesses, (2) expand existing businesses, and (3) develop new businesses. The success of each of these three choices has varied. While attracting outside businesses is a great idea, the "big bang" approach is often a big bust because, at most, only one community in ten is successful (Scudder & Rettig, 1989).

Communities instead have often found the expansion of existing businesses, and assistance in the development of new businesses yield greater returns. A recent evaluation of the economic development efforts within the Tenth Federal Reserve District, which includes Oklahoma, found economic development efforts moving in this direction.

Typically, when communities consider expansion of existing businesses or development of new businesses, they think in terms of the "traditional" business – those that operate from a store front or in a commercial location. An often-overlooked idea is to help the local entrepreneurs who want to start or expand their home-based business. Home-based businesses are often considered insignificant or simply invisible. Supporting them lacks the glitz of recruiting a major business. Few home-based businesses follow Gateway Computers growth from garage to Fortune 500 company, yet a 1994 survey found that 125,000 Oklahoma home-based businesses generated over \$3 billion in income.

## What Is a Home-Based Business?

Home-based businesses are pretty much what the name describes. The location of the business is what makes them unique. The entrepreneur works from the home, garage, workshop, or barn. Home-based businesses can, within certain limitations, be any business, either product or service, production and/or sales. Some home-based businesses develop as people perform services elsewhere, such as lawn care, but use their home as an office.

## Economic Impact of Home-Based Businesses

The economic impact of a home-based business is like the impact of any other successful business. The owner, through the sale of products and services, generates income from which supplies, equipment, and even labor are purchased. Additionally, the owner and his or her family have increased disposable income to be spent in the community.

## What the Entrepreneur Must Do

With the economic impact of home-based businesses in mind, the question becomes: How can local communities encourage their development? First, it must be recognized that business success is not dependent just on the community. Successful businesses require the diligent effort of the individual entrepreneur. Like any business, home-based businesses are more likely to be successful when entrepreneurs have outlined a clear plan for their business. Successful businesses have clearly identified their product or service, their market, and the competition.

A person considering a home-based business needs to gather a variety of information about starting a business. He or she will need valid information about the product/service chosen, about marketing opportunities, the economic environment, trends occurring, and about the competition. Owners may need help to carefully evaluate the business potential of their ideas. For a home-based business, this includes an evaluation of whether operating at home is feasible, especially for retail businesses.

Many people have good ideas for a business but fail because of poor planning. Planning involves making informed, thoughtful decisions. Such careful development of a business can enhance the chance of success. Planning involves having the entrepreneur "put pencil to paper." By writing down ideas, fuzzy thinking can be clarified and needs or gaps in knowledge can be identified.

In addition, home-based business owners must secure an adequate amount of money to start the business. Many home-based businesses are financed by family, relatives, and friends. Few entrepreneurs successfully obtain outside venture capital. Entrepreneurs must explore these and other sources such as local banks, the Small Business Administration, agencies that administer SBA funds, and the Rural Development Administration. Unfortunately, many businesses fail because of inadequate start-up and/or working capital.

## What Communities Can Do to Help

What the community does to foster the development of home-based businesses is almost as important as what individual entrepreneurs do. Communities that work to facilitate business start-ups can reduce the failure rate among new enterprises and enhance the overall growth in the local economy. Local government officials and community leaders can help home-based businesses start or expand in a number of ways.

**Business environment.** Communities that express support for new business formation through public resolution and policy statements can encourage people to begin new businesses. Public support for local businesses can increase the confidence of potential entrepreneurs. Conversely, communities that are ambivalent (or negative) about home-based business development can create an atmosphere of isolation that discourages people from taking the risk of starting a new business. The business environment can be an indicator of performance.

**Zoning regulations.** Zoning regulations can either help or hinder home-based business start-ups. Zoning codes that allow home-based businesses in residential areas mean there is one less barrier for potential entrepreneurs to overcome in starting a business. Communities will need to determine what types of home-based businesses will be allowed in residential zones. Obviously, some communities will elect to exclude home-based businesses that are overly noisy or generate excessive traffic, odors, or other types of nuisances for residential areas.

**Information about local regulations and codes.** Potential entrepreneurs can spend a lot of time and effort obtaining information about local regulations and zoning codes, filling out forms, and getting the necessary permits to start their business. Communities can help by developing an informational packet for people considering a home-based business. A packet's availability can be advertised through the local media and organizations such as Cooperative Extension and Small Business Development Centers (SBDCs) and with inserts in utility bills.

**Organize a support group.** Communities can help new businesses deal with problems by organizing support groups. Individuals in the group would serve as mentors or consultants to fledgling businesses. One type of business support organization is Service Corps of Retired Executives (SCORE), but business and community leaders may opt for a less formal arrangement.

**Mentors.** In addition to support groups, communities should develop ways for new business owners to find mentors to whom they can ask business questions. Often business owners need an answer quickly or they are hesitant to open their records to a group. They want to have access to one or two people who know their business well and who can respond quickly to their needs.

**Recruit agencies to work in your community.** Business and civic leaders might consider arranging for their county Cooperative Extension Service, the nearest SBDC office, or the Vocational Technical school to hold workshops or seminars in their community. Likewise, leaders may want to recruit IRS personnel to hold tax workshops for small businesses in the community. By organizing local workshops, potential

entrepreneurs will have ready access to information, ultimately increasing the success of new businesses.

**Develop a supportive infrastructure.** Just as recruiting a new industry to a community may require improvements in infrastructure (for example, water and sewer hook-ups), the development of home-based or small businesses may be helped through improvements to the local infrastructure. Converting an old factory building or warehouse for use as a small business incubator is one way a community can provide the infrastructure for small business start-ups. See OCES Extension Facts AGEC-905 "Small Business Incubators: Potential Economic Development Tools." Likewise, converting to fiber optic telephone lines may be an important step in fostering home-based businesses using computers and other information technologies. Local communities can also be prepared to help home-based businesses transition to traditional commercial locations.

**Expand high school and community education programs.** High school business curricula can be expanded to include entrepreneurship. Young people can then develop an understanding of how to create a business and simulated experiences of running a business. By building the foundation of entrepreneurship in high school students, the community may encourage future business starts. Similarly, community education programs can include courses on starting a business for adults.

**Marketing support.** Communities should formulate active and ongoing marketing efforts to help the owner market outside the local community and to bring people from outside the community into the area to spend money. All sales contribute to economic growth by increasing the turnover of dollars in a community, but sales that occur outside the local market bring new dollars into the community. Outside dollars may be attracted to entertainment, craft fairs, social gatherings, and such. People attending such events spend money. In developing these marketing efforts, the community needs to recognize and include the home-based business owner.

**Local purchasing policies.** Local governments can encourage new businesses by establishing a "buy local" policy. With recent efforts at contracting out government services, officials could look to local businesses to be potential contractors. Also, business and civic leaders can organize a campaign to encourage residents to patronize local businesses, to "buy local."

**Local financing.** Local officials should work closely with local banks to encourage investment in home-based businesses. Also, officials can explore the development of local capital pools.

## Summary

Home-based businesses contribute to local economic growth. Most likely every Oklahoma community has a home-based business. To maximize the impact of a home-based business development strategy, business and civic leaders need to work with and support potential entrepreneurs. This fact sheet outlines some of the possible ways a community can offer support. Communities are not alone in the battle for economic development. Resources are available for them and for the individual entrepreneur. Take advantage of the following list of resources.

## Where to go for help

- County Office, Oklahoma Cooperative Extension Service
- Small Business Administration
- Small Business Development Center
- Local Vocational Technical Schools
- Local Chamber of Commerce
- Local Bank
- Oklahoma Department of Commerce

Adapted in part from "Home-Based Business Development," Glenn Israel, University of Florida, Cooperative Extension Service.

## Additional Reading

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- It provides practical, problem-oriented education for people of all ages. It is designated to take the knowledge of the university to those persons who do not or cannot participate in the formal classroom instruction of the university.
- It utilizes research from university, government, and other sources to help people make their own decisions.
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- It dispenses no funds to the public.
- It is not a regulatory agency, but it does inform people of regulations and of their options in meeting them.
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- The Extension staff educates people through personal contacts, meetings, demonstrations, and the mass media.
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