

Homebased Business: the Hidden Economy

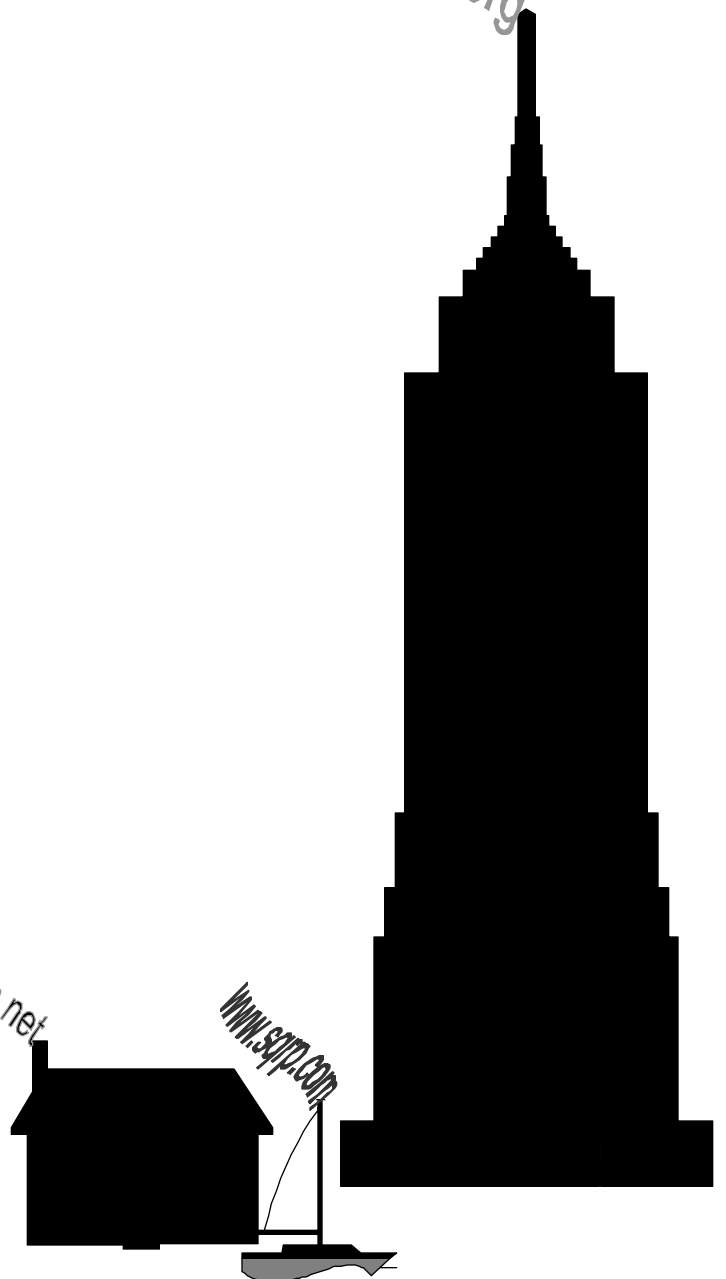
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*A report from 125,000 women, men, black,
Hispanic and other minority entrepreneurs*



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EXECUTIVE SUMMARY

People become self-employed because they want to be their own boss as well as earn income. Those wanting primary income are more likely to choose a non-residential location, work long hours throughout the year and hire employees. In comparison, more homebased business owners want a second income, fewer have employees and they tend to work fewer hours and weeks of the year. As of 1992, the total contribution of small businesses to the economy is 2.9 trillion dollars with homebased firms contributing 314 billion, or 11 percent.

The Characteristics of Business Owners (CBO) Survey

The CBO sample represents the 125,000 self-employed owners of the 17.3 million businesses that filed Schedule C, partnership or S corporation tax returns in 1992. In 1992, nine million, over one-half of the firms, were homebased. A homebased business (HBB) is defined as a business that is conducted in or out of the home with no other headquarters location. There is no way to know precisely the number of HBBs in 1999 because government statistics always lag. But estimated on the basis of the 24.8 million 1998 nonfarm business tax forms, the number of HBBs has grown from 9 million to 10-12 million, an increase of between 11 and 33 percent, from 1992 to 1999.

Surveyed in 1996-7, business owners, including two gender and three racial and ethnic categories, were asked to recall information about their firms. In the sample, 33 percent of all firms are owned by women, 59 percent by nonminority men, 3 percent by blacks, 4 percent by Hispanics and 4 percent by "other minorities". The other minority category is about 93 percent Asian and Pacific Islander and 3 percent American Indian and Alaskan Native ancestry. This study is based on special tabulations of the CBO provided by the Census Bureau. When reviewing the findings, it is important to recognize that the CBO omits all C corporations, some of which are homebased.

Contribution of Small Business

Table ES-1, Business Profiles by Receipts, compares the contributions of homebased and non-homebased businesses (non-HBBs) with breakouts for each of the demographic groups. Overall, homebased firms average about one-tenth that of non-homebased firms in both total and average receipts

**Table ES-1 Business Profiles by Receipts
1992**

	Receipts (\$1000)	Average Receipt (\$1)	HBB as % of Non-HBB Total Receipts	HBB as % of Non-HBB Average Receipts
All Businesses*	\$2,941,476,351	\$183,973		
Homebased	313,628,757	36,677	12 %	10 %
Non-homebased	2,627,847,594	353,326		
Women-Owned Businesses	594,895,993	111,489		
Homebased	73,004,785	23,499	14	10
Non-homebased	521,891,207	234,115		
Nonminority Male-Owned Businesses	2,158,330,969	226,984		
Homebased	219,294,310	44,420	11	10
Non-homebased	1,939,036,658	424,121		
Black-Owned Businesses	24,139,704	49,965		
Homebased	5,158,637	19,214	26	22
Non-homebased	18,981,067	88,425		
Hispanic-Owned Businesses	98,730,343	142,221		
Homebased	13,028,330	38,158	15	16
Non-homebased	85,702,014	242,937		
Other Minority-Owned Businesses (Asian, Pacific Island, American Indian & Alaskan Native)	132,932,677	231,835		
Homebased	10,376,568	50,122	8	15
Non-homebased	122,556,108	334,516		

*According to the SBA/ Advocacy data base by firm size, employer businesses with <500 employees in 1992 contributed \$6.4 trillion in receipts. The CBO is a sample of the newest and smallest businesses.

Owner Characteristics

Entrepreneurs want to earn money while being their own boss. More homebased operators want to earn a secondary income while non-homebased owners are in business to earn their primary income. Other than that different emphasis, no single demographic characteristic uniquely defines homebased owners. Compared with non-homebased owners, slightly more homebased business operators are women, married, born in the U. S. and have a college degree but not a doctorate or professional degree and, on average, they are a year younger than those operating a non-homebased firm.

There is no significant difference between homebased and non-homebased owners in their military veteran status, high school education and business employment,

management and prior ownership experience. Entrepreneurs do not differ in having had—or not had—a business in the family, prior experience in a family business or previous management experience. Instead, the variations apply to individual groups—women, non-minority men, blacks, Hispanics and other minorities—and specific industries. An important demographic distinction is that the majority of other minority business owners, who are primarily Asian, and about one half of Hispanic owners was not born in the U. S.

Business Characteristics

Although business owner profiles are quite similar, their business characteristics differ markedly according to whether they are operated from home or from more traditional locations, as shown in Tables ES-2 and ES-3. Thus, more homebased firms are sole proprietorships founded by their owners; more non-HBBs require capital, borrow in larger amounts and hire paid employees. Non-HBB owners work longer hours. Homebased and non-homebased businesses are similar in that very few are franchises, owners depend on their personal savings to capitalize their businesses and they sell their products and services to both local and export markets. Although five percent of all firms grossing \$1 million or more are HBBs—demonstrating that they have the capability to be as profitable as non-HBBs—the great majority earn less. The cross-over point is at about \$50,000 in gross receipts: with rising earnings above that figure the firms are increasingly non-homebased; with each drop below \$50,000, relatively more are homebased. Higher business earnings are associated with homebased clerical work, not the production of goods and services. Homebased firms earn profits equivalent to non-HBBs only in the construction and transportation, communications and utilities industries.

Capital Required to Start/Acquire Firm

Non-homebased and other minority firms need the most capital to begin operations. Women-owned firms require less startup capital than nonminority male-owned firms do. More non-homebased firms borrow startup capital and in greater amounts than homebased businesses. Regardless of location, small businesses rely heavily on personal savings and assets to start or acquire their firms.

Employees

Only nine percent of homebased businesses have paid employees compared with 32 percent of non-homebased firms. Overall, 80 percent of all small businesses operate without employees. Most employees are used for clerical work rather than production of goods and services.

Time Worked in Business

The owners of non-homebased firms consistently work longer hours than do homebased business owners. Furthermore, fewer homebased than non-homebased businesses are operated year-round. Time spent ranges from 26 to 35 hours, on average, for all homebased firms, but non-HBB owners spend about 10 hours per week more on their businesses, that is, 35 to 43 hours. Non-homebased other minority business owners work more hours than do owners from other demographic groups. Business owners who hire employees work longer hours, not less.

Customer Definition and Language of Commerce

Homebased and non-homebased firms have similar markets in terms of percentages of customers that are white and non-Hispanic. The majority of customers served by homebased and non-homebased women- and nonminority male-owned firms are white and non-Hispanic. In contrast, black-owned firms tend to have black customers and roughly 20 percent of Hispanic and other minority firms have a customer base that is less than 10 percent white.

Source of Sales and Market Area

Regardless of location, 60 percent or more of small businesses sell primarily to individuals. Roughly 10 percent of customers are local, state or federal government agencies. Slightly more black-owned firms than the average, that is 11 percent homebased and 15 percent non-homebased firms, sell to the government. About 10 percent of women- and nonminority male-owned firms sell to the government. Nonminority male-owned firms, homebased or not, show the highest business to businesses sales (43 percent), compared to women-owned businesses (WOBs) (31-34 percent).

Contrary to common perceptions, homebased businesses sell in the same marketplace as non-homebased firms. About one-third of both homebased and non-homebased businesses sell in the neighborhood and half market within the city or county. Although some sell nationally, very few export. Electronic commerce offers potential, particularly for niche HBBs

Business Success

Homebased businesses tend to remain in the home. Location has no bearing on survival rates. Over half of all homebased and non-homebased firms survive five years or more; both close primarily from lack of cash or not having access to a business loan. More firms with paid employees survive than those without, 85 to 51 percent.

In response to cash flow problems or low sales, more homebased firms use other income. More non-homebased businesses respond by adding capital, or seeking family help. Surprisingly, 37 percent of both HBBs and non-HBBs are rated as successful by their owners at the time the firms cease operations.

Business Opportunities and Contributions

The majority of both women and non-minority men prefer homebased firms to businesses located in more traditional commercial locations. Women-owned businesses resemble non-minority male-owned firms if they are homebased in requiring little or no capital and relying on personal loans or savings to cover start-up costs. But three times more nonminority male-owned firms hire employees and nearly four times as many earn profits exceeding \$10,000. Another difference is that women produce goods and services while men do clerical tasks at home. Also, twice as many industries afford a homebased male-owned firm economically viable opportunities. Unlike women, when men operate their firms outside the home, one-quarter hire paid staff, more firms need startup funds and they acquire their capital in larger amounts and they acquire it from

Table ES-2 Business Profiles by Gender

Characteristic (Percent of firms in category)	Homebased Businesses	Non-homebased Firms
Women-Owned Businesses	55.2%	44.8%
Main reason for being in business	2.7/1 second income/primary	1.3/1 second income/primary
Main work at home	Production	NA
Percent with employees	3%	15%
Hours worked, maximum average	32 hours/week	38 hours/week
Capital need	< \$5,000	<\$5,000
Capital source	Personal loan/savings	Bank loan/savings
Dominant industry	All but Finance, insurance & real estate (FIRE)	FIRE
Best business opportunity	Construction, Wholesale trade	FIRE
Profits > \$10,000	6%	24%
Percent for whom firm contributes 100% of personal income	19%	26%
Range in which receipts are independent of HBB/non-HBB location	\$25,000-50,000	
Nonminority Male-Owned Businesses	51.7%	48.3%
Main reason for being in business	1.7/1 second income/primary	1.5/1 primary income /second
Main work at home	Clerical	NA
Percent with employees	9%	25%
Hours worked, maximum average	36 hours/week	44 hours/week
Capital need	< \$5,000	\$5,000 - \$25,000
Capital source	Personal loan/savings	Bank loan/savings
Dominant industry	Agric. services, Construction, Transportation, communications & utilities (TCU), Services	Manufacturing, Retail trade, Wholesale trade, FIRE
Best business opportunity	TCU, Wholesale trade, Construction, FIRE	Wholesale trade, TCU, Construction
Profits > \$10,000	22%	38%
Percent for whom firm contributes 100 % of personal income	28%	36%
Range in which receipts are independent of HBB/non-HBB location	\$50,000-100,000	

bank loans. In fact, men can choose to work either at home or not and achieve gross receipts within a range of \$50,000-100,000. Women must operate their firms from commercial quarters if they want a better than average chance of grossing over \$50,000.

The majority of blacks, Hispanics and other minorities do not operate their business from home. Blacks have the highest proportions of female business owners and they are the group most interested in supplementary, rather than primary income. Irrespective of business location, few black-owned firms obtain capital. Instead they draw on personal resources

Relatively few Hispanic women own businesses. Although twice as many non-homebased Hispanic owners want primary, not secondary income, their capital needs remain minimal and they tend to fund their enterprises from personal resources. Unlike blacks and other minorities who must move to a commercial location to gross over \$25,000, on average, Hispanics regardless of location can gross up to \$50,000.

Table ES-3 Business Profiles by Ethnicity

Characteristic (Percent of firms in category)	Homebased Businesses	Non-homebased Firms
Black-Owned Businesses	48.3%	51.7%
Percent women owners	48%	42%
Main reason for being in business	2.5/1 second income/primary	1.3/1 second income/primary
Main work at home	Production	NA
Percent with employees	7%	13%
Hours worked, maximum average	34 hours/ week	38 hours/ week
Capital need	< \$5,000	<\$5,000
Capital source	Personal loan/savings	Personal loan/savings
Dominant industry	All but TCU, FIRE	FIRE, TCU
Best business opportunity	Construction, TCU	Wholesale trade
Profits > \$10,000	7%	17%
Percent for whom firm contributes 100 % of personal income	19%	26%
Range in which receipts are independent of HBB/non-HBB location	\$10,000 - 25,000	
Hispanic-Owned Businesses	46.2%	53.8%
Percent women owners	30%	28%
Born in USA.	53%	47%
Main reason for being in business	1.3/1 second income/primary	2.1/1 primary income/second
Main work at home	Clerical	NA
Percent with employees	8%	21%
Hours worked, maximum average	34 hours/ week	42 hours/ week
Capital need	< \$5,000	< \$5,000
Capital source	Personal loan/savings	Personal loan/savings
Dominant industry	Agric. services, Construction, Services	Manufacturing, TCU, Retail trade, Wholesale trade, FIRE
Best business opportunity	Construction, Wholesale trade	Wholesale trade
Profits > \$10,000	16%	31%
Percent for whom firm contributes 100% of personal income	31%	39%
Range in which receipts are independent of HBB/non-HBB location	\$25,000 - 50,000	
Other Minority-Owned Businesses (Asian, Pacific Island, American Indian & Alaskan Native)	34.3%	65.7%
Percent women owners	37%	30%
Born in USA.	37%	18%
Main reason for being in business	1.8/1 second income/primary	1.7/1 primary income /second
Main work at home	Production	NA
Percent with employees	5%	22%
Hours worked, maximum average	32 hours/ week	48 hours/ week
Capital need	< \$5,000	\$25,000+
Capital source	Personal loan/savings	Personal loan/savings
Dominant industry	Agric. services, Construction, Services	Manufacturing, TCU, Retail trade, Wholesale trade, FIRE
Best business opportunity	Construction, Wholesale trade	Wholesale trade, Retail trade, Manufacturing, Services
Profits > \$10,000	16%	39%
Percent for whom firm contributes 100% of personal income	17%	30%
Range in which receipts are independent of HBB/non-HBB location	\$10,000 - 25,000	

Other minorities, who are primarily Asian, have the lowest percent of homebased firms and low representation of women owners. Four times as many non-HBBs as homebased firms have employees. Strikingly, over one-fourth of those that do, list family responsibilities as their main reason for starting a business. A high percentage of other minorities are foreign-born. Compared with the other groups, other minority businesses (OMBs) require the most capital, but most depend almost entirely on personal loans or savings for funds. Thirty-nine percent of non-homebased OMBs make \$10,000 or more in profits which puts them on a par with non-minority male-owned businesses (MOBs).

Homebased Firms Need Help in Removing Business Barriers

To meet their potential in today's Information Age economy, HBBs need help. Actions that would lend credence to homebased firms and help them attain their goals include the following:

- ***Increase Access to Developing Markets and Electronic Commerce***

The Internet is rapidly changing commerce for all firms by offering the smallest company, as well as giant corporations, new pathways to global markets. HBBs as well as non-HBBs are finding the Internet to be an effective low-cost way to reach new markets. Two areas in which HBBs need help are 1) obtaining and paying for the credit card merchant status they need for electronic sales and 2) developing their Internet strategies. For example, electing to enter electronic commerce with a niche business may be a more successful approach than trying to compete with mass product mass merchandisers like the Amazon.coms.

- ***Remove Legal Barriers and Restrictive Tax Policies***

Local zoning codes and legal ordinances prohibiting work in homes are outdated when the commercial activity takes place on computers. Laws drafted to restrict commerce in the home need updating.

Tax codes also need updating to recognize the contribution of homebased firms to the economy. Restrictive rules for deducting home office expense and the threat of increased audit risk have a negative impact on homebased firms.

- ***Provide Access to Capital***

Capital may be less critical than success in identifying, reaching, and selling competitively in the global marketplace. However, there may be contracts that small businesses do not obtain because capital is lacking for such startup costs as obtaining required insurance, hiring staff and overhead costs. As Internet commerce becomes more sophisticated, homebased businesses may need capital to develop and maintain profitable web sites.

- ***Set Up Virtual Companies to Overcome Residential Space Limitations***

Hiring paid employees increases gross income and profits. But there are limitations as to the number of workers a residence can accommodate. The use of

technology to work in teams without daily face-to-face interaction allows the homebased firm to expand beyond the limitations of residential space.

Homebased Business or Not? A Basis for Choice

Small business affords opportunities for entrepreneurs and at-home professionals. This analysis of the CBO has documented clear disparities between gender and ethnic groups. However, within any one of these groups, where to locate one's business is an economic and lifestyle choice. Depending on the particular industry and business, the odds heavily favor businesses located in the traditional commercial location. However, independent of whether they are located in the home or not, firms *can* gross over a million dollars, so the opportunity is there.

Table ES-4 strikingly documents that HBB owners who are motivated, who hire employees and spend equivalent time on their business, narrow the gap between HBB and non-HBB profits. Although the maximum average profit of HBBs remains lower than that of non-HBBs (\$25K vs. \$43K), HBBs operated for primary income, full time and throughout the year with paid employees, narrow the gap between HBBs and non-HBBs. In fact, as the table shows for the primary income CBO segment, 87 percent of HBBs versus 84 percent of non-HBBs generate net profits greater than \$10,000 and for 67 percent of HBBs versus 51 percent of non-HBBs grossing over \$25,000, the business supplies 100 percent of personal income.

In choosing to be self-employed, business location may be less important than the owner's motivation, time commitment and decision to hire employees or work alone. So in part, the choice of a homebased or non-homebased business comes down to balancing economic needs with lifestyle choices.

Table ES-4 Firms Operated for Primary Income

Percent of firms in category	Primary Income		All Firms	
	HBB	Non-HBB	HBB	Non-HBB
100% contribution to personal income, income < \$25K				
No paid employees	48%	47%	27%	32%
Paid employees	64%	46%	50%	41%
100% contribution to personal income, income > \$25K				
No paid employees	36%	39%	17%	26%
Paid employees	67%	51%	49%	46%
Maximum average profit	\$25K	\$43K	\$17K	\$35K
Net profit > \$10K, income < \$25K				
No paid employees	19%	30%	27%	32%
Paid employees	50%	60%	50%	41%
Net profit > \$10K, income > \$25K				
No paid employees	50%	59%	17%	26%
Paid employees	87%	84%	49%	46%
Work full-time week (40 hours)				
No paid employees	48%	56%	28%	41%
Paid employees	79%	76%	66%	71%
Work full year (48 weeks)				
No paid employees	65%	67%	51%	59%
Paid employees	88%	92%	86%	87%

Organization of This Report

The report is organized for readers seeking various levels of detail about small business. The *List of Key Findings, Summary Table* and *Chapters 1 and 2* cover the major highlights of the research. The following chapters are organized for those with more than a casual interest in the subject. Chapters 3 through 5 each begins by summarizing chapter highlights followed by detailed findings about *Owner Characteristics*, *Business Characteristics* and *Business Success*. The final chapter, *Business Opportunities and Contributions*, recaps profiles of demographic groups—women, nonminority men, black, Hispanic and “other minority” owners, and of each industry sector. The report concludes by speculating on the future of small business—whether or not homebased—in the Information Age.

EXPLANATION OF TERMS AND ACRONYMS

Explanation of Terms

The CBO sample and survey questions prompt the following definitions and abbreviations that are used throughout this report:

Business—A business conducted as a Sole Proprietorship, Partnership or S corporation.

Homebased Business (HBB)¹ — A business operated from or in a home producing goods or services or doing clerical work.

Non-homebased business (Non-HBB) or no-work-at-home business (No-WAH)— Respondent answered “no” to the question “Was this business operated primarily from or in a home”.

Terms Used in the CBO

Firm — In the CBO, a firm is a legal entity engaged in economic activity during any part of 1992 that filed an IRS form 1040, Schedule C, 1065, or 1120S. A firm may operate one place of business or more such as a chain of restaurants, or have no fixed business location, such as the firm represented by a self-employed carpenter.

Note: In the text the terms “firm” and “business” are used interchangeably. A single business location—home or non-home—is assumed for the analysis.

Legal form of organization

Individual proprietorship— An unincorporated business owned by an individual. Also, included in this category are self-employed persons. The business may be the only occupation of an individual or the secondary activity of an individual who works full time for someone else.

Partnership— An unincorporated business owned by two or more persons having a financial interest in the business.

Subchapter S corporation or S corporation— A legally incorporated business under State laws. A subchapter S corporation is a special IRS designation for legally incorporated businesses with 35 or fewer shareholders who, because of tax advantages, elect to be taxed as individual shareholders rather than as corporations.

Race and Ethnicity—The race and ethnic categories used in the CBO are the same as those defined by the Office of Management and Budget (OMB).

¹ Charts based on cross tabulations of the screening question “Was this business operated primarily from or in a home...” use the term *homebased business* or *HBB*; those based on a follow-up question concerning business use of home use the term *work-at-home business* or *WAH*.

² 1992 Economic Census, *Characteristics of Business Owners*, U.S. Department of Commerce, Bureau of the Census, Appendix A.

Employment—Employment includes all employees, full-time and part-time, reported on a firm’s payroll during specified pay periods in 1992 including persons on sick leave, paid holidays and paid vacations. Salaried officers and partners of corporations, but not proprietors and partners of unincorporated businesses are considered as employees.

Receipts—Receipts include the gross value of all products sold, services rendered, or other receipts from customers during the year, less returns and allowances. Value for sales and services is given whether or not payment was actually received during the year, and therefore, does not indicate a cash flow. Due to the nature of the banking, real estate, and insurance industries and educational and social services, receipts may not be a good indicator of financial worth or size.

Acronyms

Gender and Ethnic Groups

Woman-owned business (WOB)

Nonminority male-owned business (MOB)

Black-owned business (BOB)

Hispanic-owned business (HOB)

Other minority business (OMB)

The category “other minority” is composed of about 93 percent Asians and Pacific Islanders and 7 percent American Indians and Alaskan Natives. Firms owned by black, Hispanic or other minority women or that are owned by two or more minorities are included in the data for each minority group, but counted only once at total levels. Nonminority male-owned businesses are not included in any other group.

Industry

Finance, insurance and real estate (FIRE)

Transportation, communications and utilities (TCU)

LIST OF KEY FINDINGS

In General

1. People choose a homebased business (HBB) to earn primary or secondary income or to be their own boss. The main reason they operate from their homes is to earn a second, not a primary income. More non-homebased business (non-HBB) owners seek primary income.
2. Whether or not a business has paid employees is related to the motivation to operate a business. Notably, only nine percent of homebased businesses hire employees.
3. Overall, homebased businesses founded to obtain primary income tend to have employees; those interested only in a second source of income do not. Nearly twice as many HBBs with employees, than without, were in business to gain their primary income.
4. HBB owners with employees whose main reason for starting a business is to be their own boss are attracted to the finance, insurance and real estate industry (FIRE). Homebased FIRE industry owners want supplementary, but not primary income. Retail trade is the only industry that uses a homebased business to any extent to test new ideas. People needing to meet family responsibilities cluster in the services industry. Service is also an industry attractive to those wanting a second income.
5. More firms that gross over \$50,000 are non-HBBs; those with receipts less than \$25,000 are homebased, with the crossover in the \$25,000 - \$50,000 range.

Income

6. Thirty-one percent of homebased business owners work full time at their business, 40 hours per week or more. Over half work 48 or more weeks during the year. Higher business earnings are associated with homebased clerical work, not the production of goods and services. Other minority firms, over 90 percent Asian-owned, are an exception: 18 to 22 percent of those grossing \$250,000 or more engage in homebased production.
7. Five percent of businesses with over one million in receipts are homebased. Likewise, five to six percent of black, Hispanic- and other minority-owned firms grossing one million dollars or more are homebased. But the majority of firms grossing over \$50,000 are located outside the home.
8. Across all HBBs, 57 percent earn profits of less than \$10,000. Only 16 percent earn greater than \$10,000 in profits. In contrast, 41 percent of non-HBBs earn less than, and 34 percent earn greater than, \$10,000 in profits. Twenty-seven percent of HBBs versus 25 percent of non-HBBs suffer a loss.
9. The most profitable non-HBBs are those in wholesale trade (48 percent earn profits greater than 10K) and manufacturing (45 percent). Twenty-eight percent of non-HBBs in retail trade and FIRE suffer losses. A major difference is that HBBs that are as profitable as non-HBBs cluster in industries like construction and transportation, communications

- and utilities (TCU), in which the main work tasks are not performed in the home; rather the home office is used primarily for clerical work.
10. Excluding income from spouse or other family members, 25 percent of all HBBs contribute 100 percent of their owners' total personal income, 41 percent provide less than 10 percent and 34 percent contribute 10 to 99 percent.

Demographics

11. No single demographic characteristic uniquely defines homebased owners.
12. More homebased and also more non-homebased businesses are owned by men than by women by over a 2 to 1 ratio. Much larger variations exist within each racial group across industries. For example, in retail, 73 percent of blacks operating HBBs, but only 52 percent of those operating non-HBBs are women. In contrast, Hispanic women are much less likely to operate businesses than Hispanic men.
13. Overwhelmingly, business owners are married, with little or no difference between owners of homebased and non-homebased firms. Blacks and other minorities, but not Hispanics, who are separated, divorced or widowed own businesses.
14. Only 37 percent of other minority – largely Asian -- HBBs and 18 percent of non-HBBs are owned by individuals born in the U.S., suggesting that business ownership offers immigrants a pathway to participate in the U.S. economy.
15. The largest segments of business operators are in the 35 to 44 and 45 to 54 age groups.
16. Taken as a whole, homebased and non-homebased business owners have nearly identical educational levels. However, there are great differences in educational achievement among minority business groups. About 6 percent of black or other minority business owners but 19 percent of Hispanics have not completed the ninth grade. Other minorities (generally Asian) have the highest educational attainment.
17. The owners of about one-half of women owned- and male-owned firms had a close relative who owned a business. Only 32 to 42 percent of black, Hispanic and other minority firms were headed by individuals who had relatives as business role models for their own firms.

Legal Form of Organization

18. An overwhelming majority of homebased businesses, 82 to 87 percent, are founded by their owners. In contrast, 55 percent to nearly three-fourths of non-homebased firms are founded, 10 to 35 percent are purchased and a few percent inherited.
19. Ninety percent of all homebased businesses are sole proprietorships, 5 percent S corporations and 4 percent partnerships. In contrast, 74 percent of non-HBBs are sole proprietorships, 16 percent S corporations, and 11 percent partnerships.
20. Retail trade is the only industry that has as many as 9 percent of all homebased firms operated as franchises.

Capital Requirements

21. Homebased firms acquire less capital than non-HBBs. Only a few percent of HBBs obtain as much as \$25,000 or more, compared with 25 percent of non-HBBs.
22. Forty to 44 percent of all HBBs required less than \$5,000 for startup. About 8 to 11 percent needed \$5K to under \$10K, and 7 to 12 percent used \$10K to \$25 K.
23. Non-homebased and other minority businesses need the most capital. Forty-four percent required \$25K or more to start.
24. Homebased businesses are more apt to rely on personal savings and assets to finance their business start-up than firms located outside the home. One-third of all HBBs uses personal assets and 46 percent, personal savings.
25. Business owners borrow capital from themselves. Of firms that borrow capital, just 7 percent of all homebased businesses and 19 percent of non-homebased firms obtain bank loans (excludes credit card loans).

Markets

26. Homebased and non-homebased firms have similar markets in terms of percentages of customers who are white and non-Hispanic. Black-owned firms tend to have black customers.
27. Regardless of location, 60 percent or more of small businesses sell primarily to individuals; 21 to 43 percent sell to other businesses. Roughly 10 percent of customers are local, state or federal government agencies.
28. Contrary to common perception, homebased businesses have the same geographical marketplace as firms located outside the home. About one-third of both homebased and non-homebased businesses sell in the neighborhood and half market within the city or county.
29. On average only 3 percent, about 500 thousand homebased or non-homebased firms, export to international markets. Naturally, much greater activity occurs in wholesale trade and manufacturing.
30. In the wholesale trade industry, 11 percent of black-, 21 percent of Hispanic- and 28 percent of other minority-owned homebased firms want to increase their exports compared with only 6 percent of women-owned firms.

Health Benefits:

31. Most small business owners do not obtain health insurance from their own firms.
32. Overall, the owners of one-third of homebased businesses compared with 26 percent of those located outside the dwelling are covered by their spouse's health insurance.
33. Non-homebased firms in wholesale trade do the best job with respect to health insurance (20 percent of firms in category). A surprising third or more of all HBB and non-HBB firms report an "other" source of their health insurance.

Regulations:

34. Tax laws have the most negative impact on homebased businesses of all federal regulations.
35. In addition to costs of health insurance, 22 percent of firms experienced minor or strong negative impacts from the IRS, 17 percent from environmental regulations, 14 percent from credit market conditions, 12 percent from OSHA and 6 percent resulting from the American with Disabilities Act (ADA).

Success and Location

36. The home is not being used simply for startups; rather it remains the permanent business location.
37. Thus, homebased businesses tend to remain in the home. Less than 5 percent of HBBs founded in 1992 moved out of the home; only 0.5 percent of non-homebased firms moved into the home. Location has no bearing on survival rates. Strikingly, more firms with paid employees survive than those without, 85 to 51 percent.
38. Surprisingly both HBBs and non-HBBs are rated as successful by their owners at the time the firms cease operations.
39. Nearly one-third of all businesses close in the first two years, that is, in 1992 and 1993 for businesses started in 1992. The majority of Asian and Hispanic firms have relatively high success rates, 61 and 63 percent, respectively, at five years.
40. For women-owned businesses, the survival rate nearly doubles for businesses with paid employees. Black-owned firms have the lowest survival rate of firms with or without employees.
41. Businesses close because of lack of cash. Eight-two percent of all HBBs with paid employees and 76 percent of those without, closed for that reason.
42. Fewer homebased other minority firms (Asian-owned) fail due to lack of cash in comparison with other groups.
43. Businesses turn to family and "other income" sources when they need cash.
44. Homebased firms, to a greater extent than non-homebased businesses, are financed with "other income" when they need cash because of low sales or inadequate cash flow.
45. Far more non-HBBs than HBBs—84 percent compared to 64 percent—were considered successful, with profits of \$25,000 or more, when they closed but three times as many HBBs as non-HBBs were said to be successful even with losses greater than \$10,000.

Survival Rates by Industry:

46. Homebased businesses in the finance, insurance, real estate industry generally have a high five-year survival rate of 86 percent.
47. In the service industry, at-home professions have a high sustainability: legal services 98 percent, management consulting 65 percent (compared to 30 percent non-HBB) and engineering, architecture and accounting, 60 percent.
48. Seventy-nine percent of HBB manufacturing firms compared to 54 percent of non-HBBs survive.
49. For agricultural services, retail trade and service industries the five-year survival rates nearly double from 40 to 55 percent to 92 percent or higher when the business has paid employees.

Gender

50. As in the case with all HBB owners, women-owned firms that hire employees are more interested in earning primary income (31 percent) and in being their own boss (30 percent) than those that do not.
51. For women wanting to operate a homebased business, the best opportunities are in construction or wholesale trade. Close to one-fifth of homebased firms in those industries earns \$10,000 or more in profits.
52. Men without employees want to earn a secondary income (35 percent), a primary income (21 percent) or to be their own boss (24 percent). Family responsibilities are not an incentive for men to start a homebased firm.
53. Men who borrow acquire capital from personal (15 percent) or bank loans (5 percent) or draw from personal savings (38 percent).
54. Nearly one-half of tasks performed at home involve clerical work (47 percent), slightly over one-third the production of goods and services (37 percent), and 17 percent telecommute.

Minority Groups

55. Blacks have the highest proportions of female business owners and they are the group most interested in supplementary, rather than primary income. Irrespective of business location, few black-owned firms obtain capital. Instead, they draw on personal resources.
56. The best opportunities for blacks are in the transportation, communications and utilities industry and construction businesses in which close to one-fifth of firms net over \$10,000 in profits.
57. Relatively few Hispanic women own businesses. Although twice as many non-homebased Hispanic owners want primary, not secondary income, their capital needs remain minimal and they tend to fund their enterprises from personal resources.

58. The most profitable businesses for Hispanics who want to operate in or from their homes are in the construction and wholesale trade industries. The most profitable industry overall is non-homebased wholesale trade in which over half of Hispanic-owned firms earn more than \$10,000 in profits.
59. Asian-owned firms have the lowest percent of homebased firms and low representation of women owners. Compared with the other groups, other minority businesses require the most capital, but most depend almost entirely on personal loans or savings for funds.
60. Less than one-third of other minority homebased business owners are women (37 percent). Only 37 percent were born in the USA and a small number are veterans (13 percent). They are highly educated, with college degrees (28 percent), master's (12 percent) and professional or doctoral degrees (7 percent). Under one-half had a close relative in business (41 percent).
61. The most profitable industries for other minorities interested in starting a homebased business are construction and wholesale trade.

Industry

62. The construction industry has one of the highest concentrations of veterans (30 percent HBBs and 37 percent non-HBBs). A large percentage of veteran-owned firms are general contractors doing residential construction or they are self-employed carpenters.
63. Manufacturing attracts the most owners seeking a primary income (52 percent of non-HBBs with employees). As expected, it has the highest percentage of firms using the home for production.
64. The transportation, communications and utilities industry has the highest use of the home for clerical work (60 percent). It is tied with construction for the highest percent of homebased firms with profits greater than \$10,000 (31 percent).
65. HBBs in TCU need the least capital, that is, no firms require as much as \$25,000.
66. Retail trade has the highest requirement for capital of all industries—59 percent of non-HBB need \$25,000 or more.
67. Retail owners spend less time in the business than entrepreneurs in other industries. Under half of retail HBBs work 48+ weeks (49 percent). And one-third spend 23 weeks or less on their business (31 percent).

State

68. Homebased businesses are not distributed evenly across the United States. Individual states vary 10 to 14 percent from the average of 54 percent of homebased firms with no obvious explanation for the differences; Hawaii, Utah and Wyoming have the highest percentage of homebased, relative to non-homebased firms.
69. Although, on average, about one-quarter of paid employees work for HBBs and three-quarters work for non-HBBs, in some states the proportion is quite different.
70. The states that have the highest proportion of HBBs with employees are relatively rural—Arkansas, New Hampshire, Washington and Vermont.

Contribution

71. In 1992, nine million, over one-half of the firms, were homebased.
72. In 1999, there may be as many as 10-12 million HBBs out of an estimated 24.8 million nonfarm business tax forms that were filed for business tax year 1998.
73. In 1992, the total contribution of small businesses to the economy was 2.9 trillion dollars with homebased firms contributing 314 billion, or 11 percent.

Homebased Business or Not? a Basis for Choice:

74. In choosing to be self-employed, business location may be less important than the owner's motivation, time commitment and decision to hire employees or work alone. Other determinants of business success, over which the owner has little or no control, include choice of industry and business type and race/ethnicity and gender differences.
75. Motivated HBB owners who hire employees and spend equivalent time on their business, narrow the gap between HBB and non-HBBs profits. For all businesses, the maximum average profit of HBBs remains lower than that of non-HBBs (\$25K vs. \$43K). But the CBO segment who depend on their business for primary income, 87 percent of HBBs versus 84 percent of non-HBBs, generate net profits greater than \$10,000, and for 66 percent of HBBs versus 50 percent of non-HBBs, the business supplies 100 percent of personal income.
76. To realize their maximum potential, homebased businesses need help in removing legal barriers and restrictive tax policies. They need increased access to developing markets and electronic commerce, to obtain capital and to set up virtual companies to overcome limitations of housing employees.
77. Business owners are making lifestyle as well as business decisions. Technology as a partial equalizer allows today's entrepreneurs to leverage their abilities in either a homebased or non-homebased location.

Conclusion

Small business affords opportunities for entrepreneurs and at-home professionals. Disparities exist between gender and ethnic groups. However, within any one of the groups, where to locate one's business is an economic and lifestyle choice.

Those wanting to earn at the high end do so by hiring employees, spending more time in the business and being in business to earn primary income. Those who prefer to avoid managing employees or spend less time in the business – and needing only to supplement family income – can operate a business from home knowing that the odds are weighed against their earning the highest income. So in part, the choice of a homebased or non-homebased business comes down to balancing economic needs with lifestyle choices.

Summary Table: *Characteristics of Business Owners Sample*

Industry Distribution by Gender

Industry	Total (1,000)	% HBB	HBB (1,000)	% NON- HBBs	NON-HBB (1,000)
All firms	17,253	52	8,989	40	6,901
Agricultural Svcs	583	52	303	37	213
Construction	1,830	78	1,431	17	317
Manufacturing	518	52	270	42	220
Trans, comm, util	699	48	332	40	279
Wholesale	538	54	292	39	209
Retail	2,478	41	1,023	52	1,279
Fin Ins & Real Estate	1,941	34	650	60	1,159
Services	7,784	55	4,250	38	2,950
Women-owned	5,889	55	3,251	35	2,085
Agricultural Svcs	120	53	64	32	39
Construction	184	73	134	20	36
Manufacturing	152	58	89	34	52
Trans, comm, util	142	51	72	41	58
Wholesale	155	61	93	32	49
Retail	1,093	53	583	39	426
Fin Ins & Real Estate	603	35	213	54	324
Services	3,158	59	1,867	32	1,004
Nonminority male-owned	10,114	52	5,229	42	4,218
Agricultural Svcs	413	51	212	38	156
Construction	1,496	80	1,198	16	244
Manufacturing	333	51	169	45	151
Trans, comm, util	458	49	226	38	173
Wholesale	353	52	183	42	147
Retail	1,198	34	401	61	726
Fin Ins & Real Estate	1,241	33	404	63	775
Services	4,102	53	2,170	41	1,686

Detail does not add to total because of inclusion of some firms in more than one group. Firms that were equally owned by two or more minorities are included in the data for each minority group, but counted only once at total levels. HBB and NON-HBB do not sum to 100 percent because "don't know" responses omitted.

Summary Table: *Characteristics of Business Owners Sample*

Industry Distribution by Ethnicity

Industry	Total (1,000)	% HBB	HBB (1,000)	% NON- HBBs	NON-HBB (1,000)
Black-owned	621	49	302	37	228
Agricultural Svcs	10	60	6	26	3
Construction	43	70	30	18	8
Manufacturing	10	54	6	32	3
Trans, comm, util	49	40	20	41	20
Wholesale	8	61	5	30	2
Retail	87	46	40	43	37
Fin Ins & Real Estate	41	40	16	49	20
Services	333	49	162	37	122
Hispanic-owned	772	46	357	43	335
Agricultural Svcs	33	60	20	30	10
Construction	97	64	62	27	26
Manufacturing	18	40	7	52	10
Trans, comm, util	48	37	18	49	23
Wholesale	18	52	9	43	8
Retail	108	36	39	57	62
Fin Ins & Real Estate	49	28	14	63	31
Services	347	47	164	42	147
Other Minority-owned	606	34	208	57	345
Agricultural Svcs	15	42	6	47	7
Construction	28	67	19	25	7
Manufacturing	19	41	8	52	10
Trans, comm, util	24	27	7	59	14
Wholesale	20	48	10	43	9
Retail	132	16	22	74	98
Fin Ins & Real Estate	65	31	20	58	37
Services	274	38	105	55	150

Detail does not add to total because of inclusion of some firms in more than one group. Firms that were equally owned by two or more minorities are included in the data for each minority group, but counted only once at total levels. HBB and NON-HBB do not sum to 100 percent because "don't know" responses omitted.

CHAPTER 1

INTRODUCTION

Is operating from a home a better choice than conducting business from the traditional commercial workplace? Does technology's promise of being able to work almost anywhere represent an opportunity for success or a trap triggering failure for business owners? What are the implications of self-employment in or from home?

As we move into the Information Age, attitudes are changing about where "work" takes place. For the duration of the Industrial Age working at home was both impractical and out of fashion. As recently as 1983, the Current Population Survey (CPS) implied that homebased businesses were economically marginal activities....¹ In the succeeding 12 years, self-employment in the home has become recognized as a vital segment of the economy.²

Increasing numbers of employees also have begun working at home, a trend encouraged as one way to improve air quality by decreasing commuting trips from home to work. According to the census, work at home by wage and salary workers as well as the self-employed increased 56 percent from 2.2 million in 1980 to 3.4 million people in 1990. Proprietary studies report a high of 53.5 million or 42.5 percent of the workforce who did at least one hour per week of paid work at home in 1998. The growth has not yet peaked.³

The Characteristics of Business Owners Survey

The *Characteristics of Business Owners* (CBO) Survey "provides basic economic, demographic, and sociological data" on the characteristics of 125,000 business owners and their business activities."⁴ The data are collected by sampling from the universe of businesses that filed an IRS form 1040, Schedule C (sole proprietorship or self-employed person), partnership form 1065 or subchapter S corporation form 1120S. The CBO surveys the smallest businesses including "active" businesses, defined as those filing business receipts greater than \$500, and non-employer firms. Those surveyed included two gender and three racial and ethnic categories. In the sample, women, 59 percent, own 33 percent of all firms by nonminority men, 3 percent by blacks, 4 percent by Hispanics and 4 percent by "other minorities". The other minority category is about 93 percent Asian and Pacific Islander and 3 percent American Indian and Alaskan Native ancestry. This study is based on special tabulations of the CBO provided by the Census Bureau, which are described in Appendix A.

¹ CPS Income Supplement, March 1983

² Joanne H. Pratt. *Counting the New Mobile Workforce*. U. S. Department of Transportation, Bureau of Transportation Statistics, April 1997.

³ These figures are based on 1980 Decennial Census and 1998 Cyberdialogue/FIND/SVP surveys that used different definitions of work at home.

⁴ 1992 Economic Census, Characteristics of Business Owners, U.S. Department of Commerce, Bureau of the Census.

The evolution of the *Characteristics of Business Owners* survey follows the shifts in commerce in the U.S. Questions on manufacturing—introduced in the 1810 Decennial Census—were followed by gradual expansion to monitor mining, commercial activities (1902), retail and wholesale trade and construction industries (1930) and finally service industries in 1933. Continued expansion has followed growth of new industries and recognition of new participants in the workforce such as minority-owned businesses and women-owned businesses. This report acknowledges the contribution of homebased businesses (HBB) to the economy: more than \$314 billion or 11 percent of the total small business contribution of almost \$3 trillion in sales and receipts.⁵

An economic census is taken every 5 years, covering years ending in 2 and 7. The census fielded in 1996-7, the basis for this research, expands coverage of the economy to include data on transportation, communications, utilities, financial, insurance, and real estate and expands the survey of Women-Owned Businesses to include all S corporations.

Strengths and Limitations of the CBO for this Study

The CBO addresses many questions about homebased business for the first time: What is the motivation for choosing a homebased business? In the past, a homebased business was viewed as a side business operated primarily as a hobby or as a source of secondary income.

Are traditional businesses located in commercial space operated by nonminority males in their prime earning years while homebased businesses attract primarily women, retirees, couples who have additional sources of income, blacks, Hispanics and other minorities? Or have homebased businesses become a viable option for all self-employed individuals?

Further, do education and business experience influence choice of business location? The owner's schooling, area of concentration, work, business and managerial experience and/or family history of self-employment also may impact business performance.

Although the survey probes in great detail the characteristics of businesses, the CBO has some drawbacks for a thorough understanding of homebased firms. For example, it omits any questions about children.⁶ The sample includes S corporations but no C corporations. Most of the roughly 2 million C corporations are small but they have a different mix of characteristics from the businesses included in the CBO. "Another important limitation of the CBO is that it is a survey mailed in 1996 that asked individuals about businesses they [operated in 1992.] ... The sample is likely to have missed owners who had businesses in 1992 but were not in business in 1996 and to have

⁵ The total small business contribution of all employer firms was 7.8 trillion of 16.7 trillion (about 47 percent) in 1996.

⁶ Homebased business operation was found to be associated with the presence of young children in the study: Joanne H. Pratt. *Myths and Realities of Working at Home: Characteristics of Homebased Businesses and Telecommuters*. U.S. Small Business Administration 1993.

gotten less accurate answers about discontinued businesses or about 1992 information than about current information.”

There are two major strengths of the CBO: First, the large sample size of 125,000 small businesses, provides unusually detailed information about firms owned by women, nonminority men, black, Hispanics and other minorities. Second, the responses are reflective judgements based on at least several years of business operation.

Organization of this Report

The report is organized for readers seeking various levels of detail about small business. The first section covers the major highlights of the research in the *List of Key Findings* and *Summary Table: Characteristics of Business Owners Sample*. Also in this section, *Chapter 2, Home as a Place for Business* serves as the “news” report that briefly answers the questions frequently asked about homebased businesses. For example, How many homebased businesses are there? Why do people choose a homebased business? Are they viable business ventures or marginal activities?

The following chapters are organized for those with more than a casual interest in the subject. In this second section, Chapters 3 through 6 each begin with a one- to two- page summary that distills chapter highlights and summary tables, then presents detailed findings about *Owner Characteristics*, *Business Characteristics* and *Business Success*. The final chapter, *Business Opportunities and Contributions* recaps profiles of demographic groups—women, nonminority men, black, Hispanic and “other minority” owners, and of each industry sector. The report concludes by speculating on the future of small business—whether or not homebased—in the Information Age.

Thus, the reader can scan “Home as a Place for Business,” the comparative chapter overviews and the boldfaced bullet summaries throughout each chapter. Or a researcher or someone interested in, for example, women-owned businesses or another demographic group, will find the detailed data by reading the entire report. Those faced with the choice to operate a homebased or a non-homebased business can skip directly to the final chapter.

CHAPTER 2

HOME AS A PLACE FOR BUSINESS

How many Homebased Businesses are there?

- Fifty-two percent of small businesses are homebased – with caveats

There are 17.3 million small businesses of which 9 million or 52 percent are homebased. Table 2-1 shows the breakdown of self-employed, work-at-home businesses by gender and race. Women have the highest percentage of businesses operated in or from a private residence, 55 percent, but 52 percent of men also began homebased firms rather than businesses located outside the home. Only a third of other minorities started businesses from home. As described in *Chapter 5, Business Success*, the majority of businesses that were started at home remain homebased.

**Table 2-1 Self-employed Work-at-Home Businesses
by Gender and Ethnicity**

	Total Firms Weighted sample (1,000)	Operated "from or in a home"	Self-employed Work-at-Home Businesses
All firms ¹	17,253	52%	8.99 million
Women-owned	5,889	55%	3.25 million
Nonminority male-owned	10,114	52%	5.23 million
Black-owned	621	48%	0.30 million
Hispanic-owned	772	46%	0.36 million
Other minority-owned	606	34%	0.21 million

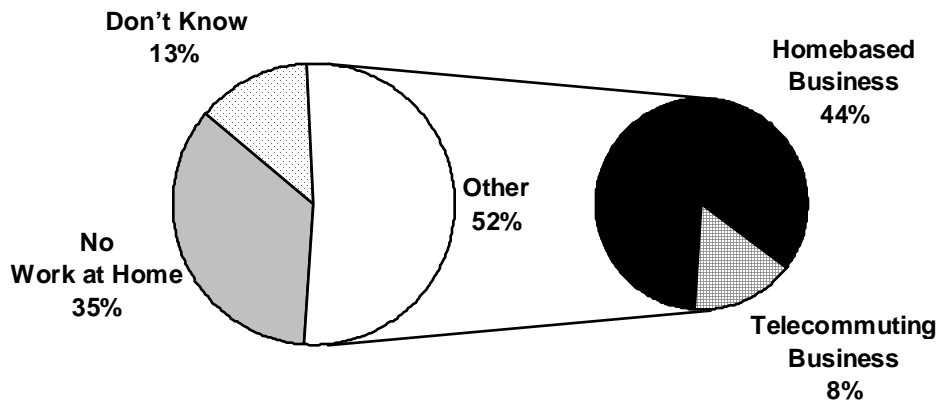
¹ Detail does not add to total because of inclusion of some firms in more than one group. Firms that were equally owned by two or more minorities are included in the data for each minority group, but counted only once at total levels.

The confusion in counts of homebased businesses arises from a failure to distinguish between business owners who use their dwelling for some work and those who use their homes as their sole place of business. Figure 2-1 shows the composition of the 17.3 million businesses in the weighted CBO sample. Respondents were asked: "Was this business operated primarily from or in a home a) when first established; b) during 1992; and c) during 1994?" A "yes" response to any of these triggered the question "During any of these time periods, which best describes the primary business use of this home?" a) "to produce goods/services on the premises," b) "to do clerical work (goods/services produced off the premises" or c) "to telecommute (outside employment doing office work at home)"

Thus, 52 percent or 9.0 million firms of the total sample are self-employed, work-at-home businesses, that is, respondents said they worked at home. Eight percent, or 1.4 million, of the total weighted sample, *possibly* had a business location outside the home. That leaves 44 percent, or 7.6 million, unambiguously classified as “true” homebased businesses. Thirty-five percent or 6.0 million are no-WAH, that is, non-homebased businesses.

Figure 2-1

Characteristics of Business Owners Sample



Base = 17.3 million firms

Why a Homebased Business?

- **People choose a homebased business to earn primary or secondary income or to be their own boss. In comparison, more non-homebased business owners want to earn a primary income.**

Considering all homebased businesses (HBBs), 36 percent of firms without paid employees are looking for a second income, 18 percent want a primary income but 21 percent just want to be their own boss (Figure 2-2). In contrast, as shown in Figure 2-3, most businesses located outside the home (non-HBBs) were acquired mainly to earn primary income (26 percent). Another 26 percent of non-HBBs wanted to be their own boss and the owners of 21 percent wanted a second income.

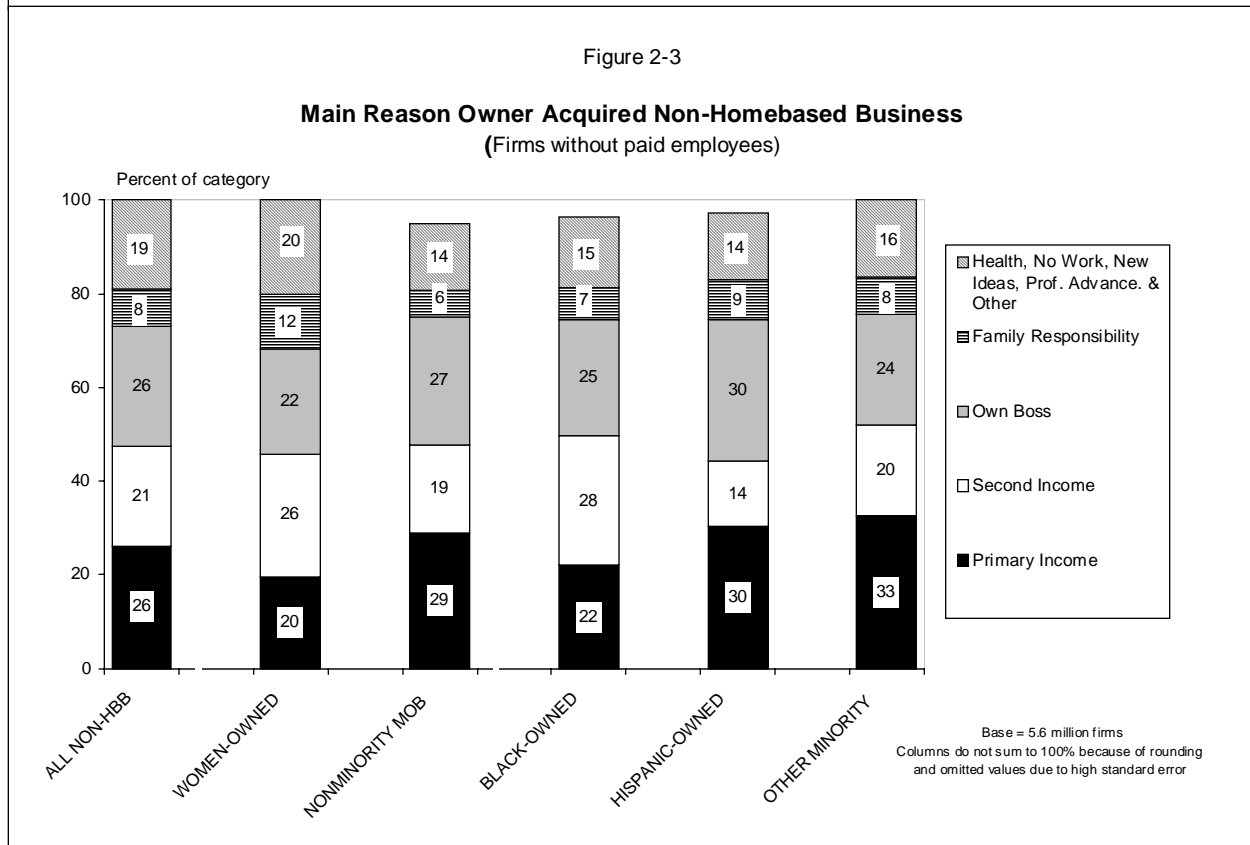
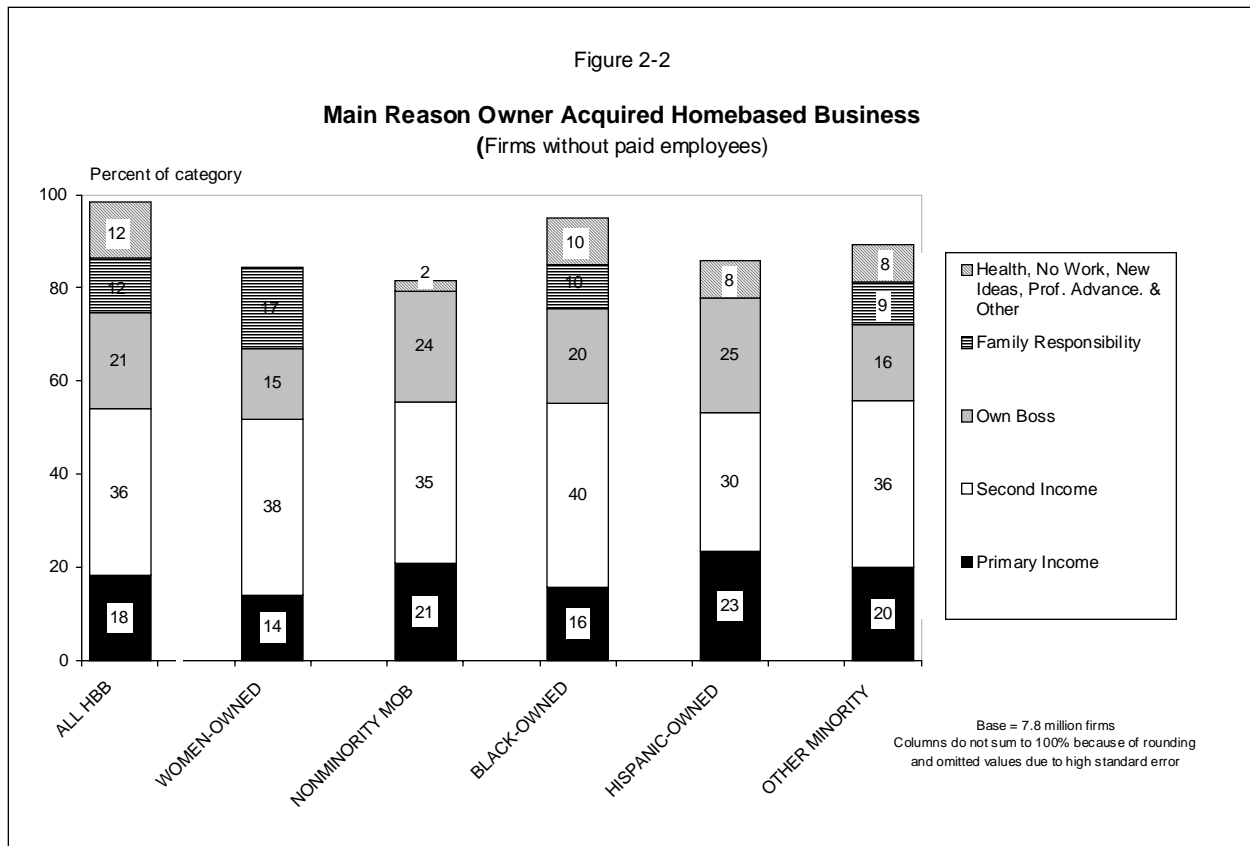
Surprisingly, the opportunity to test new ideas has very little influence – cited by less than 5 percent of respondents – on the decision to start either a HBB or non-HBB. Contrary to prevailing myths, relatively few HBBs are started primarily because of family responsibilities and even fewer in response to health concerns, lack of work elsewhere or for professional advancement.

Whether or not a business has paid employees is related to the motivation that led to starting a business. Nearly twice as many HBBs with employees as those without (33 percent vs. 18 percent) were in business to gain their primary income. For some homebased business operators with employees, being one's own boss overshadowed even the opportunity to generate income. Thirty-one percent of women-owned businesses (WOB) with employees, 34 percent of black-owned businesses (BOB), 44 percent of Hispanic-owned businesses (HOB) and 25 percent of other minority firms (OMB) valued independence over income.

With or without employees, less than 10 percent of respondents in any gender or race category formed a HBB because of health problems, wanting to test new ideas, to achieve professional advancement or because they were out of work. Twenty-six percent of other minority businesses with employees started a HBB to cope with family responsibilities. However, only 17 percent of women-owned businesses and 10 percent of black-owned firms without employees – and even fewer with paid staff – were acquired to serve family needs (Figure 2-2). Too few nonminority male- and Hispanic-owned firms mentioned family responsibilities to be tabulated.

Overall, homebased businesses whose main reason for starting was to obtain primary income tended to have employees; those interested only in a second source of income did not. Those businesses located outside the home (non-HBBs) which had employees were far more concerned with primary (38 percent) than secondary income (8 percent). That was less true for Hispanic-, other minority- and non-minority male-owned firms. With or without employees, Hispanics depended on their businesses for primary income. Women and black owners of non-homebased businesses with employees generally relied on the business as their primary income; those without employees were seeking a second income.

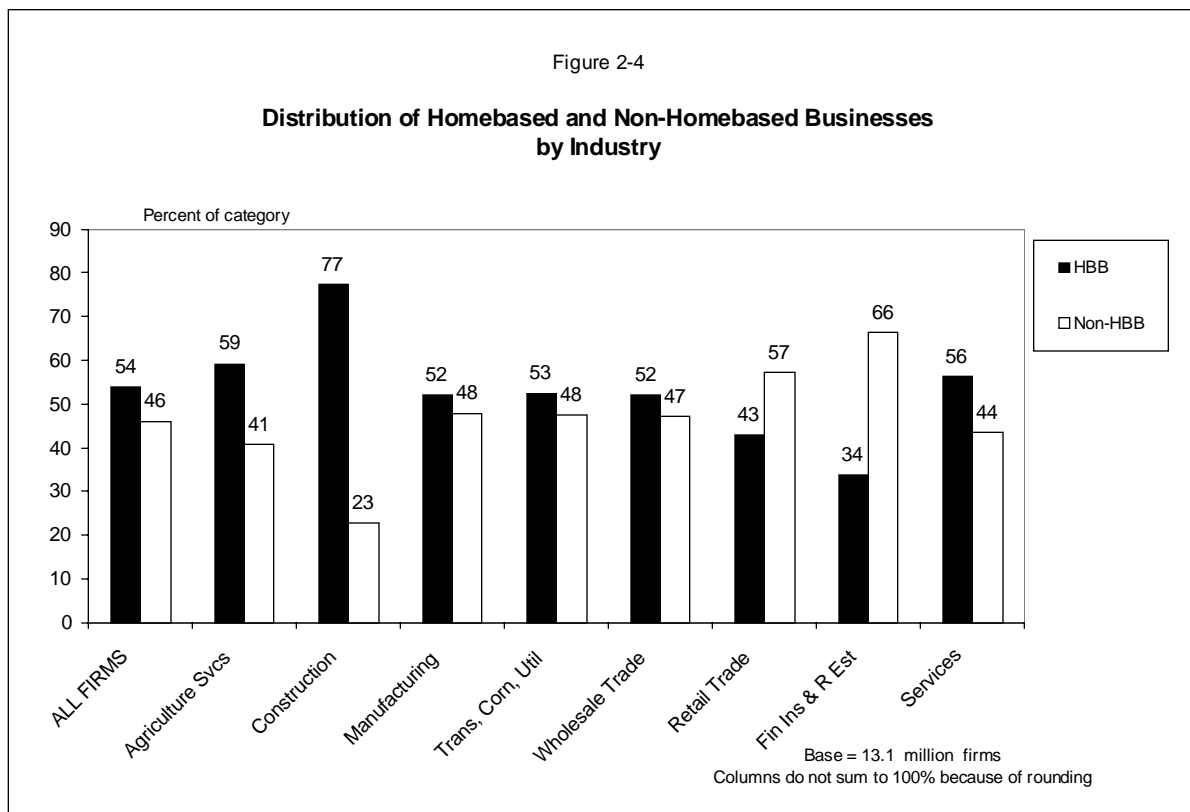
- Need for income outweighs family responsibilities as reason for home business startups



What Kinds of Businesses Are Likely to Operate from Home?

- Homebased businesses outnumber non-work-at-home firms in most industries

Figure 2-4 shows the total number of firms and the distribution of homebased and non-homebased businesses across industries. Fifty-four percent of businesses are homebased overall. In manufacturing, transportation, communications and utilities (TCU), and wholesale trade, homebased businesses outnumber non-HBBs by about 4 to 5 percent. As expected, HBBs dominate in agricultural services. But it is the construction industry that traditionally has, and still maintains, a more than three-to-one predominance of homebased over non-homebased work. Retail trade and finance, insurance and real estate (FIRE) are the only industries in which there are more non-homebased than homebased businesses.



¹Percentages may differ in the various cross-tabulations because of non-responses to some questions as explained in Appendix A.

- **The choice of homebased or non-homebased location varies by industry. Retail trade is the only industry that uses HBBs to test new ideas. Retail and finance, insurance and real estate homebased firms want secondary, not primary income.**

When examined by gender and ethnic groups, roughly one quarter to one third of both HBB and non-HBB owners said they wanted to be their own boss. The percentages of those motivated by this “lifestyle” choice were about equal to those seeking a primary income; although, wanting to be one’s own boss was more strongly associated with having paid employees.

Remarkable differences in motivation are evident when firms are compared by industry. Owners in homebased retail and finance, insurance and real estate (FIRE) want supplementary, but not primary income. Unique among industries, 31 percent of firms in the retail trades use a home business to test new ideas. Over one half of FIRE firms with employees are started to gain independence (51 percent) although about 10 percent want to handle family responsibilities. HBB owners most concerned with family needs tend to open service businesses.

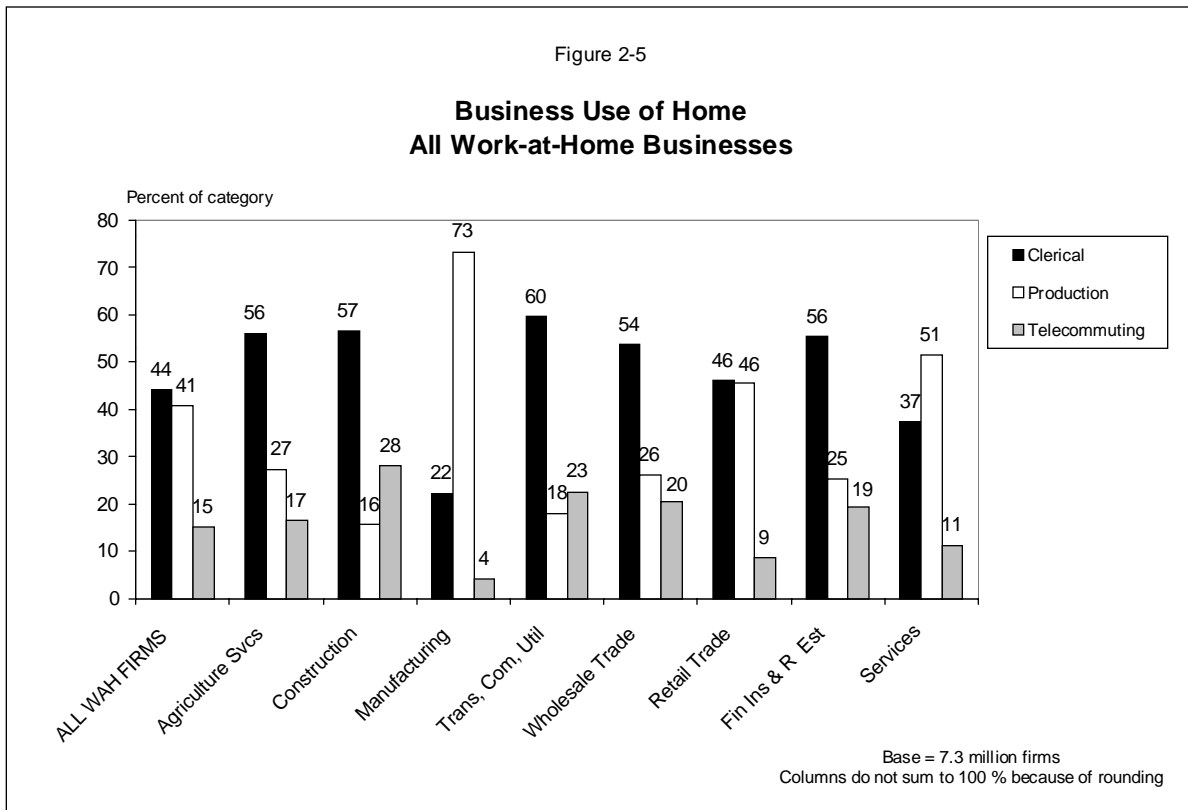
Businesses located outside the home differ from homebased firms. In three industries—agricultural services, construction and FIRE—earning a second income is not a consideration. The fact that the majority of non-HBBs, but only homebased firms in three industries mentioned family responsibilities, suggests that non-HBB respondents were thinking about their financial contribution to the family whereas HBB owners may have meant direct care-giving in their responses to the survey question.

- **The primary business use of the home varies by industry**

Although overall, tasks are about evenly divided between clerical and production work in the home, that is, 44 to 41 percent, the nature of the business determines the tasks that can be carried out in a residence (Figure 2-5). The relative amount of clerical work is highest in transportation, communications and utilities, FIRE, construction, agricultural services and wholesale trade. While the amount of production of goods and services is under 30 percent in most industries, it accounts for 73 percent of the business use of homes in manufacturing, 51 percent in services and 46 percent in retail trade.

Fifty-seven percent of all tasks in the construction industry are clerical, which highlights the fact that the home is indeed a *base* for businesses in some industries, not the location where goods and services are produced. Obviously builders do most of their work at construction sites. Overhead paper work such as preparation of bids and invoices can be done at a home office desk but the bulk of the work cannot.

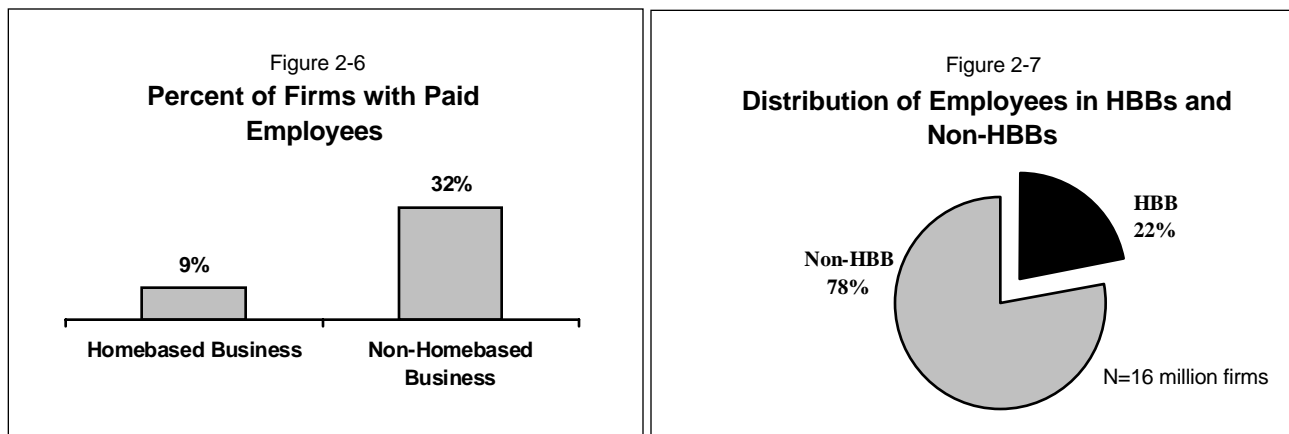
The percent of employees who telecommute varies somewhat across industries. Business owners with outside employment doing office work at home are found in all industries, but the amount of telecommuting, compared with clerical and production work in the home, is minimal in manufacturing (4 percent) and retail trade (9 percent). Construction, with 28 percent, has the highest proportion of telecommuters.



Do Homebased Businesses Hire Employees?

- Compared with firms located outside the dwelling, fewer homebased businesses have employees

Only nine percent of homebased businesses hire employees (Figure 2-6). But more surprising, only 32 percent of non-HBBs have paid staff; more than two-thirds do not. Even so, HBBs are an important source of jobs as Figure 2-7 reveals. Over three fourths of all small business employees have jobs in non-HBBs; however, 22 percent are employed by homebased businesses.

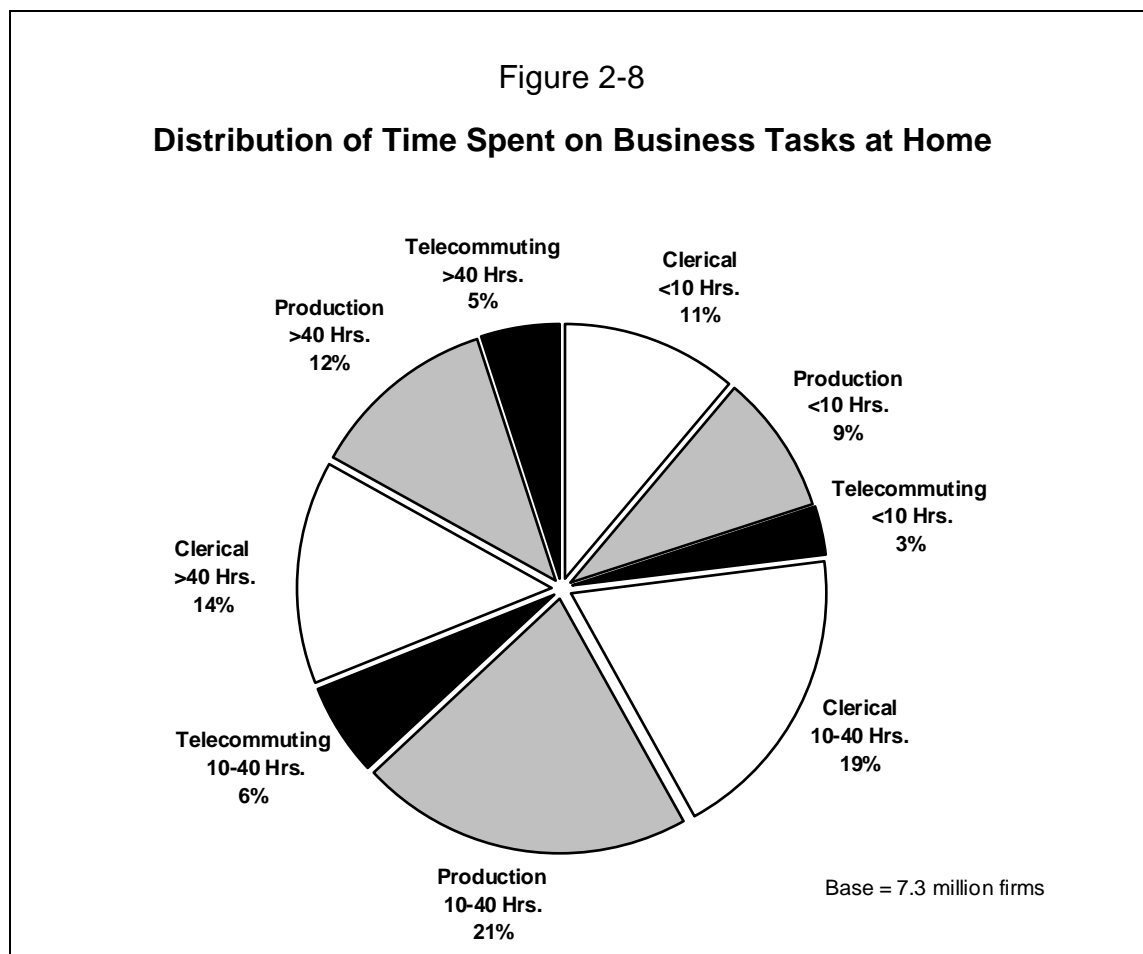


How Much Time do Owners Spend at Home?

- About 40 percent of business time at home is spent in 10 to 40 hours of production or clerical work

Thirty-one percent of homebased business owners work a full week, that is, 40 hours or more in their business. Over half, 53 percent, work 48 or more weeks during the year. Looking at 100 percent of time spent working at home as shown in Figure 2-8, the tasks performed add up to 44 percent clerical, 42 percent production and 14 percent telecommuting. Business operators who work fewer than 10 hours per week at home do clerical work (11 percent) or production (9 percent). Full-time work at home is divided between clerical work (14 percent) and production (12 percent) and a small amount of telecommuting (5 percent).

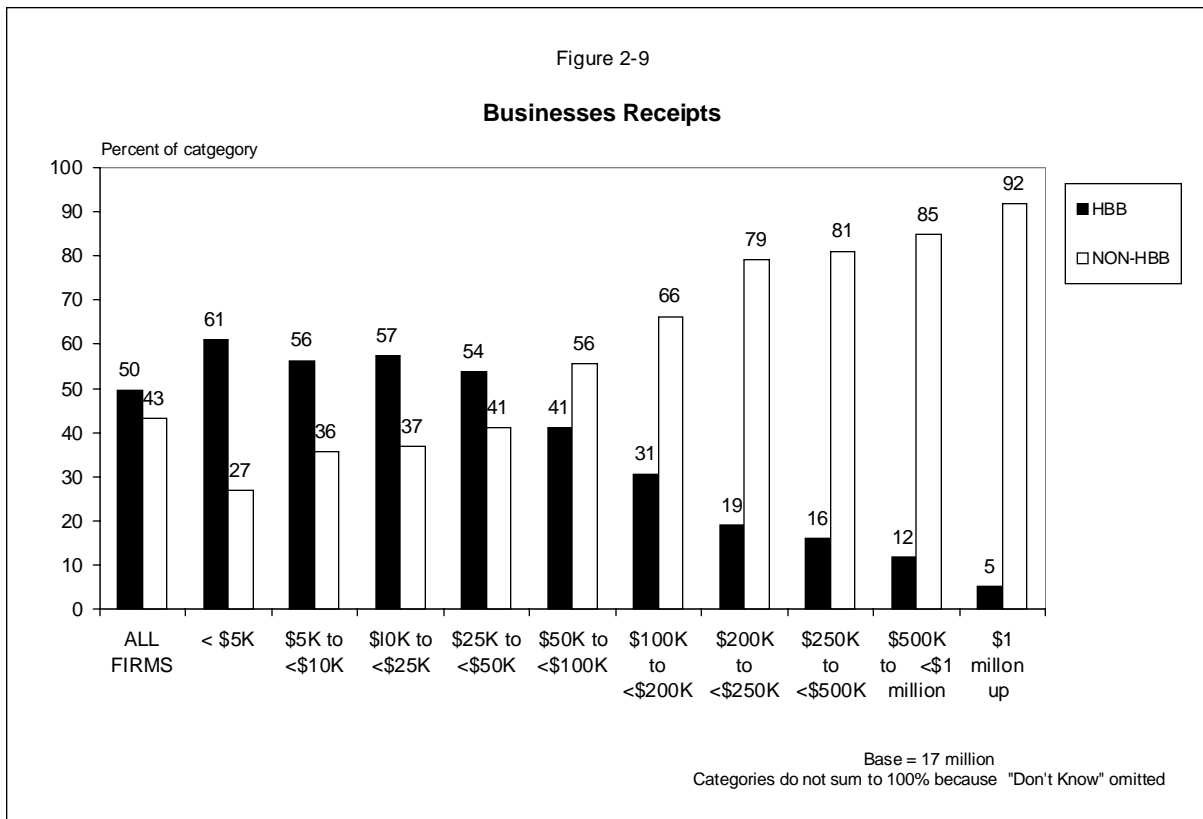
Telecommuting time for businesses with locations outside the home is approximately balanced between less than 10 hours per week (3 percent) and full time work at home (5 percent), with most telecommuting ranging from 10-40 hours (6 percent).



Are Homebased Businesses Viable Economic Ventures or Marginal Activities?

- Five percent of businesses with over \$1 million in receipts are homebased but the majority of firms grossing over \$50,000 are located outside the home

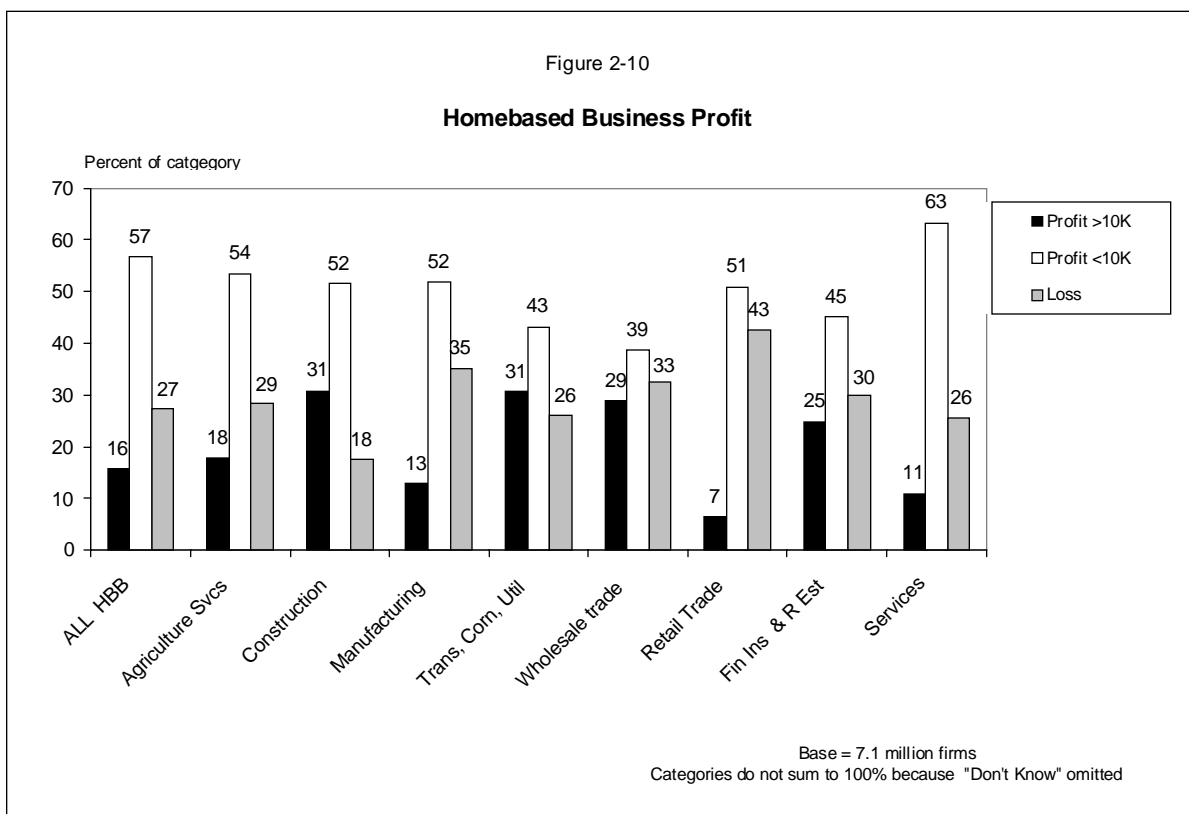
Sixty-one percent of businesses earning less than \$5,000 are homebased. The dominance of non-HBBs in each receipts' category increases with the rise in gross receipts while HBBs cluster in the lower gross income levels. Only in the \$25K to \$100K levels do HBBs approach equivalency with non-HBBs as judged by gross receipts.



- **Homebased businesses in the construction, transportation, communications and utilities, and wholesale trade industries are most likely to earn the highest profit**

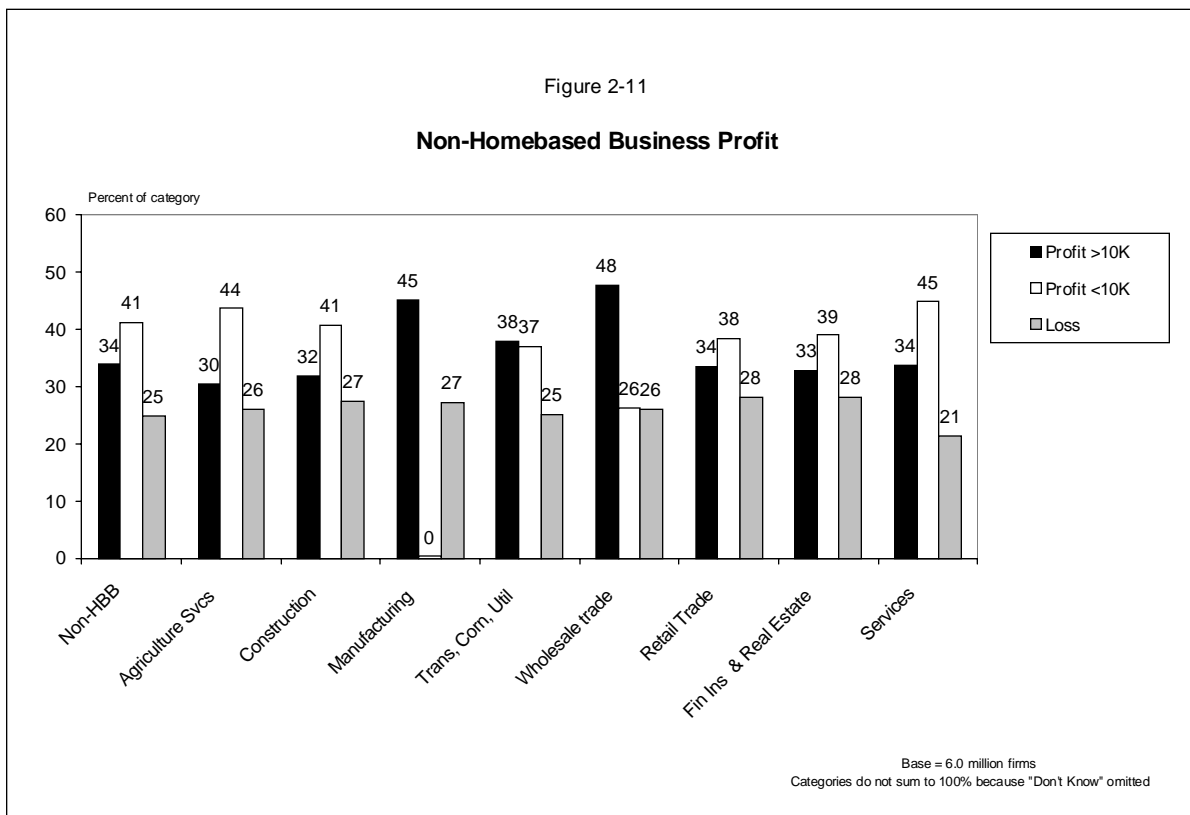
Across all HBBs, the majority, 57 percent, earns profits of less than \$10,000. Close to one-third of construction and transportation, communications and utilities firms earn over \$10K. However, a high proportion of those in the retail trade suffer losses—43 percent of HBBs, which is nearly twice as high as the average for all homebased firms. Only 7 percent of retail HBBs earn more than \$10K.

Average profits or losses across industries can be misleading. Although 63 percent of HBBs in the services industry earn less than \$10K, the types of firms range from low earning child care businesses to well paid management consulting practices.



- **Businesses located outside the home earn more than homebased firms. Wholesale trade (48 percent) and manufacturing (45 percent) are the most likely to be highly profitable non-homebased businesses. In retail trade and FIRE, 28 percent or more non-HBBs suffer losses.**

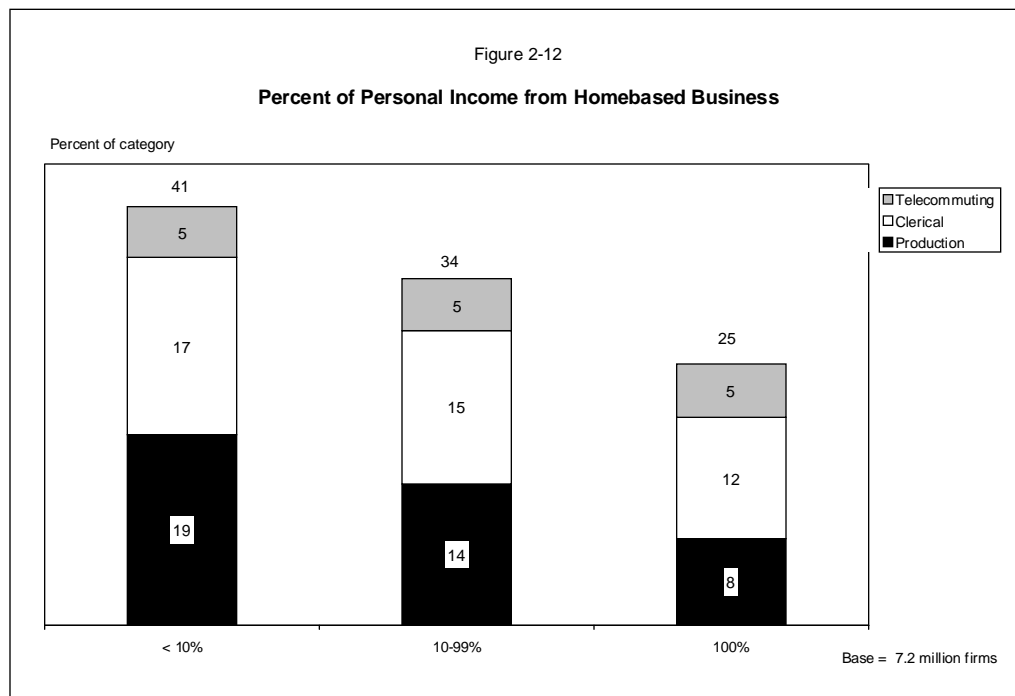
Compared with HBBs, more businesses located outside the home were profitable and fewer showed a loss. For example, 48 percent of non-WAH firms in wholesale trade had profits greater than \$10,000 compared to 29 percent of HBBs. In the aggregate, losses were only two percent more prevalent in HBBs than in non-HBBs (27 percent compared to 25 percent). However, in some industries such as retail, although 28 percent of non-WAH firms in retail lost money, substantially more, 43 percent of homebased firms, showed a loss.



Contribution to Family Income

- **One-fourth of all HBBs contribute 100 percent of their owners' total personal income**

As shown in Figure 2-12, 41 percent of firms provide less than 10 percent of total personal income (excluding income from spouse or other family members) and 34 percent contribute 10 - 99 percent. Those who do primarily clerical work in their homes derive 61 percent of income from their HBBs if they have paid employees but only 11 percent if they do not.



Is a Homebased Business an Opportunity for Success or a Trap Leading to Failure?

At first glance, in the small business universe of sole proprietorships, partnerships and S corporations, the striking difference between homebased and non-homebased businesses is that more non-HBBs want to earn primary, rather than secondary income, more hire employees and they are more profitable. However, some HBBs also are profitable ventures. To address the question of the relative viability of the home as a place to conduct a business, the balance of this report examines in depth the traits of business owners – women, nonminority men, blacks, Hispanics and other minorities – and their firms – homebased compared with non-homebased – across many variables.

CHAPTER 3

OWNER CHARACTERISTICS

Chapter Highlights

- No single demographic characteristic uniquely defines homebased owners

Is the choice of a homebased business rather than a more traditional non-residential location a function of the owner's characteristics such as gender, age, marital status, veteran status, citizenship, education, and/or prior business and work experience? No, generally not, although some preferences are apparent among ethnic groups and across industries.

A striking generalization that does hold true is that entrepreneurs want to earn money and be their own boss. As was described in Chapter 2, more homebased operators want to earn a secondary income, while non-homebased owners are in business to earn their primary income. Other than that different emphasis, no single demographic characteristic uniquely defines homebased owners. As shown in Table 3-1, most differences are small or statistically insignificant: compared with non-homebased owners, slightly more homebased business operators are women, married, have a college degree, but not a doctorate or professional degree, U. S. – born and, on average, they are a year younger than those operating a non-homebased firm.

Table 3-1 Business Owner Profiles

Owner Characteristic Percent of firms in category	Homebased Businesses	Non-homebased Businesses
Male	63.7%	70.0% *
Married	76.0%	72.2% *
Age	Mean 45.6 years	Mean 46.8 years
Military veteran	7.7%	7.1%
Disabled military veteran	2%	2%
Born in USA.	92.1%	89.0% *
High school level education	25.8%	25.4%
College degree	21.4%	15.6% *
Professional or Ph.D. degree	5.7%	12.2% *
Majored in business	25.0%	25.8%
Family business experience	49.7%	50.3%
Previous employment by relative	19.7%	20.4%
10-19 years prior management experience	9.9%	10.9%
2-5 years prior ownership experience	5.0%	5.7%

* Difference is significant with 90 percent certainty.

There is no significant difference between homebased and non-homebased owners in their military veteran status, high school education, business employment, management and prior ownership experience. They do not differ in having had – or not had – a business in the family, prior experience in a family business or previous management experience. Instead, as will be apparent throughout this chapter, the variations apply to individual groups – women, non-minority men, blacks, Hispanics and other minorities – and specific industries.

Gender

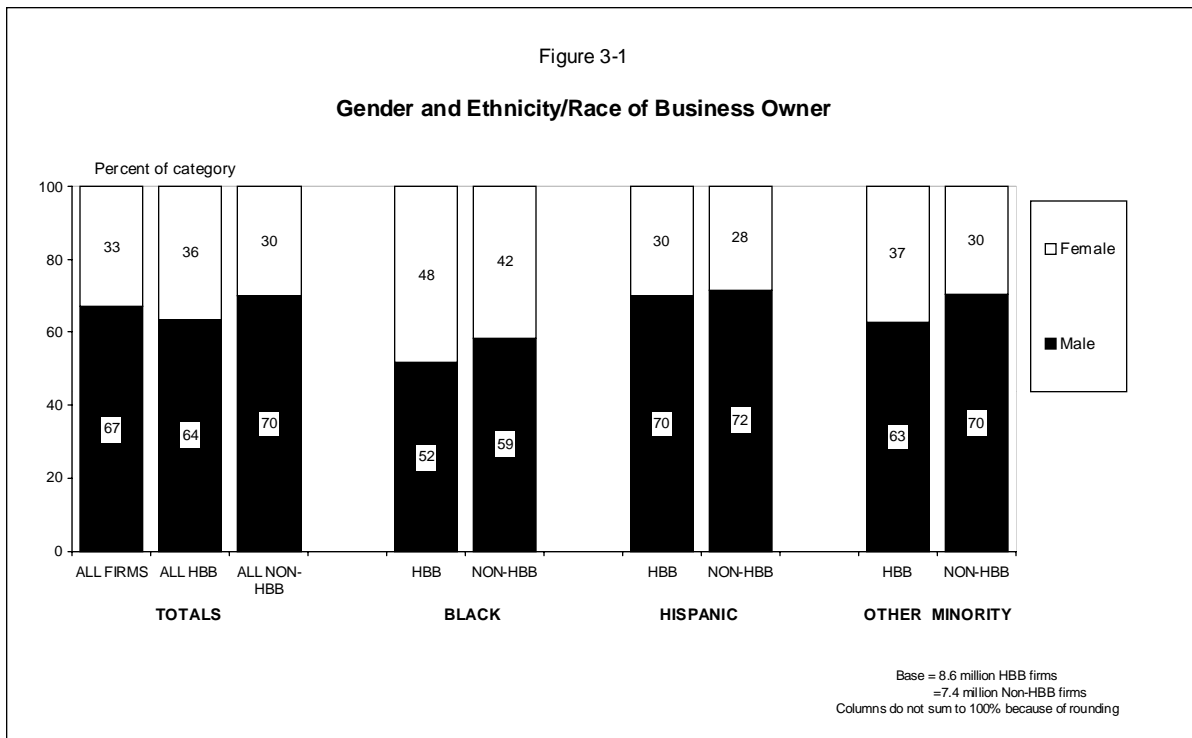
- The majority of both homebased and non-homebased business owners are male

Over two-thirds of small businesses are owned by men (Figure 3-1). However, across all ethnic groups, slightly more women operate their businesses from home, while the opposite is true of men. Black women have the highest percent of HBBs (48 percent). With that exception, the proportion of women entrepreneurs in each group is roughly one-third that of men regardless of business location.

Much larger variations than those exist within each racial group across industries. In retail, black women own 73 percent of homebased enterprises but only 52 percent of non-homebased firms. Women also predominate in black-owned homebased service firms (55 percent). Across industries, not surprisingly, black women operate only 21 percent of homebased agricultural services. They own 10 percent of black HBB and non-HBB construction firms and 18 percent of transportation, communications and utilities.

Figure 3-1 also highlights the low participation rate of Hispanic women as business owners compared with their male counterparts. Unlike the other ethnic groups, even in the homebased retail trades, men outnumber women 52 to 48 percent.

Other minority women, primarily Asians, outnumber male owners in homebased retail (56 percent) and show higher relative percentages in homebased manufacturing (46 percent) than black (42 percent) or Hispanic (32 percent) women.

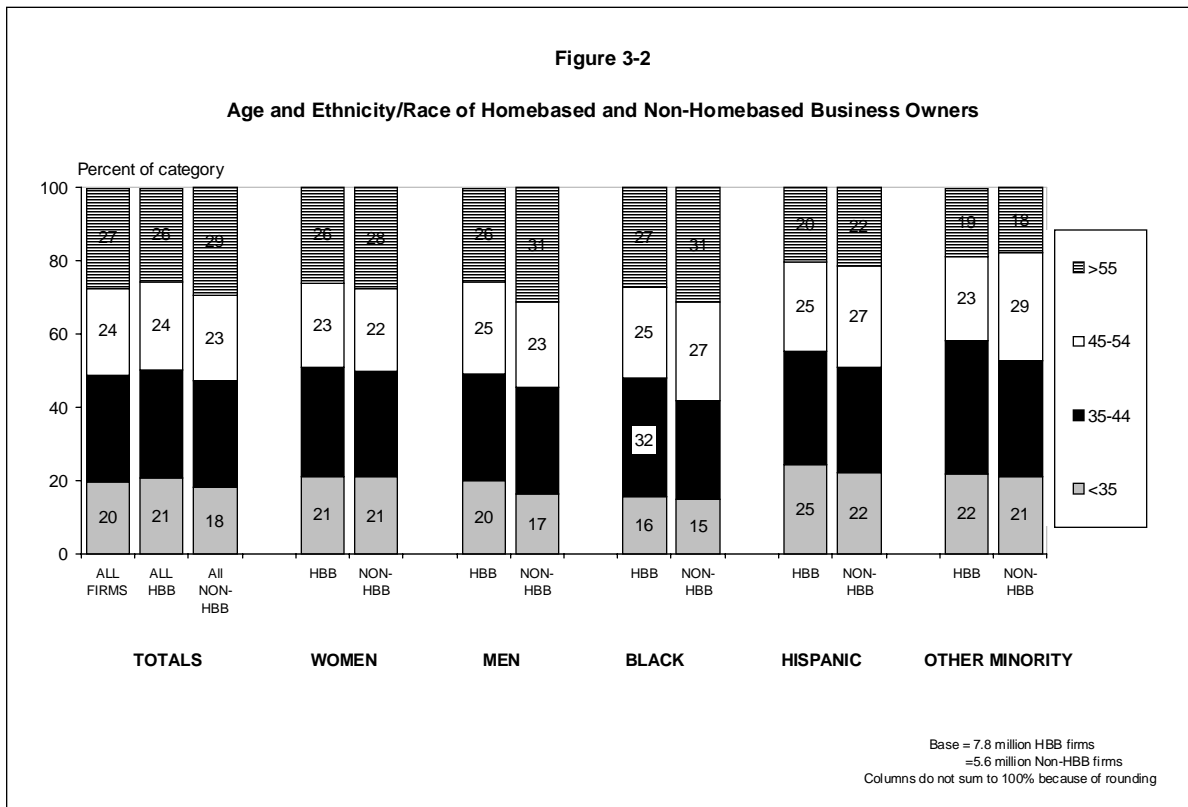


Age

- The age of homebased and non-homebased business owners is about the same for men and women

The age distributions of men and women appear to have little influence on the choice of business location. Even in the childbearing years, neither women nor men choose a homebased business in preference to an outside location in order to meet family needs. Across both genders and all ethnic groups, HBB and non-HBB male and female business owners range in age from under 25 to over 65, but the largest segments are in the 35 to 44 age group, followed closely by those who are 45 to 54 (Figure 3-2). Less than one-fifth are in their late 20s or early 30s and very few are younger than 25. About one-fifth of other minority or Hispanic firms and one-fourth or more of black-, nonminority male- or women-owned firms are operated by pre-retirees ages 55 to 64 and retirees older than 65.

Although there is little indication of age-related choice of business location, some age groups are concentrated in specific industries. The highest concentration of women-owned firms, 41 percent, is in non-homebased wholesale trade. Owners range in age from 45 to 54. There are no young women business owners below 35 years who operate retail, finance, insurance and real estate (FIRE) firms from home. Women retirees own only homebased FIRE (21 percent), wholesale (14 percent) and agriculture (9 percent) businesses but own both HBB and non-HBB retail and service firms.



In manufacturing businesses located outside the home, most male owners are 35 to 44 years old (44 percent). Twenty-four percent of homebased-manufacturing firms are owned by males 35-44. Retired men operate firms in the same industries as retired women.

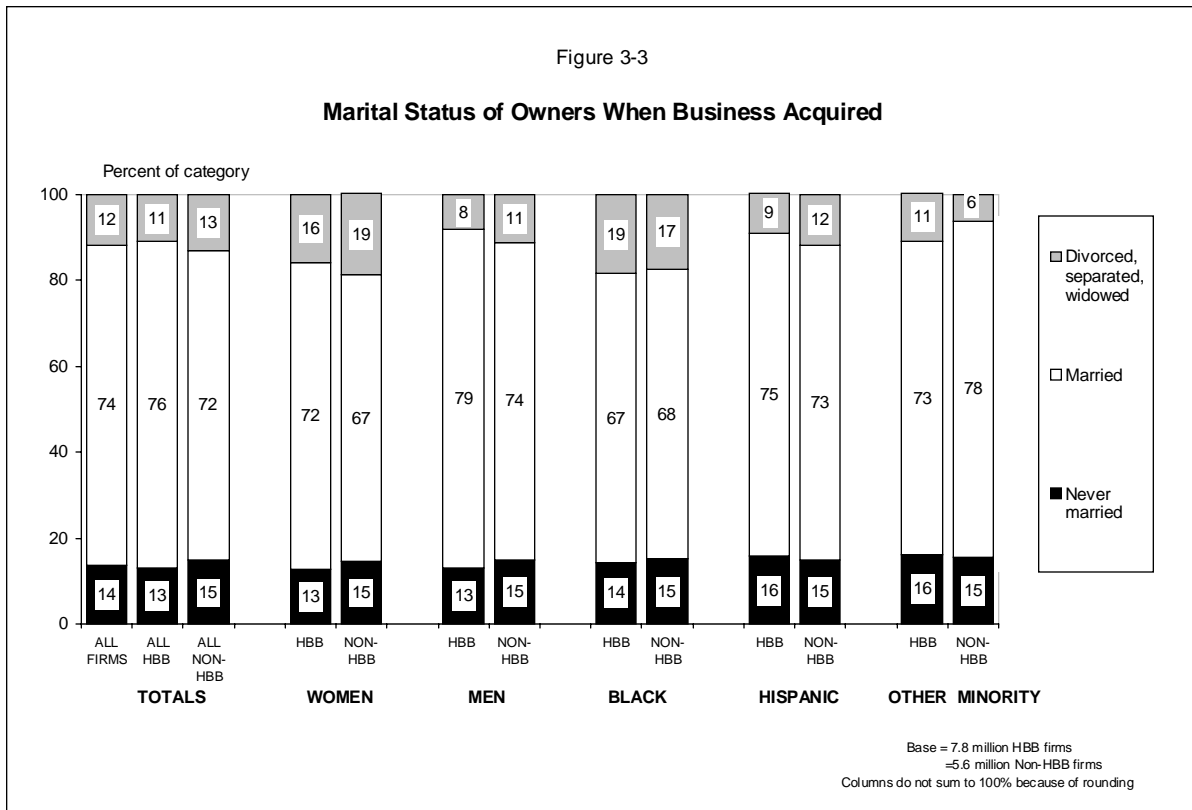
By ethnic group, most homebased retail owners range in age from 35 to 40, whether they are black (38 percent), Hispanic (42 percent) or other minorities (40 percent). The largest concentration of owners 35 to 40, 47 percent, consists of other minority owners in homebased transportation, communications and utilities firms.

Marital Status

- More women than male business owners are separated, divorced or widowed

Roughly three-fourths of entrepreneurs are married with little or no difference between owners of homebased and non-homebased firms. Slightly more black- and women-owned firms than average for all firms, are operated by individuals who are divorced, separated or widowed (16-19 percent) (Figure 3-3). Those women are concentrated in services (14 percent), retail (8 percent), agriculture (14 percent), FIRE (9 percent) and wholesale (9 percent) businesses. There are too few to tabulate in construction, manufacturing or TCU.

The majority of male business owners also are married. Only 13 percent of HBB and 15 percent of non-HBB owners are single men, a distribution that holds with only minor variations across industries. Even fewer male than female business owners are divorced, separated or widowed.



- **Blacks and other minorities, but not Hispanics, who are separated, divorced or widowed own businesses**

Compared across industries, black and other minority business owners have more divorced, separated or widowed women owning homebased wholesale firms (24 percent for either group) and homebased and non-homebased retail businesses (18 percent). They also own 18 percent of non-HBB service businesses. One-fourth or more of other minorities working in agricultural services such as landscaping firms have never been married.

Most Hispanic owners are married with few exceptions. About one-fifth of non-HBBs are owned by singles in agricultural services and TCU. The singles are not found to the same extent in other industries.

U. S. Birthplace

- The majority of other minority business owners and about one-half of Hispanics was not born in the USA.

Considering all businesses, 92 percent of HBB and 89 percent of non-HBB owners were born in the United States (Figure 3-4). As expected, the exceptions are Hispanic and other minority firms. While the percentages of both HBB- and non-HBB-Hispanic firms with owners born in the USA are close (53 percent to 47 percent), there is a striking difference in other minority firms. Only 37 percent of HBBs and 18 percent of non-HBBs are owned by individuals born in the U. S. suggesting that business ownership offers immigrants a pathway to participate in the U. S. economy.

Very high percentages of other minority non-homebased business owners are foreign-born, as shown in Figure 3-5. Participation of other minorities by industry ranges from a high of 75 percent non-citizens in manufacturing, to a low of 29 percent in agricultural services. Hispanics not born in the U. S. are more evenly distributed, both between homebased and non-homebased businesses, and across all industries. The greatest concentrations of foreign born Hispanics are in non-HBB agricultural services (68 percent) and transportation, communications and utilities (67 percent).

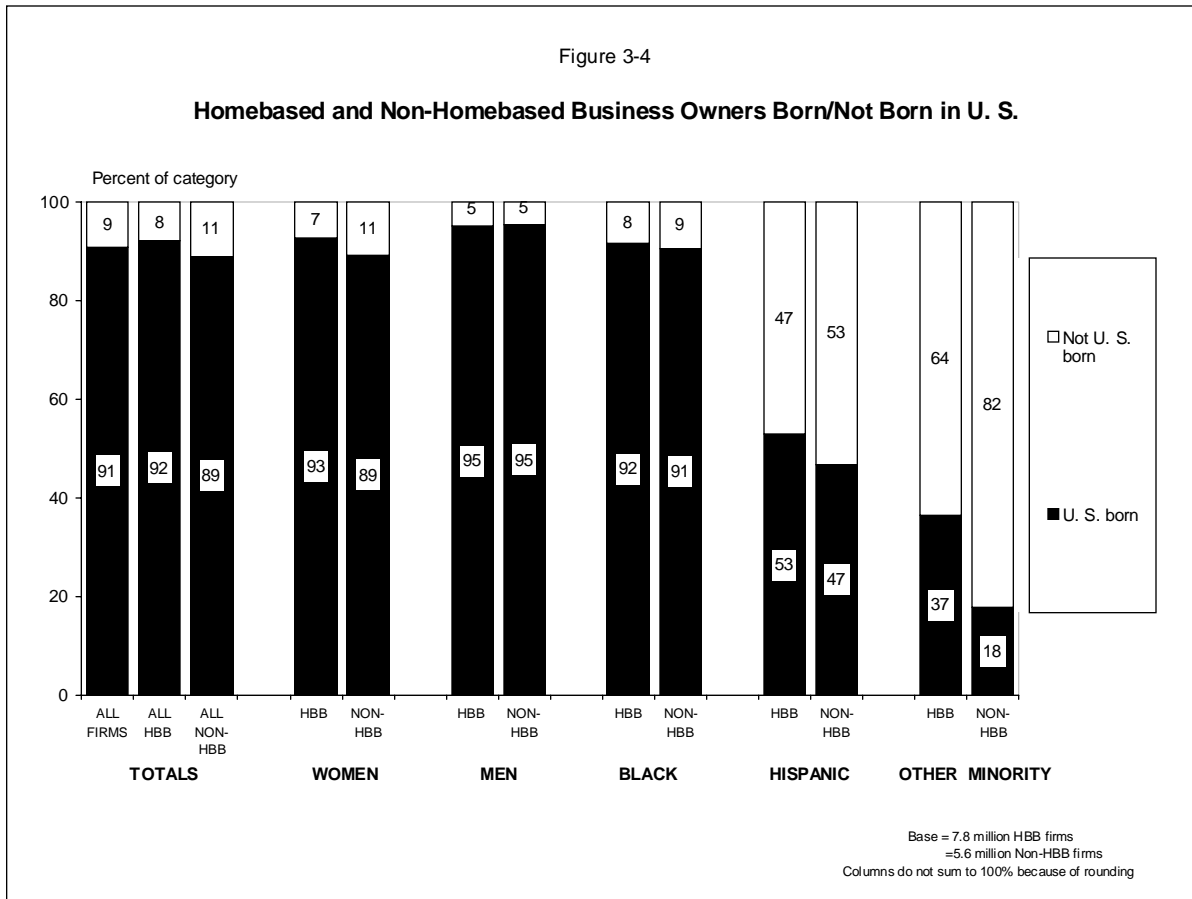
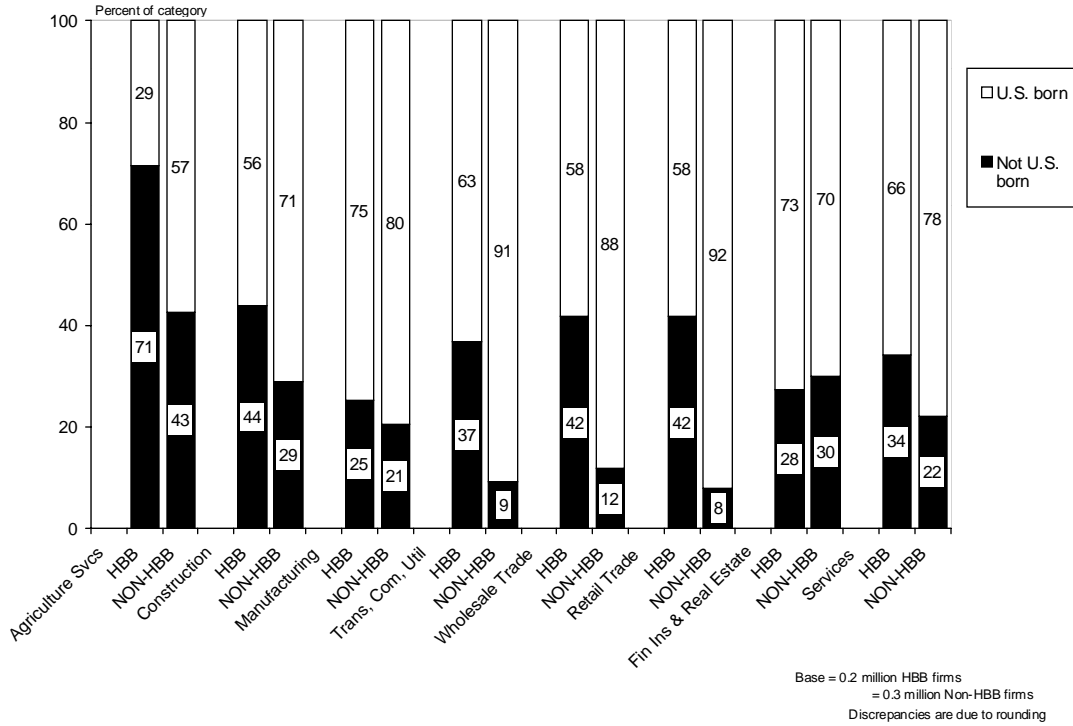


Figure 3-5

Homebased and Non-Homebased Other Minority Business Owners Born/Not Born in U.S. by Industry

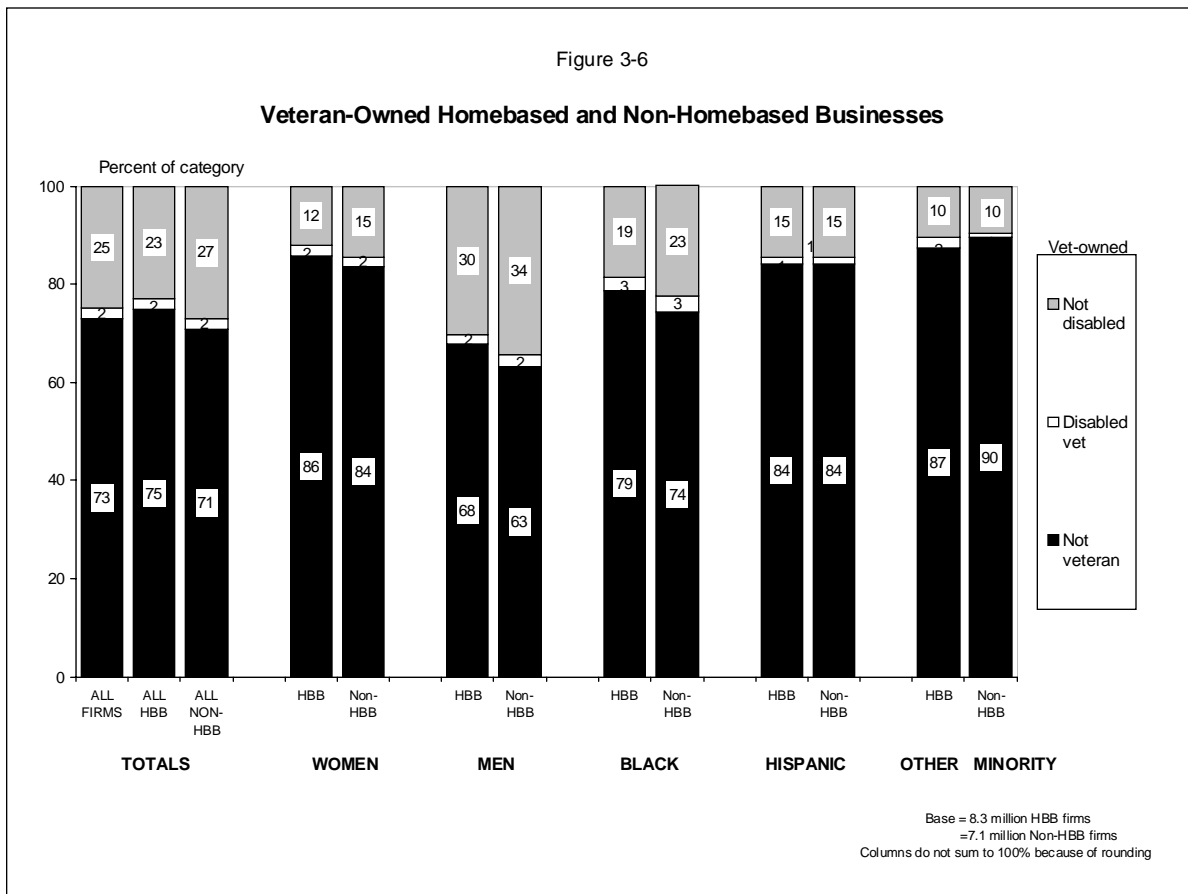


Veteran-Owned Businesses

- Higher percentages of veterans own businesses in financial, insurance and real estate—where earnings are highest—and in construction than in other industries

As Figure 3-6 shows, overall military veteran entrepreneurs, including those who are disabled, do not strongly favor either a homebased (25 percent) or a non-homebased business (29 percent). That holds for nonminority men who are 32 percent homebased and 36 percent non-homebased, as well as for black- and Hispanic-owned firms. FIRE and construction, for example, have up to 40 percent veteran owners either home or non-homebased.

Disabled vets do not opt for HBB over non-HBB ownership. Disabled veterans operate two percent of all HBBs and also of all non-HBBs.

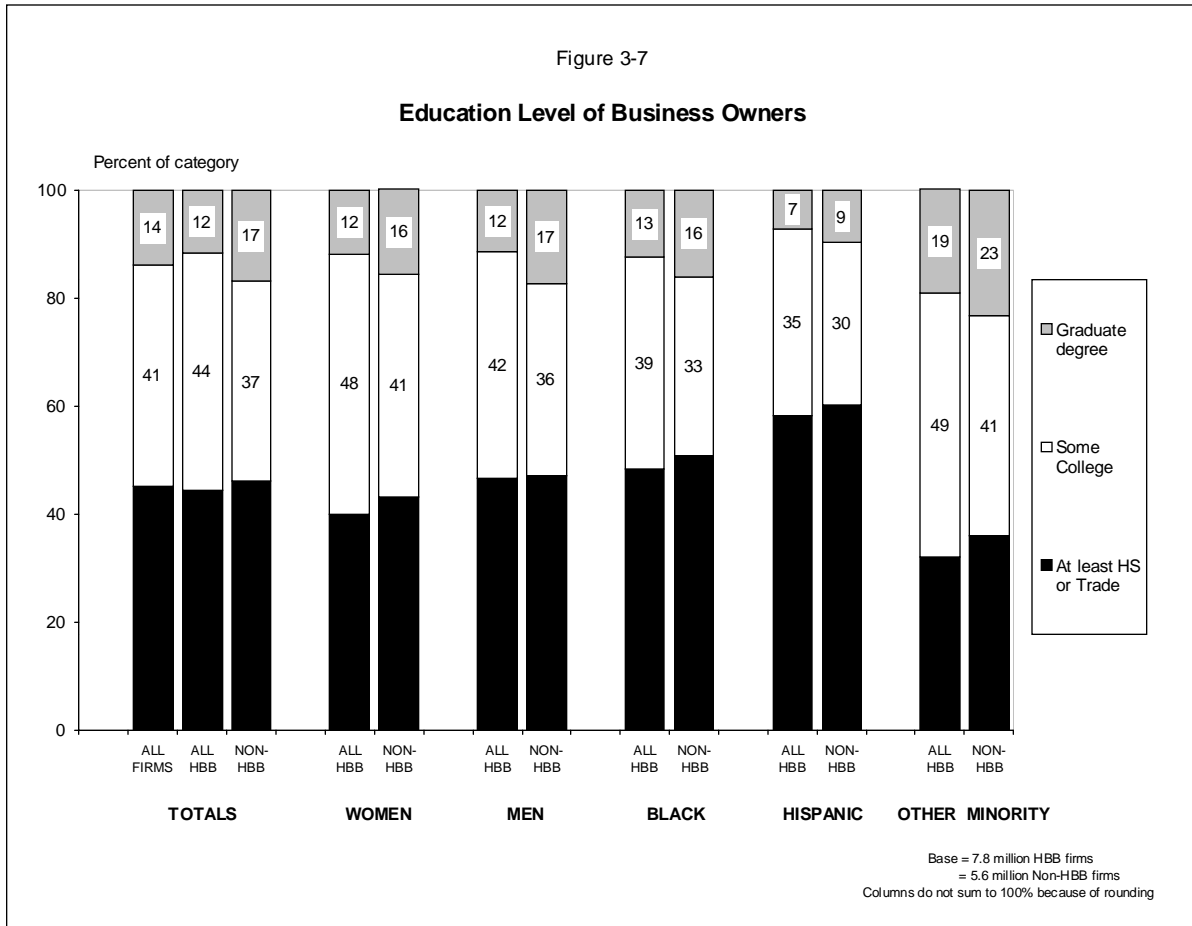


Education

- **Homebased and non-homebased business owners have equivalent education**

Forty-five to 46 percent of homebased and non-homebased business firms have owners with at least a high school or trade school education (Figure 3-7). Of those, about one fourth have a high school diploma or GED and only 4 to 5 percent have less than a grade school education. But there is a difference in the numbers with graduate degrees. More owners of non-HBBs than of HBBs have earned advanced degrees, 17 versus 12 percent, rather than stopping with a college degree (37 versus 44 percent).

The same pattern holds for HBB compared with non-HBB firms owned by women, men, blacks, Hispanics and other minorities. However, there are great differences in levels of education across minority business groups. Nineteen percent of Hispanics, but only about 6 percent of black or other minority business owners, have not completed the ninth grade. Other minorities, most of whom are Asian, have the highest educational attainment: the owners of 19 percent of HBBs and 23 percent of non-HBBs have master's, doctoral or professional degrees. Only about one third have just a high school education.



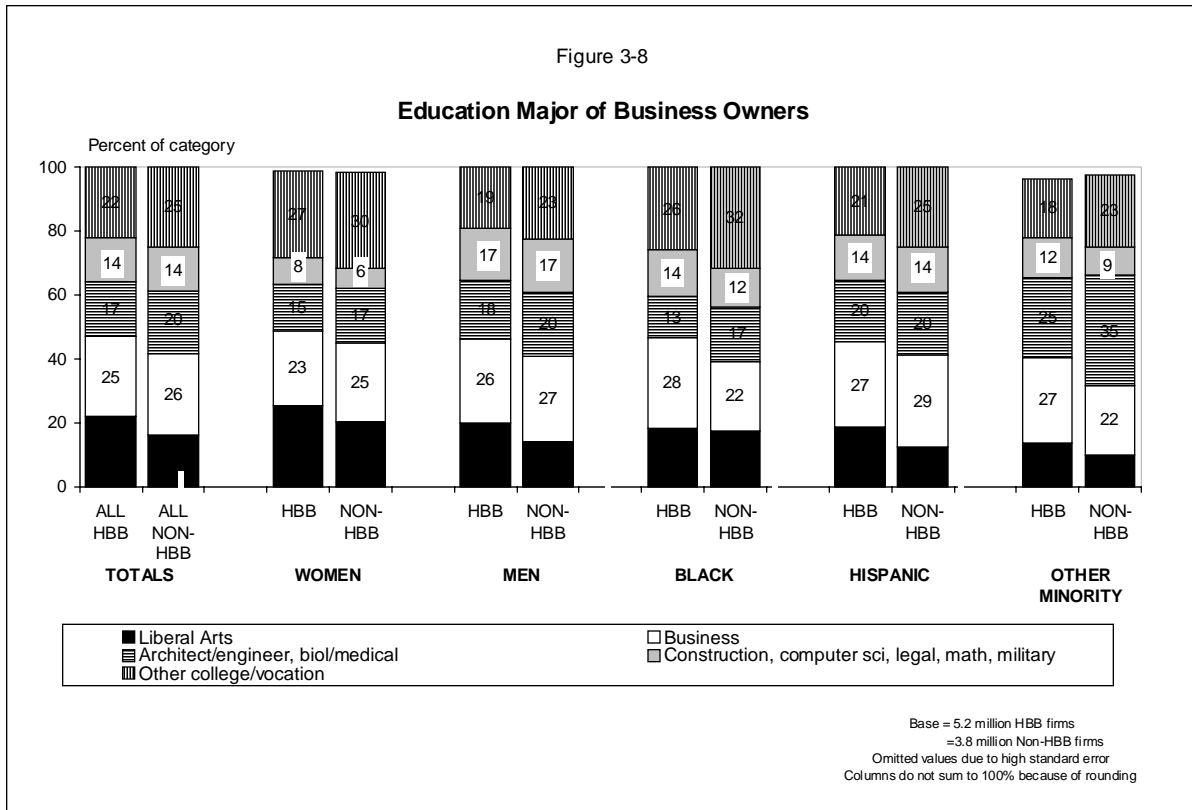
Comparing educational levels in the various industries, the largest proportion of owners in homebased or non-homebased agricultural services, construction, transportation, communications and utilities and retail trade, are high school graduates. One-fourth to one-third of firms in wholesale trade, retail trade and FIRE have owners with some college or a bachelor's degree. The services industry has concentrations of business owners at the two educational extremes, which reflects the range of firms included in that Standard Industrial Classification (SIC): over one-fourth of owners in non-HBB services and 18 percent of HBB owners have a graduate degree; about 10 percent have a grade school education; and 20 percent high school. Their businesses range, on the one extreme, from at-home professional occupations such as architecture that require academic degrees, to blue-collar businesses such as cleaning services and pest control, on the other, that do not.

Education Major

- About one-quarter of all business owners were business majors in school

As seen in Figure 3-8, homebased business owners also differ very little from non-homebased owners in their academic major. Most choose business or liberal arts. Asians (other minority owners) have the greatest proportion of professional degrees such as architecture, engineering, biological or medical (25 percent HBB and 35 percent non-HBB). Not surprisingly, more male than female firms are operated by construction or computer science majors; more women business owners majored in liberal arts or had some other college or vocation as their concentration.

As expected, construction majors operate construction firms; business majors predominate in wholesale trade and FIRE. They operate both homebased and non-homebased firms. One fifth of non-HBB service industry firms are owned by biology or medical majors, the education needed for the practice of medicine or dentistry. Ten percent, or half that of non-homebased firms, practice from their homes. Ten percent of homebased firms in the service industry are architects or engineers. They are examples of the at-home professionals who do not necessarily describe themselves as conducting a business.



Prior Business and Work Experience

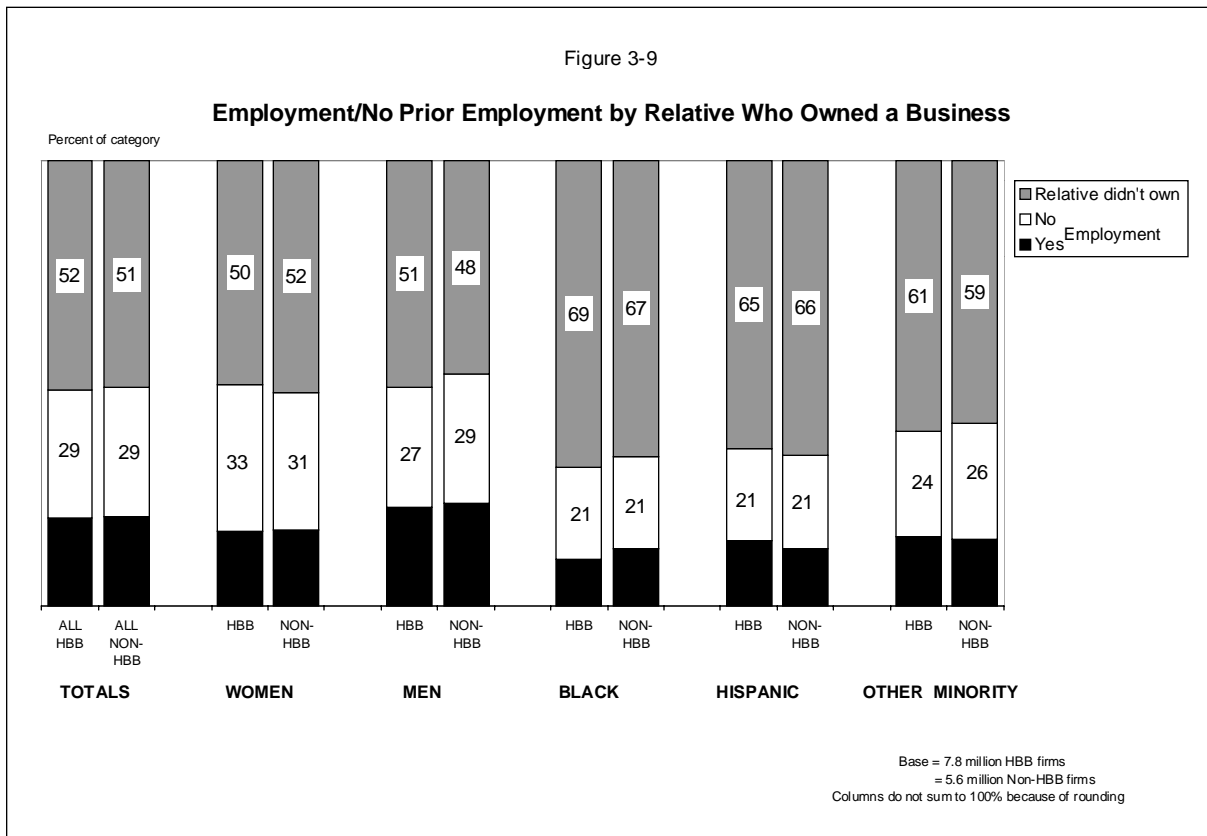
- Fewer blacks, Hispanics and other minority business owners than women or non-minority men had business role models or prior experience working for a relative

Family Business Experience

About one-half of women owned- and male-owned businesses had a close relative who owned a business (Figure 3-9). But only 32 to 41 percent of black, Hispanic and other minority firms were headed by individuals who had relatives who could serve as business role models or give support for their own firms.

Even fewer persons had been previously employed by a relative. Figure 3-9 also shows that, on average, the owners of one-fifth of all homebased or non-homebased businesses had worked for a relative. More of nonminority male-owned homebased or non-homebased business owners had work experience. Blacks reported the least experience (11 percent of HBBs, 13 percent of non-HBBs.) Seventeen percent of women-owned firms had owners with prior family employment.

A similar pattern extends across industries. The highest previous employment was in HBB construction (33 percent) and the least in HBB services (15 percent).



Management and Ownership Experience

Management Experience

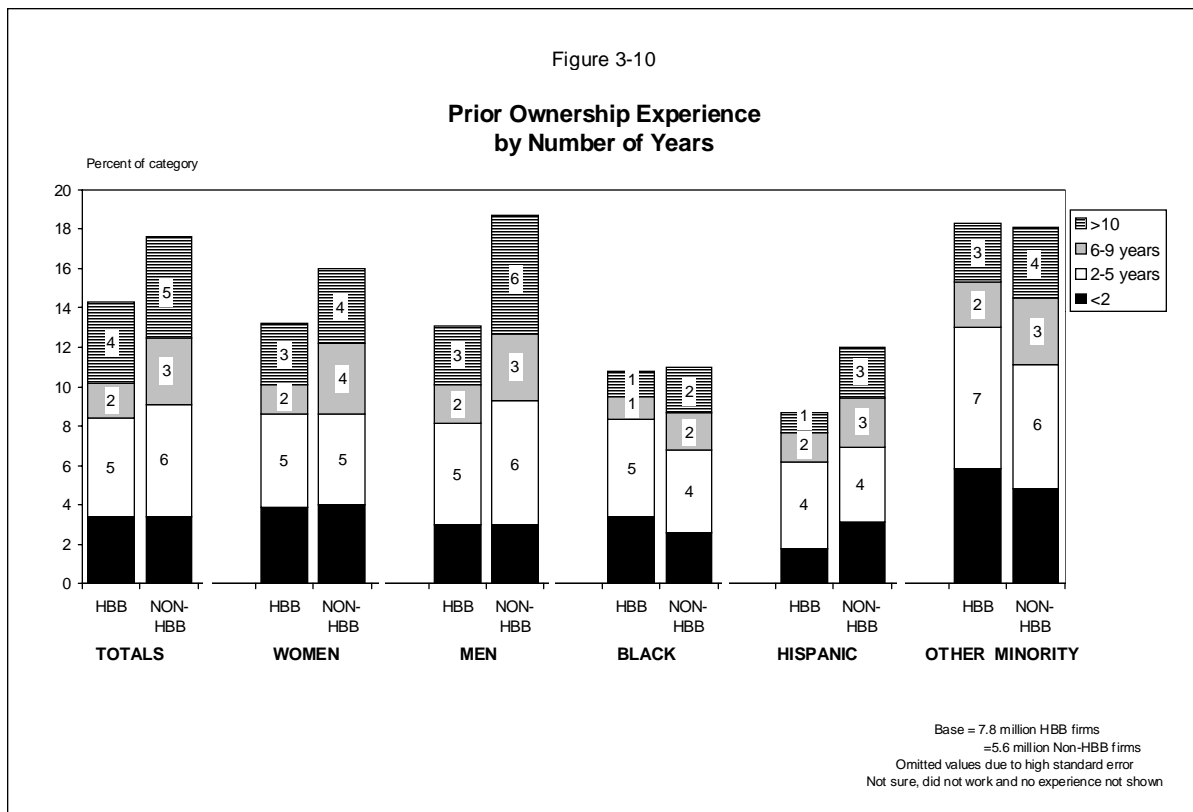
Operators of the majority of either homebased or non-homebased small businesses had no prior experience in managing a business. Nonminority male-owned firms had the most experience: 15 percent of firms had owners with 2-5 years and 7-8 percent, more than 20 years. Roughly 10 percent of all firms were managed by persons with less than 2 years of prior management experience.

Within industries there is much more variation in owners bringing prior management skills to their own firms. Owners of 19 percent of HBB finance, insurance, real estate industry firms had more than 20 years experience, suggesting they are pre-retirees or officially retired. The owners of only 9 percent of non-homebased FIRE companies had equivalent prior experience. The least experienced individuals own non-HBB transportation, communications and utilities companies.

Prior Business Ownership

Compared with management experience, even fewer entrepreneurs had prior experience in owning a business. Although more owners of non-homebased MOBs had ownership experience than any other group, only 6 percent had over 10 years' experience (Figure 3-10). Although there are only minor, if any, differences between homebased and non-homebased firms, owners of 2 percent of non-HBBs had 20 or more years of experience; HBB owners had none. Except for black and other minority firms, more non-HBB than HBB owners had some prior ownership of a business.

Across industries, owners of non-homebased firms in TCU and homebased and non-homebased wholesale trade and FIRE have the most previous ownership experience; construction has the least.



CHAPTER 4

BUSINESS CHARACTERISTICS

Chapter Highlights

Although business owner profiles are quite similar, their business characteristics differ markedly according to whether they are operated from home or from more traditional locations. Thus, as Table 4-1 shows, more homebased firms are sole proprietorships founded by their owner; more non-HBBs require capital, borrow in larger amounts and hire paid employees. Non-HBB owners work longer hours. Homebased and non-homebased businesses are similar in that very few are franchises, owners depend on their personal savings to capitalize their businesses and they sell their products and services to both local and export markets. Although five percent of all firms grossing \$1 million or more are HBBs—demonstrating that they have the capability to be as profitable as non-HBBs—the great majority earn less. The cross-over point is at about \$50,000 in gross receipts: with rising earnings above that figure, the firms are increasingly non-homebased; with each drop below \$50,000, relatively more are homebased.

Homebased firms are found in every industry. Nonetheless, HBBs that are as profitable as non-HBBs cluster in industries like construction and transportation, communications and utilities, in which the main work tasks are not performed in the home, rather the home office is used primarily for clerical work.

Table 4-1 Business Profiles

Business Characteristic Percent of firms in category	Homebased Businesses	Non-homebased Businesses
Sole proprietorship	90%	74% *
Franchise	2.1%	4.2% *
Founded by owner	86.5%	72.0% *
Required \$25,000 or more capital	6.7%	25.5% *
Borrowed 50-100% of capital	11.0%	24.8% *
Borrowed capital from personal sources	12.4%	15.4%
Used personal savings	40.5%	41.9%
Has paid employees	9%	32% *
Worked 48+ weeks in business	52.5%	64.8% *
Sell to individuals	66.9%	70.1% *
Market area is city/county	52.9%	55.1%
Export	2.5%	2.6%
Average business receipts	\$37,000	\$353,000*
Profit >\$10,000	16%	34% *
Business contributes 100% to personal income	25%	33%

* Difference is significant with 90 percent certainty.

Choice of Homebased vs. Non-Homebased Business

Distribution by Industry

- **In most industries, more women and nonminority men, compared with other groups, choose homebased versus non-homebased businesses**

Although as shown in *Summary Table: Characteristics of Business Owners Sample* (pp. xix-xx), the distribution of homebased to non-homebased businesses is 52 to 40 percent overall, men, women and each of the three ethnic groups included in the CBO differ somewhat in their choice of business location.¹ Women-owned businesses are 55 percent homebased, 35 percent non-homebased, versus 52 percent and 42 percent for nonminority male-owned firms.

Also, differences are apparent across industries. The majority of agricultural services businesses are homebased except for those owned by the largely Asian, other minority groups. Construction is overwhelmingly a homebased operation for all demographic groups. Most manufacturing firms are homebased, with the exception of those that are Hispanic- or other minority-owned. Transportation, communications and utilities businesses tend to be non-residential for all three ethnic/racial groups. Wholesale trade is conducted from home; retail trade firms are located primarily outside the home, with black-owned firms a minor exception. Finance, insurance and real estate (FIRE) is 69 percent non-homebased. The majority of service industry firms are homebased, except those owned by other minorities.

Business Type

Within the eight industries, which types of businesses are operated from home and which are not? Table 4-2 lists the 2.2 million firms (12.7 percent of 17.3 million total non-C corporations) that started operating in 1992. Although the sample size does not permit breaking out business types in great detail, the 2-digit breakdown within each industry does convey a sense of the business activity being conducted in or from a residence and how it varies from operations conducted in firms located outside the owner's home. For example, the majority of homebased agricultural services are landscape businesses. The construction industry is largely homebased but, while 92 percent of contractors doing residential construction own homebased businesses, only 70 percent of heavy construction firms are homebased.

There are more homebased than non-homebased firms in the wholesale and retail trades with the exception of SIC 55, automotive, and 58, eating and drinking places. All gas stations are non-HBBs, but automotive dealers, whose products include

¹ Homebased and non-homebased businesses do not sum to 100 percent because "don't know" responses are omitted.

sale of motor vehicles, boats and motorcycles, are operated 35 percent as HBBs and 65 percent as non-HBBs.

Although the finance, insurance and real estate industry is 60 percent non-homebased, when taken as a whole, segments of FIRE are homebased. Over one half of insurance agents and three fourths of real estate operators work from home. But somewhat more of real estate agents, 47 to 43 percent, work from commercial, rather than residential offices.

Except for beauty shops and most physicians and dentists offices, the services industry is largely homebased: 69 percent of beauty shops are located outside the home but 85 percent of business services, 84 percent of personal services, and pest control, cleaning, and security businesses are homebased. Also, higher proportions of childcare and management services are homebased.

Table 4-2

Distribution of Homebased and Non-Homebased Businesses within Industry (Firms that Started Operations in 1992)					
SIC Code	Industry Group	Homebased		Non-Homebased	
		Firms (Number) (1,000)	Percent of category	Firms (Number) (1,000)	Percent of category
ALL SICS		1331	63%	778	37%
07 (EX 078)	Agricultural services	10	37%	17	63%
78	Landscape Services	12	63%	7	37%
08, 09	Forestry, Fishing & Hunting	7	78%	2	22%
10, 12, 13, 14	Mining, Oil & Gas	5	56%	4	44%
15 (EX 152)	Construction	14	67%	7	33%
152	General Contractors, Residential	24	92%	2	8%
16,17(EX 175)	Heavy Construction, Non-building	111	70%	48	30%
175	Carpentry	45	66%	23	34%
2X (EX 241)	Manufacturing	11	58%	8	42%
241	Logging	6	60%	4	40%
3X	Rubber, plastics	159	71%	6	29%
4X (EX 42,47)	Transportation, Communications and Utilities	17	65%	9	35%
42	Motor Freight Transportation	29	44%	37	56%
47	Transportation Services	3	17%	15	83%
50	Wholesale Trade Durable Goods	32	84%	6	16%
51	Wholesale Trade Non-Durable Goods	9	53%	8	47%
52, 59	Retail Trade Building Materials, Misc. Retail	147	80%	39	20%
53, 56, 57	General Merchandise Stores, Apparel, Furniture	16	55%	13	45%
54	Food Stores	10	56%	8	44%
55 (EX 554)	Automotive Dealers	6	35%	11	65%
554	Gasoline Service Stations	0	0%	4	100%
58	Eating, Drinking Places	0.3	1%	29	99%
6X(EX 641, 651-3)	Finance, Insurance & Real Estate	10	67%	5	33%
641	Insurance Agents	111	52%	10	48%
651	Real Estate Operators	13	76%	4	24%
653	Real Estate Agents	33	43%	43	47%
70	Services	0.2	29%	0.5	71%
72 (EX 723)	Personal Services	107	84%	21	16%
723	Beauty Shops	17	31%	38	69%
73(EX 734,738)	Business Services	69	85%	12	15%
734	Pest Control, Building Cleaning	43	59%	30	41%
738	Security Services, Bus. Services N.E.C.	37	55%	30	45%

**Distribution of Homebased and Non-Homebased Businesses
within Industry
(Firms that Started Operations in 1992)**

SIC Code	Industry Group	Homebased		Non-Homebased	
		Firms (Number) (1,000)	Percent of category	Firms (Number) (1,000)	Percent of category
75	Auto Repair	20	43%	27	57%
76, 78, 79	Misc. Repair, Motion Pictures, Amusement Services.	59	63%	35	37%
80(EX 801,802)	Health Services	63	75%	21	25%
801	M.D. Offices	0.9	11%	7	89%
802	Dentist Offices	0.09	4%	2	96%
81	Legal Services	10	56%	8	44%
82-4, 89 (EX 835)	Education Services, Social Services, Museums N.E.C.	24	43%	32	57%
835	Child Day Care	708	98%	12	2%
871 (EX 874)	Engineering, Architectural etc. Services	39	63%	23	37%
874	Management Services	85	77%	25	23%

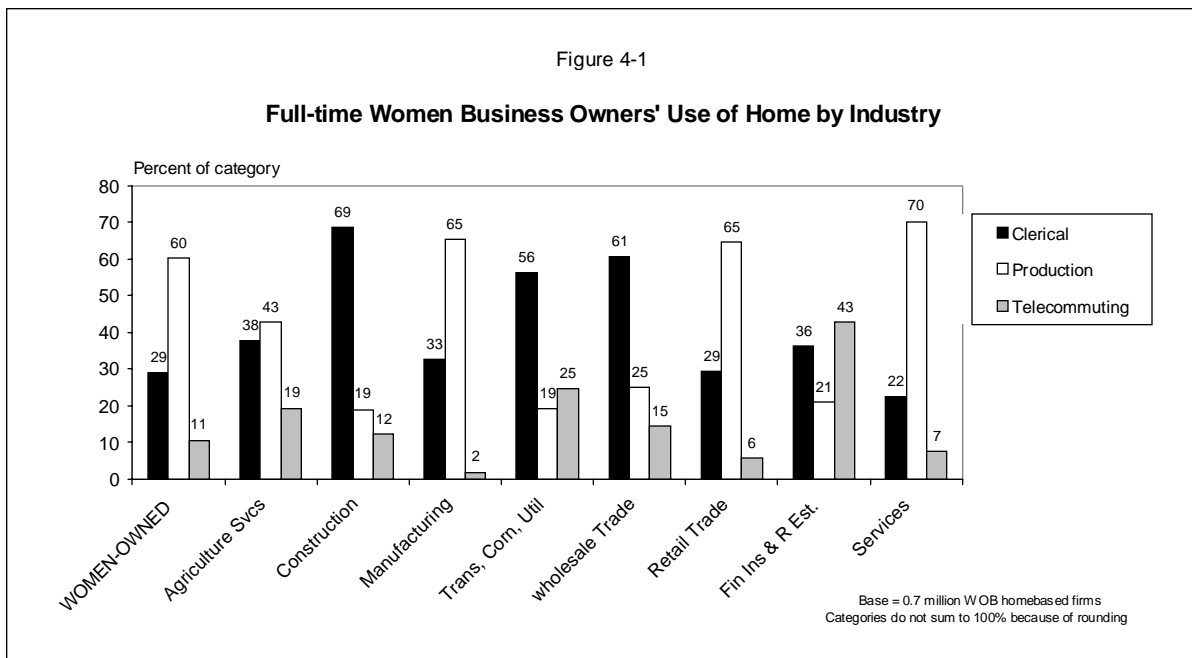
EX except; N.E.C. Not Elsewhere Classified

In general, the CBO sample is too small to identify or break out homebased from non-homebased firms at the four-digit SIC level. However, it is possible to get a sense of the specific businesses that can be carried out from a home. Within the retail industry, for example, SIC 5961, catalog and mail order, and even SIC 5963, direct selling establishments, can be operated from a home. Professional services offered by SIC 8712, architectural services, or 8721, accounting, auditing and bookkeeping services also are well suited to be homebased.

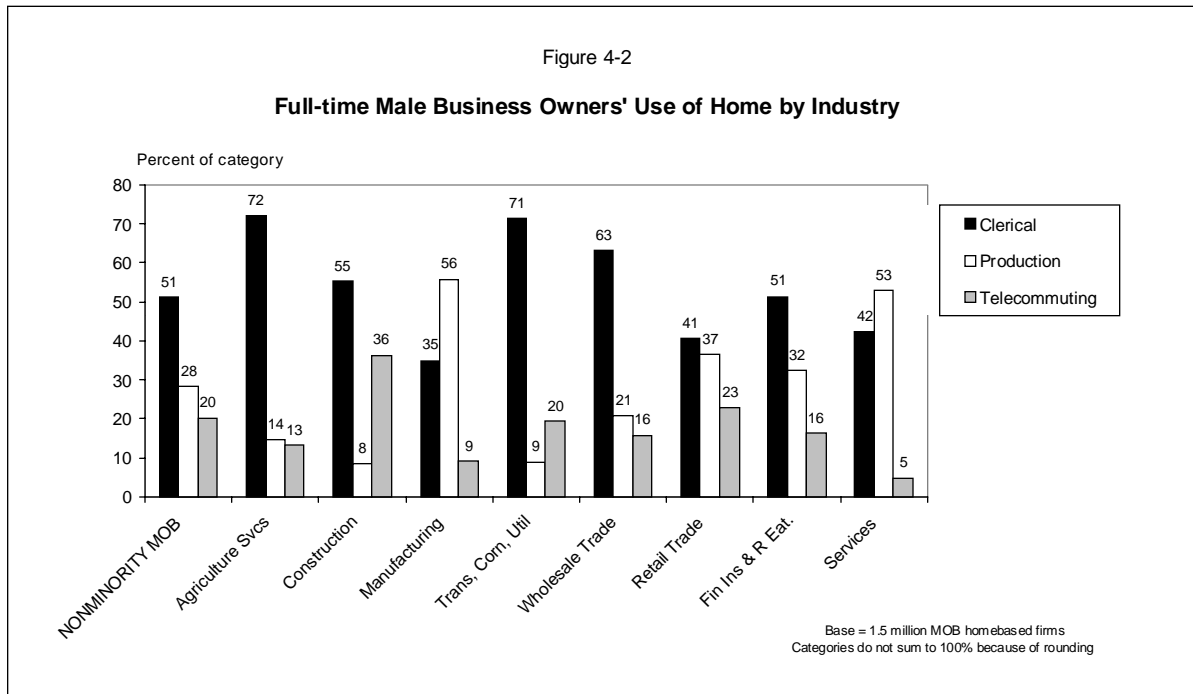
Use of Home for Business

- Women use their homes primarily for the production of goods and services

The type of work that can be done at home is best judged by examining full-time self-employed work-at-home businesspersons, rather than comparing individuals who spend less than forty hours on their primary self-employment. Sixty percent of women-owned businesses engage in production, 29 percent clerical work and 11 percent have owners with employment outside the home who telecommute (Figure 4-1). In marked contrast to WOBs, among full-time nonminority male-owned businesses, 28 percent engage in production, 51 percent clerical tasks and 20 percent telecommute (Figure 4-2).



- Most men work at home on clerical tasks



Full-time Hispanic manufacturing businesses do mostly production at home (77 percent) with relatively little clerical work (14 percent). Hispanic construction businesses are just the opposite: 68 percent perform clerical work – no doubt the paper work of preparing bids, invoices and so forth; only 16 percent of those firms produce goods and services at home.

In contrast to Hispanics, full-time black-owned firms are closer to balancing their tasks between clerical work (39 percent) and production (45 percent). Telecommuting accounts for another 16 percent. Unlike Hispanic firms, black-owned businesses do retail trade production (56 percent) at home. Both Hispanic- and black-owned full-time service businesses do about 60 percent production of goods and services in their homes, which is also true of other minority firms. Of the ethnic groups, other minority firms do the most production in their homes (87 percent of manufacturing businesses and 70 percent of retail trade firms). This primarily Asian group also has very high percentages of all work at home being done by telecommuters: 41 percent within the construction industry, and 35 percent in wholesale trade.

Legal Form of Organization

- **Ninety percent or more of homebased businesses are sole proprietorships**

Overwhelmingly, homebased businesses are operated as sole proprietorships (90 percent or 8.1 million). Interestingly, somewhat more nonminority male-owned homebased businesses and other minority operators organize as partnerships than the norm whereas other minority and women-owned businesses are more likely to form S corporations (Table 4-3). As previously noted, the CBO survey omits C corporations. Black-owned firms are sole proprietors with few exceptions: ninety-six percent of homebased and 91 percent of non-HBBs are sole proprietorships. Ninety-four percent of homebased and 81 percent of non-homebased Hispanic firms also are operated by an individual. Only three-fourths of non-HBB firms owned by women; other minorities and other minority men are sole proprietorships. More of those non-HBBs are partnerships or S corporations.

Table 4-3
Legal Form of Organization of Work-at-Home Firms

(percent)	Sole Proprietorships		Partnerships		S Corporations	
	HBB	Non-HBB	HBB	Non-HBB	HBB	Non-HBB
ALL FIRMS	90	74	4	11	5	16
Women-owned	91	75	3	8	6	18
Nonminority male-owned	90	72	4	13	5	16
Black-owned	96	91	2	5	3	6
Hispanic-owned	94	81	2	7	5	10
Other minority-owned	90	75	5	11	7	12

- **Owners of partnerships and S corporations do some clerical work but almost no production of goods and services or telecommuting**

Looking at the legal form of organization in another way, that is, by type of work done at home, reveals that more than 60 percent of partnerships and S corporations report no work at home at all; just 3-4 percent even telecommute. In contrast, half that number, or 30 percent of individually owned businesses, does not work at home. Partnerships do almost no production of goods or services in the home, which suggests that even the few homebased partnerships are not “mom and pop” businesses. However, about one fifth of sole proprietorships produce goods and services and another one fourth do their clerical work at home.

- **Nearly two-thirds of Hispanic and other minority partnerships and S Corporations do no work at home**

The patterns of work for women-, non-minority-, black-, Hispanic- and other minority-owned firms vary by legal form of organization with only minor variations across gender and ethnic groups.

Franchises

- **Very few HBBs—or non-HBBs—are franchises**

Only two percent of all HBBs are franchises (0.2 million). Retail trade is the only industry that has as many as 9 percent of all homebased firms operated as franchises. Similarly, only 4 percent of non-HBBs are franchised (0.3 million). Even in individual industries, such as retail trade, and FIRE, 8 percent or less of non-homebased businesses are franchise operations.

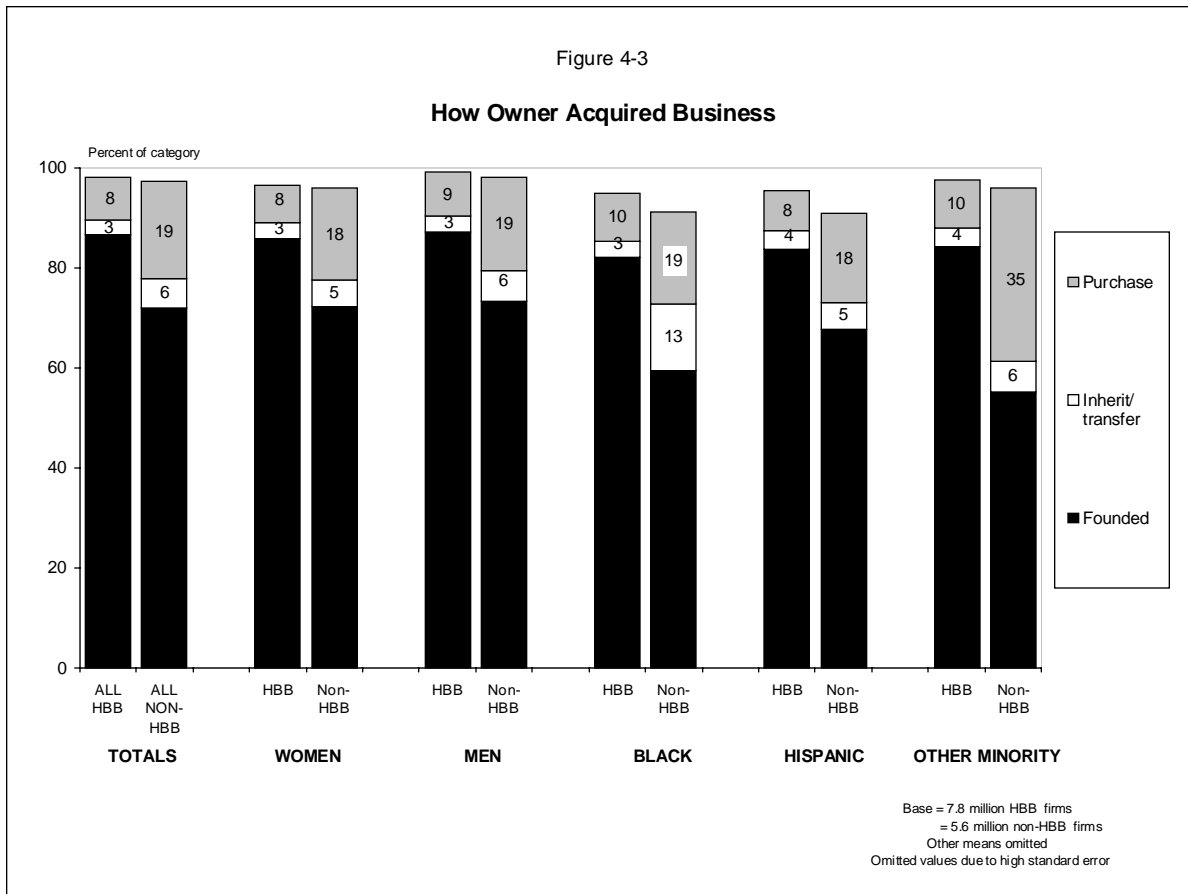
The presence or absence of employees does not markedly change this picture. In the case of homebased businesses, 2 percent without paid employees, and 1 percent with paid employees are franchised; non-homebased firms with employees are somewhat more likely to be franchised: 6 percent with paid employees are franchised; 4 percent with no employees are franchised.

Acquisition of Business

- **Most homebased firms are started by their owners**

Eighty-seven percent of homebased businesses (6.7 million) are founded by their owners. By demographic group, the percent founded ranges from 82 to 87 as shown in Figure 4-3. Compared with HBBs, fewer non-homebased firms are founded (55 percent other minority firms to nearly three fourths for nonminority MOBs); 18 to 35 percent are purchased; and at most, 13 percent inherited or acquired by transfer of ownership. Non-homebased black-owned firms have the highest rate of transfer of ownership, 10 percent, which is double the average for all groups. Particularly interesting is that 35 percent of non-homebased other minority firms, which are primarily Asian, are purchased.

In several industries, acquisition by purchase is more prevalent than the average of 19 percent for non-HBBs: thirty-two percent of transportation, communications and utilities firms (TCU) and 38 percent of non-homebased retail firms were purchased. Fewer than 20 percent of HBBs were purchased in either of those two industries. Homebased firms started by their owners are the norm in construction (90 percent), manufacturing (90 percent) and services (91 percent).

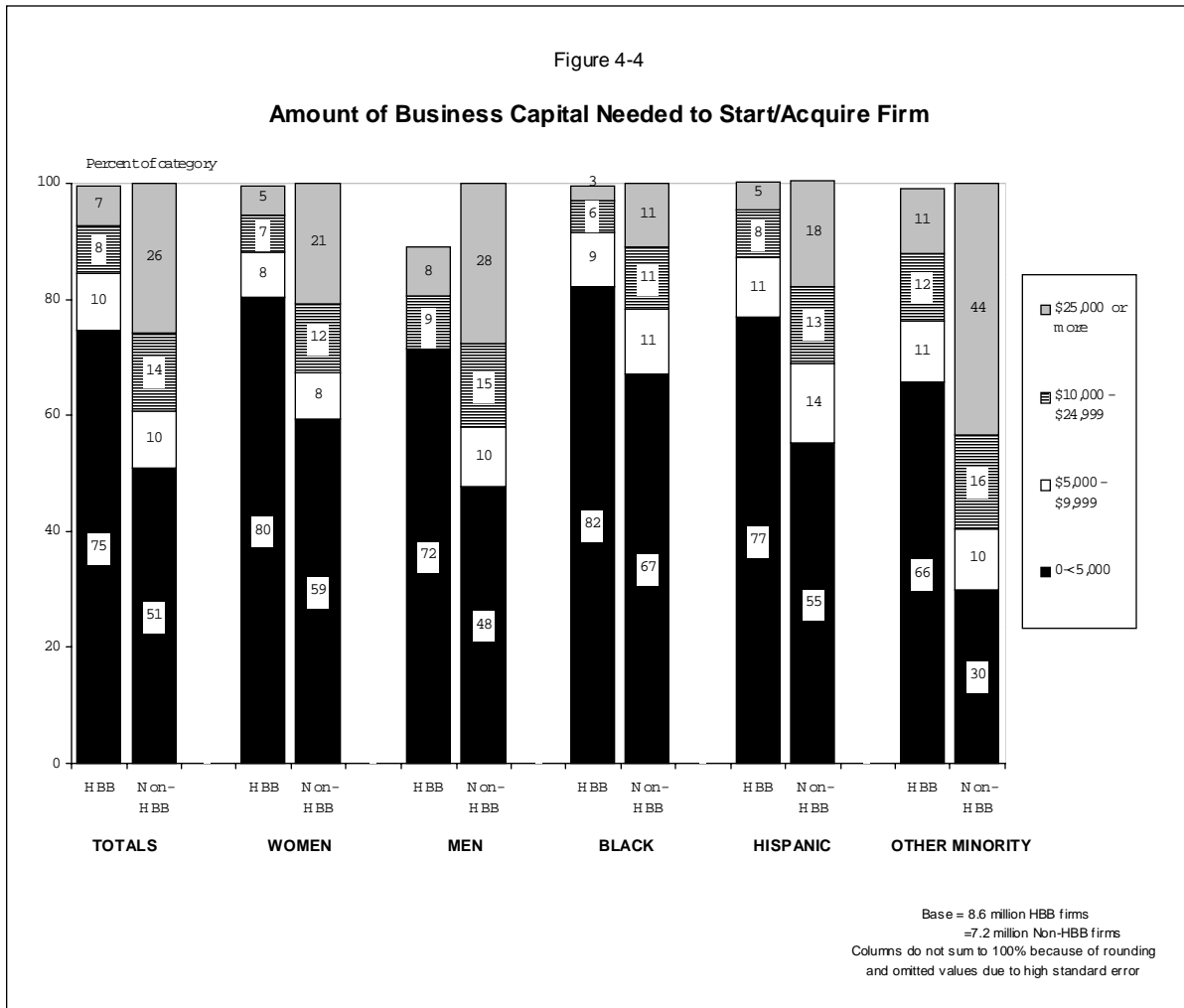


Capital Required to Start/Acquire Firm

- Non-homebased and other minority firms need the most capital

Presumably operating a business from home saves overhead costs. Thus homebased firms need less capital relative to firms that lease or purchase space outside the home. As shown in Figure 4-4, 75 percent of all HBBs versus 51 percent of non-HBBs, required from 0 up to \$5,000 for startup. Only 7 percent of HBBs but 26 percent of non-HBBs spent \$25,000 or more. Similarly, for both gender and all ethnic/racial groups, homebased firms needed less capital compared to non-HBBs for startup.

Non-homebased other minority businesses, most of which are Asian, need the most capital. Forty-four percent required \$25,000 or more to start. Also, more other minority homebased firms need larger amounts of capital to go into business, than other HBB male-, female-, black and Hispanic-owned businesses.



- **Women-owned firms require less startup capital than nonminority male-owned firms**

Some industries require more capital investment than others do. Retail, finance, insurance and real estate firms (FIRE) require at least \$25,000 of startup capital. For example, 40 percent of non-HBB nonminority male-owned firms, but only 20 percent of women-owned FIRE businesses needed that much. All other industries needed smaller amounts of capital or none at all. Surprisingly, even the majority of retail firms needed less than \$5,000 capital to begin business. Except for those with firms in the manufacturing and service industries, only one fourth of women-owned businesses needed capital and the majority of those used \$5,000 or less for startup. For male-owned firms the exception was homebased FIRE: twenty-nine percent needed \$25,000 or more. Both homebased and non-homebased male-owned businesses had similar capital needs, which was not the case for WOBs.

Borrowed Startup Capital

Percent of borrowed capital

- **More non-homebased firms borrow startup capital, and in greater amounts, than homebased businesses**

Consistent with stated capital needs, fewer homebased firms borrow startup capital, and in smaller amounts, than do non-homebased businesses. Eighteen percent, or 1.5 million of all HBBs, versus 36 percent or 2.6 million of non-HBBs, borrowed capital to start or acquire their firms. Thirty-one percent of HBBs and 23 percent of non-HBBs did not need startup capital.

Other minority businesses exceed the average borrowed for all non-HBBs: 22 percent borrow 50-99 percent and 6 percent of firms borrow 100 percent of capital needed. Nonminority male-owned businesses are second in amount of capital borrowed. As discussed in the next section, instead of borrowing startup capital, HBBs tend to use personal savings and assets.

Across industries, non-HBBs in retail, wholesale, manufacturing and transportation, communications and utilities, borrow the most capital. A total of 37 percent of HBBs borrow money in TCU and 26 percent in manufacturing, but less than 20 percent in all other industries. On average, only 4 percent of HBBs and 8 percent of non-HBBs borrow 100 percent of their startup capital.

Sources of borrowed capital

- **Business owners borrow capital from themselves**

Of firms that borrow capital, 7 percent of all homebased businesses (0.6 million) and 19 percent of non-homebased firms (1.4 million) obtain bank loans. Government loans are used by one percent of homebased firms, on average, however twice that many non-homebased black-owned and other minority-owned businesses borrow from the government. Non-HBBs, as well as HBBs, rely on personal loans (15 percent versus 12 percent) to a greater degree than business sources.

Sources of non-borrowed capital

- **Regardless of location, all small businesses rely heavily on personal savings and assets**

Homebased businesses are more apt to draw from personal savings and assets to finance their business startup than firms located outside the home. One third of all HBBs use personal assets and 46 percent, personal savings. More non-homebased than homebased firms, 35 percent compared with 29 percent, draw capital from other sources. Other minority firms, 46 percent for HBBs and 50 percent for non-HBBs, stand out in their reliance on personal savings.

Employees

- **Nine percent of homebased businesses have paid employees**

Table 4-4 shows the distribution of HBBs and non-HBBs with and without paid employees for 1992, the first year that HBBs were identified in the CBO. Only nine percent of homebased businesses have paid employees compared with 32 percent of non-homebased firms. Overall, 80 percent of all small businesses operate without employees.

**Table 4-4 1992 Distribution of Firms and Owners
by Presence or Absence of Employees**

	HBB	Non-HBB	All Firms	All Owners
No paid employees				
Number	7.8 million	5.1 million	12.8 million	14.0 million
Percent of category	91%	68%	80%	76%
Paid employees				
Number	0.8 million	2.3 million	3.1 million	4.5 million
Percent of category	9%	32%	20%	24%
Total firms	8.6 million	7.4 million	16 million	18.5 million

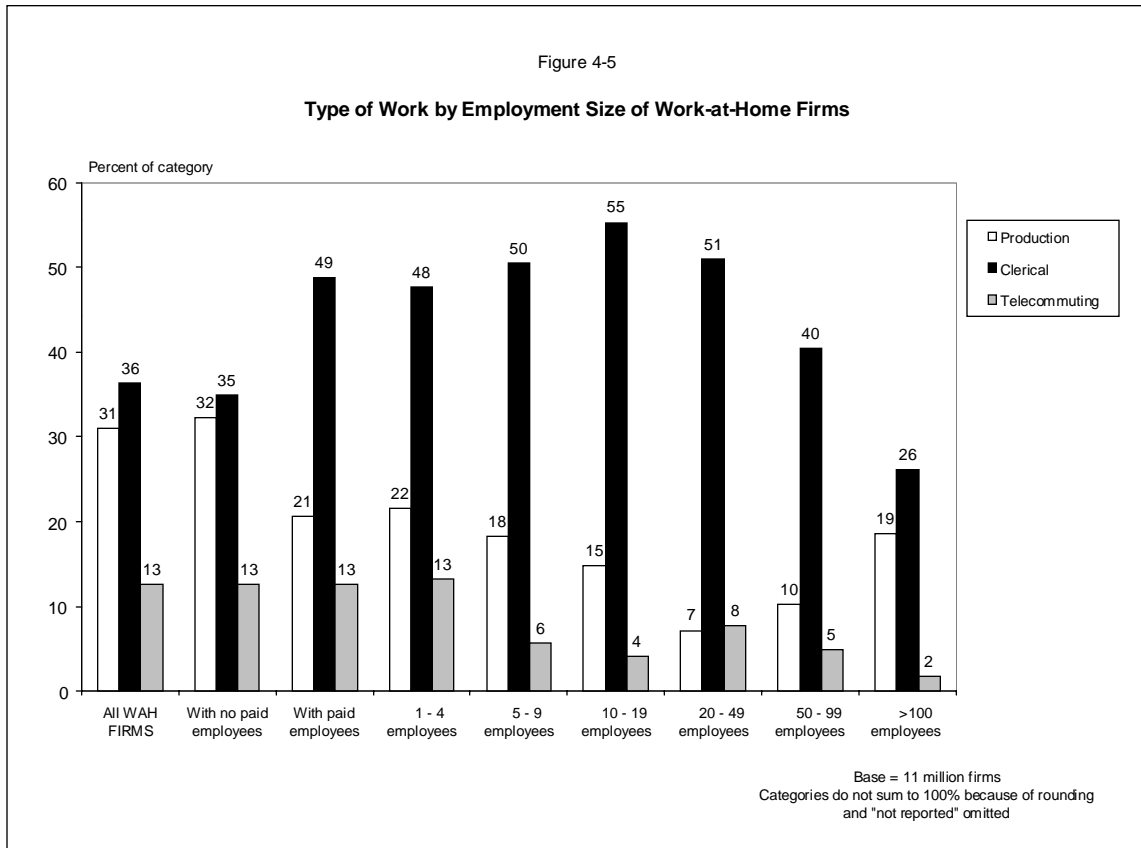
As shown in Figure 4-5, firms that hire employees apparently use them for the most part to do clerical work. In homebased firms with paid employees, about half of homebased work is clerical, compared with over one-third in firms with no paid employees.¹

The same use of employees for clerical work is seen also in WOBS, nonminority male-owned- and in black- and Hispanic-owned firms as the series Figures 4-6 through 4-10 suggests. Homebased production of goods and services peaks at less than ten employees for women-owned firms. The production work, relative to clerical work, is higher in male-owned businesses without employees, than in those with paid labor.

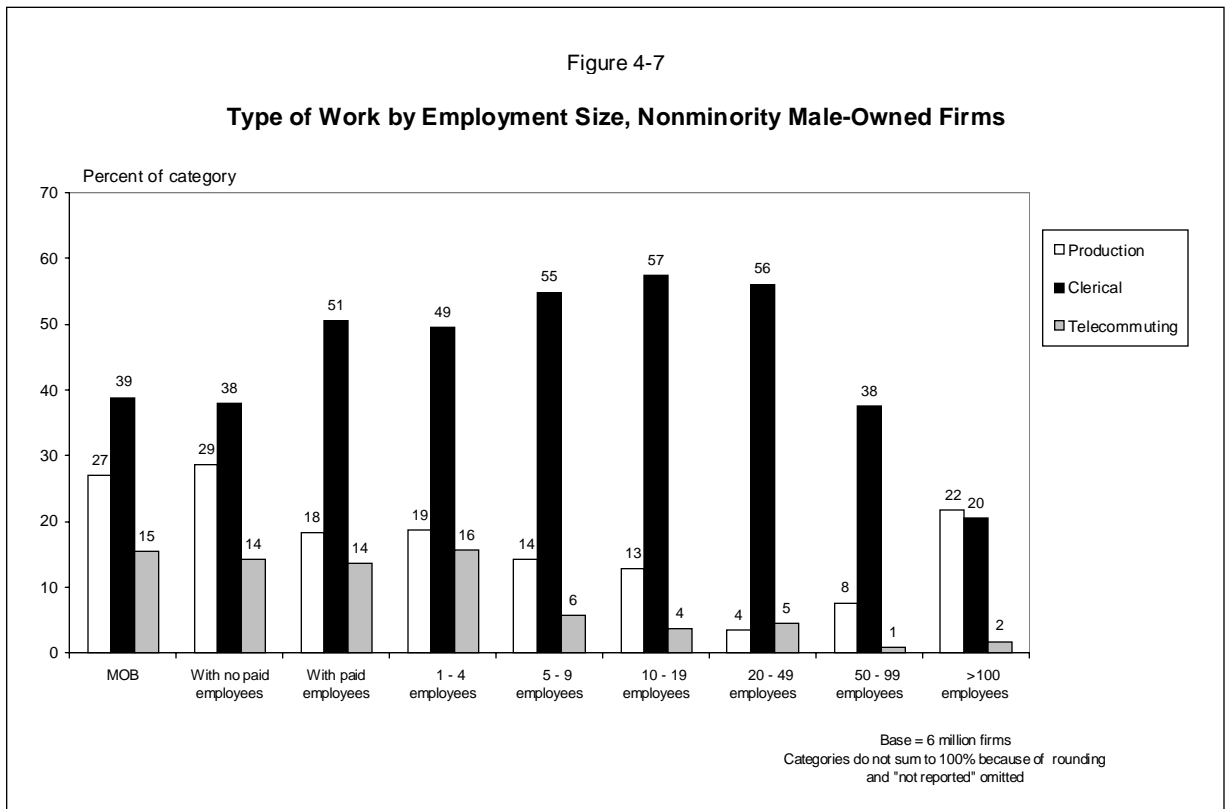
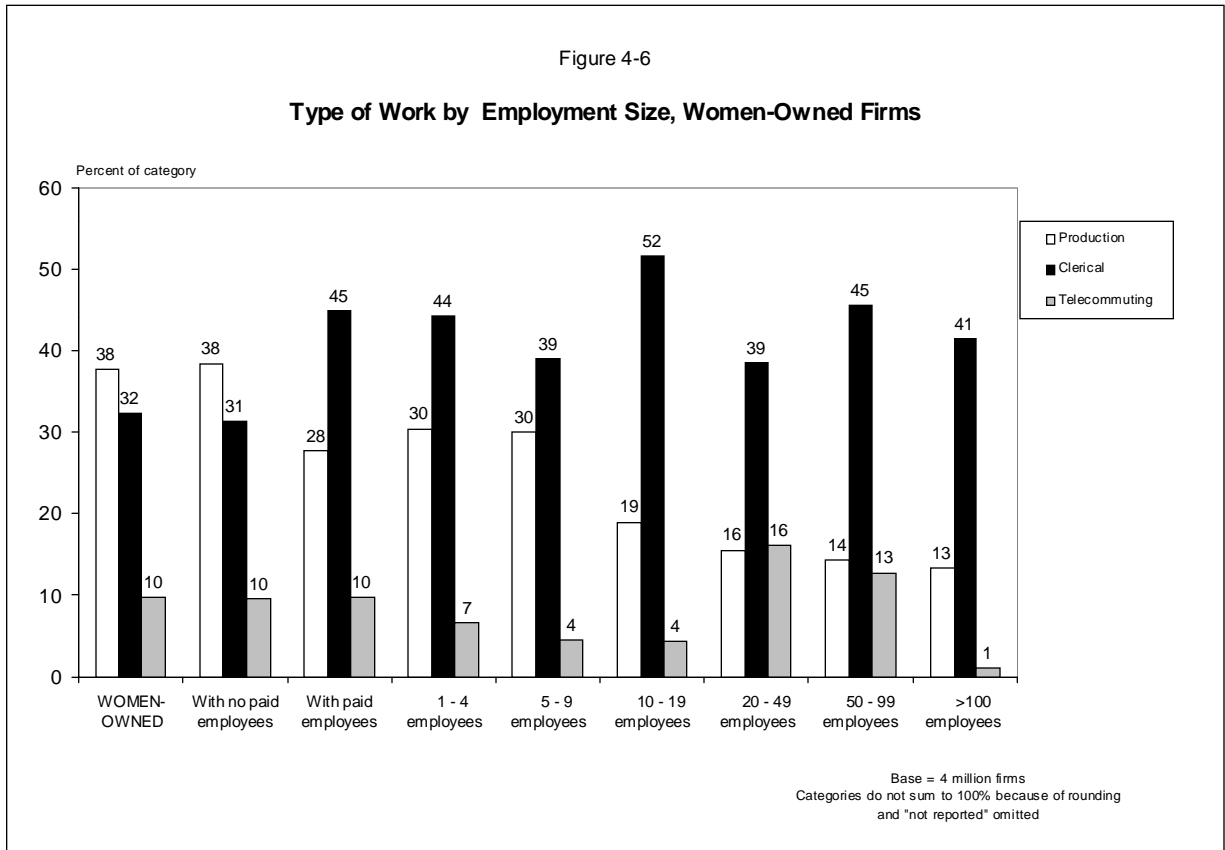
For most of the demographic groups, the relative amount of clerical work, versus production and telecommuting, generally increases as paid employees are added and then drops off. Other minority firms, Figure 4-10, are an exception: in those firms the percent of clerical work remains about 30 percent, jumping to 88 percent when the number of employees reaches 100 or more. Only 12 percent of tasks in other minority firms involve production and no firms reported telecommuting.

¹ Because the non-response rate is high in firms with larger numbers of employees, those percentages should be taken with caution.

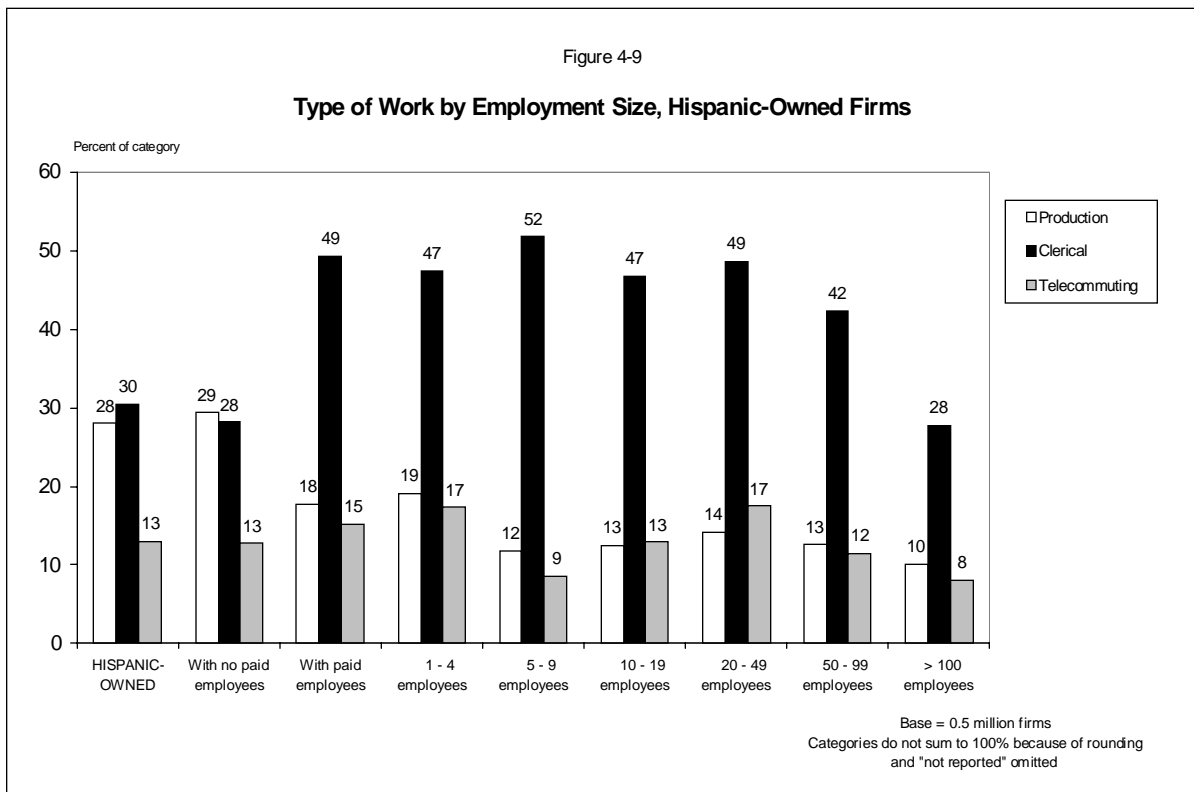
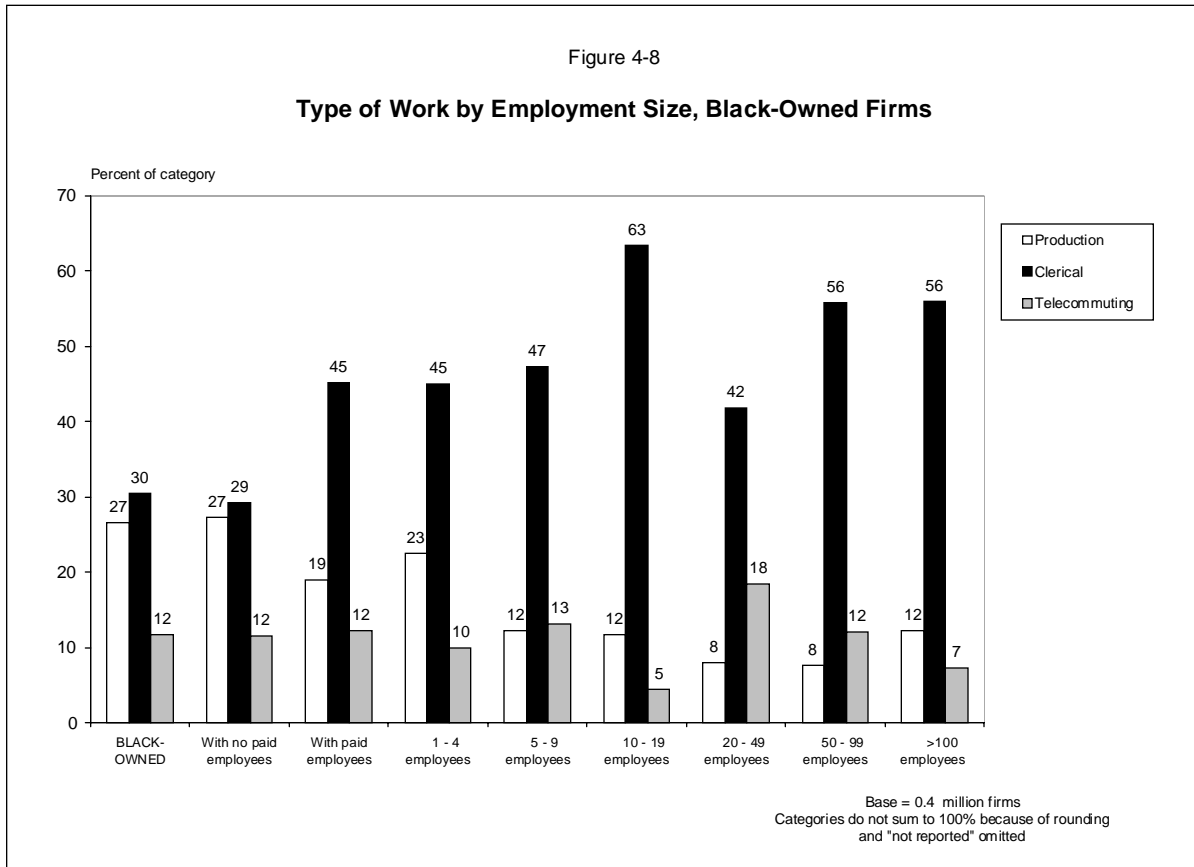
- A higher proportion of clerical work, relative to production, is found in homebased firms with employees than in those without



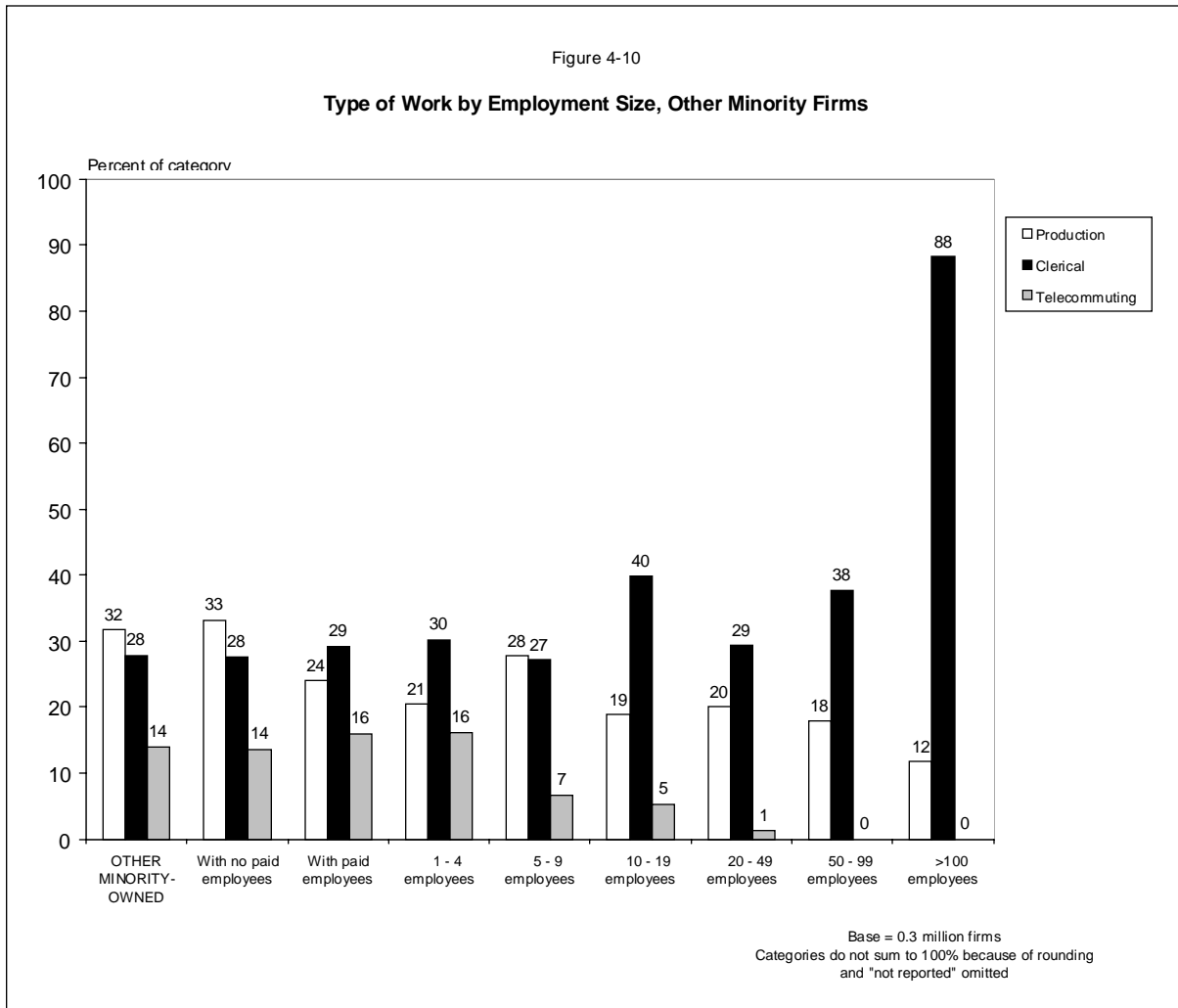
- Men do more clerical work at home and telecommuting than women



- Employees are hired primarily for clerical work



- Hiring paid employees in other minority businesses does not increase the relative amount of clerical work in the home except in the largest firms



Time Worked in Business

Weekly Hours

- **The owners of non-homebased firms consistently work longer hours than homebased business owners**

Table 4-5 illustrates that work, on average, ranges from 26 to 35 hours for all homebased firms but non-HBB owners spend about 10 hours per week more on their businesses, that is, 35 to 43 hours. Non-homebased other minority business owners work longer hours than other business owners.

Table 4-5
Hours worked in Homebased and Non-Homebased Businesses

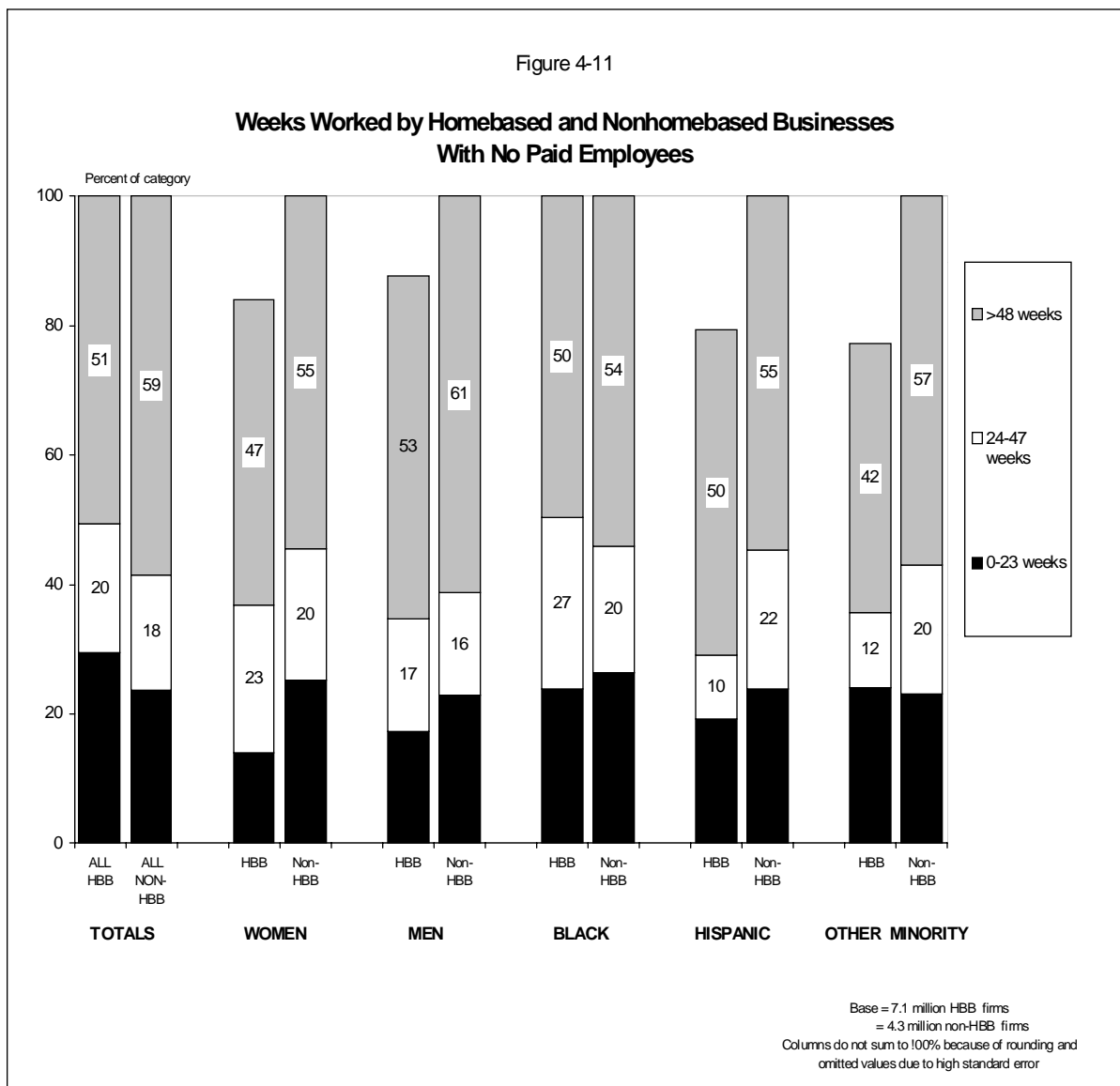
	Homebased Business Average Hours/Week		Non-Homebased Business Average Hours/Week	
	Minimum	Maximum	Minimum	Maximum
All Businesses	26	35	33	43
Women-Owned Businesses	23	32	30	38
Nonminority Male-Owned Businesses	27	36	35	44
Black-Owned Businesses	25	34	30	38
Hispanic-Owned Businesses	26	34	34	42
Other Minority-Owned Businesses	24	32	38	48

Respondents checked a range of hours rather than specifying the exact number of hours they worked. Minimum average hours/week refers to the average of the low figure in each range; the maximum average refers to the high figure.

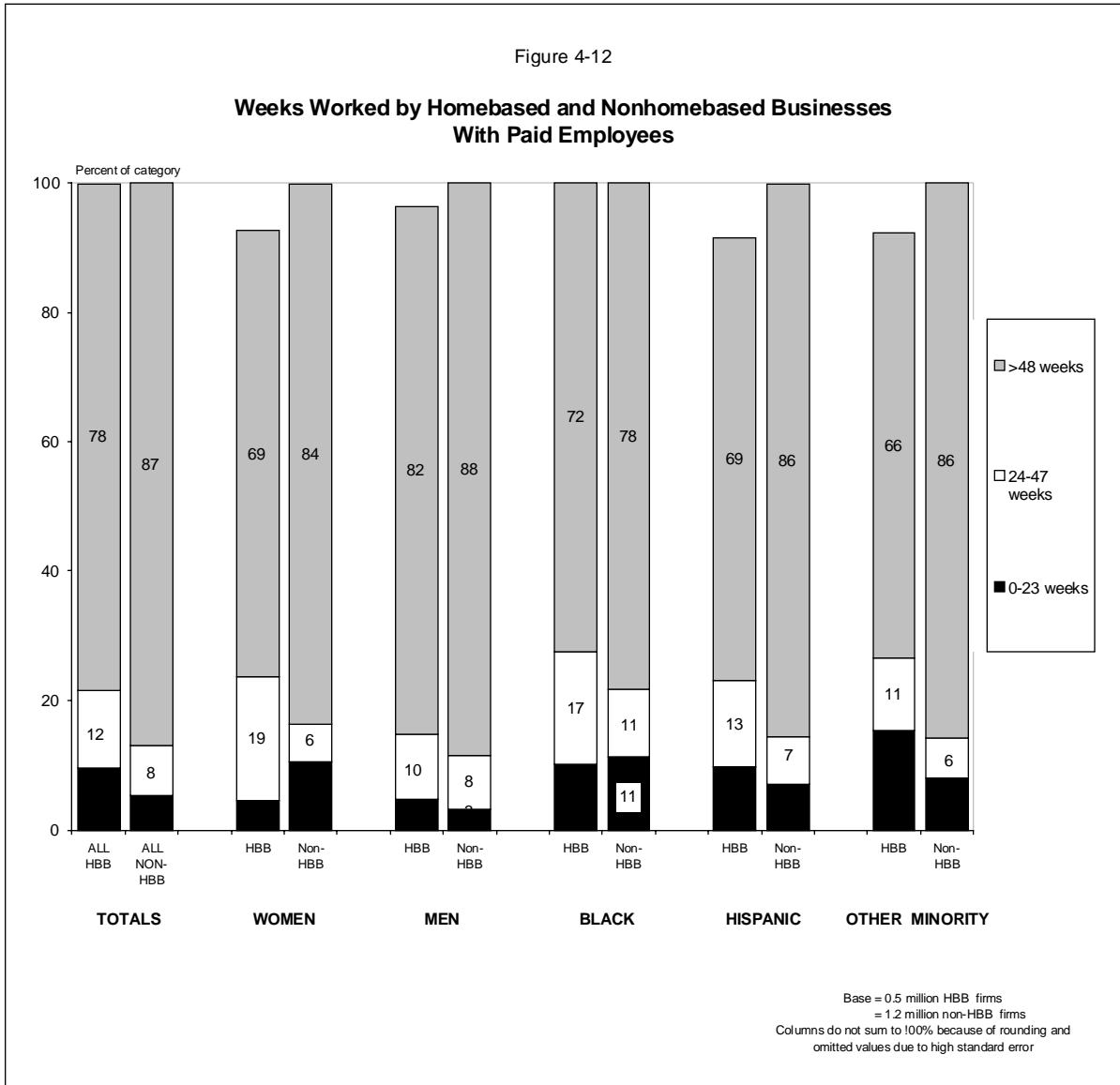
Annual Weeks Worked

- Fewer homebased than non-homebased businesses are operated year-round

Both homebased and non-homebased firms operate more weeks if there are paid employees. Thus, homebased as well as non-homebased firms that have employees require more, not less of their owners' time (Figures 4-11 and 4-12). The owners of 90 percent of HBBs with employees in the TCU and wholesale trade industries work 48 or more weeks per year. Homebased firms without employees in agricultural services report the fewest firms operated throughout the year (41 percent), which may reflect the fact that most are landscape businesses (Table 4-2). In comparison, non-HBBs vary less across industries in the annual weeks worked by their owners.



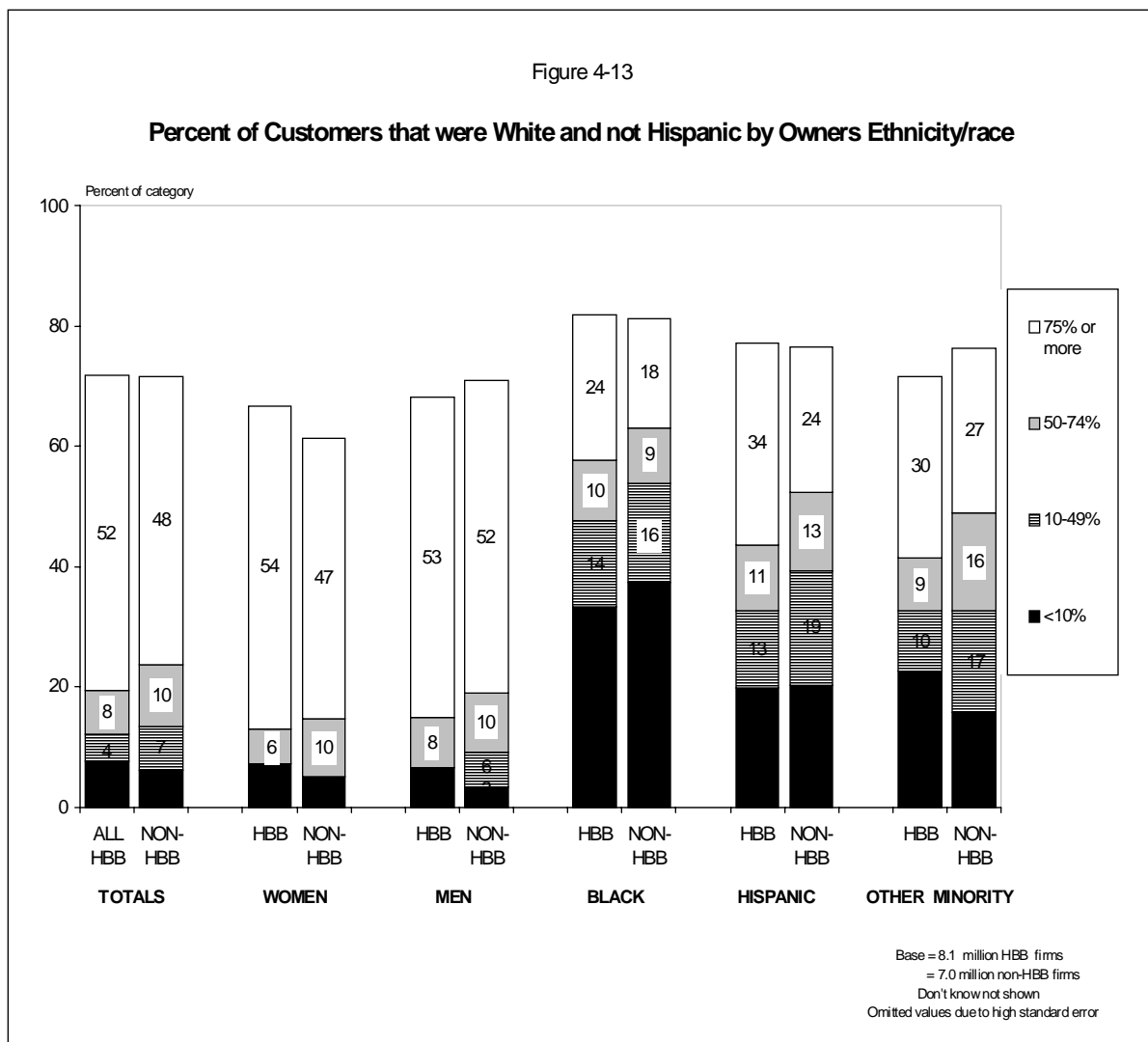
- Hiring employees increases the owners' time commitment to the business



Customer Definition

- **Black-owned firms tend to have black customers**

Homebased and non-homebased firms have similar markets of customers that are white and non-Hispanic (Figure 4-13). The majority of customers served by HBB and non-HBB women- and nonminority-male-owned firms are white and non-Hispanic. In contrast, a third or more of black-owned businesses report that less than 10 percent of their customers are white. Only about 24 percent of black HBBs and 18 percent of black non-HBBs serve 75 percent or more white customers. Roughly 20 percent of Hispanic and other minority firms have a customer base that is less than 10 percent white. Although relatively small differences occur in the percent of white customers across industries, black-owned businesses in the finance, insurance and real estate industry are a striking exception. Fifty-four percent of black-owned homebased FIRE businesses, versus 11 percent of all HBBs, reported that less than 10 percent of their customers were white; just 11 percent of black firms had a 75 percent white customer base

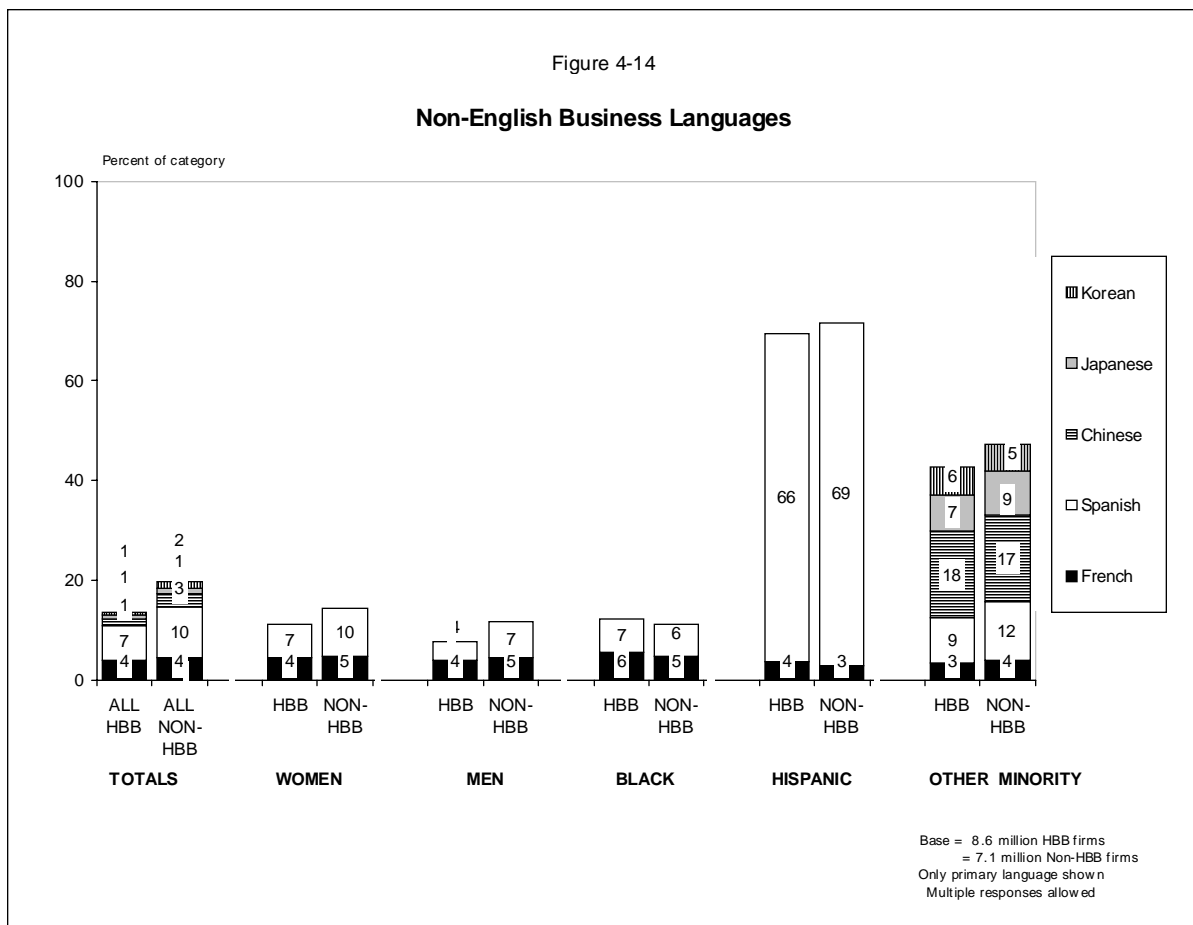


Business Language

- The primary language of U. S. business is English

Ninety-eight to 99 percent of all homebased and non-homebased firms conduct most of their business in English. However, Spanish, Chinese, French, Korean and Japanese are spoken by at least 3 to 69 percent of certain ethnic groups. As shown in Figure 4-14, there is little difference between homebased and non-homebased firms. As expected, the majority of Hispanic firms conduct business in Spanish and other minority firms, which are primarily Asian, use Chinese, Korean and Japanese as well as English. The many other languages used in business include German, Arabic, Greek, Hindi and Urdu, Italian, Polish, Portuguese, Russian, Tagalog and Vietnamese. German is spoken by 2 - 3 percent of firms; one percent or less uses each of the other languages.

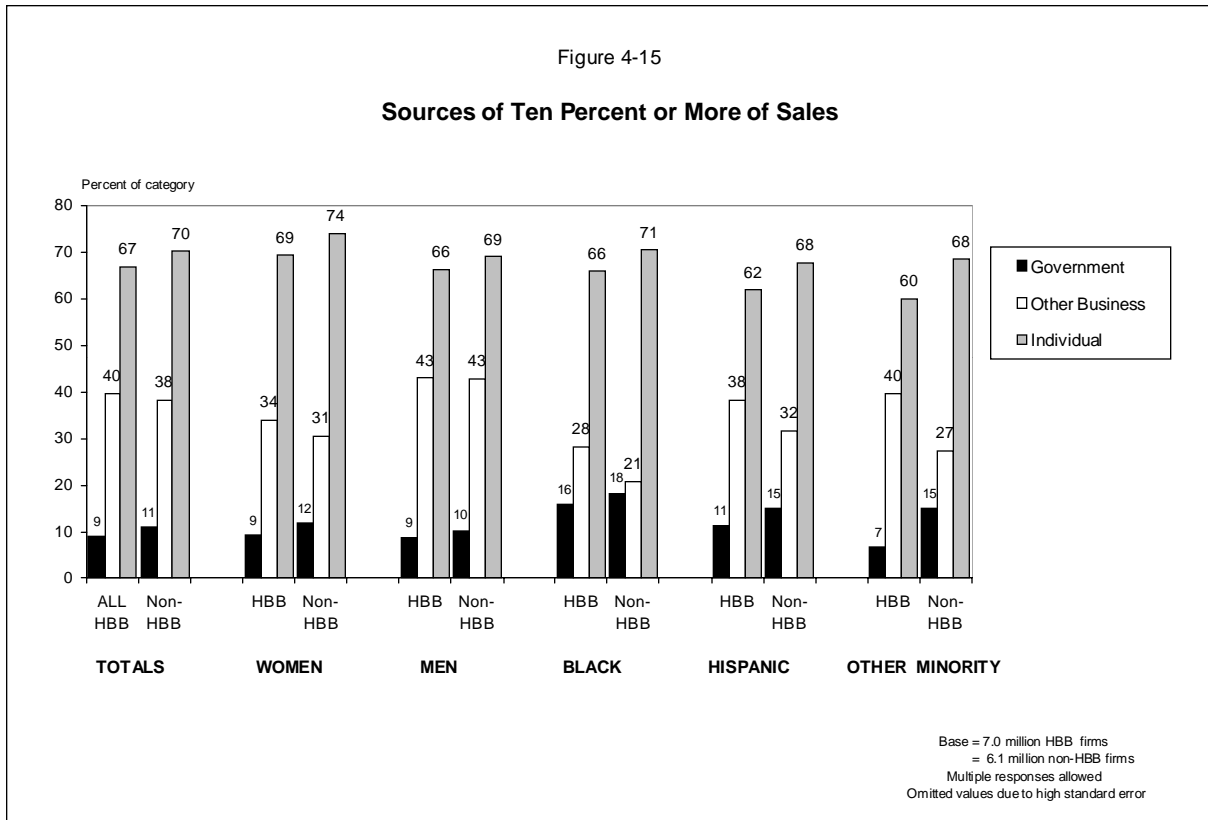
Generally firms in retail, wholesale, manufacturing and finance, insurance and real estate use foreign languages more than businesses in other industries. Exceptions are Hispanic firms, which conduct business in Spanish as well as English, in every industry.



Source of Sales

- **Regardless of location, 60 percent or more of small businesses sell primarily to individuals**

Twenty-one to 43 percent of firms sell to other businesses. Roughly 10 percent of customers are local, state or federal government agencies. Slightly more black-owned firms than the average of all firms, that is 11 percent homebased and 15 percent non-homebased firms, sell to the government. About 10 percent of women- and nonminority-male-owned firms sell to the government. Nonminority male-owned firms, homebased or not, show the highest business to businesses sales (43 percent), compared to WOBs (31-34 percent). Across industries the differences in sources of sales between homebased and non-homebased firms are small. Not surprisingly, retail trade reports almost no sales to governments.

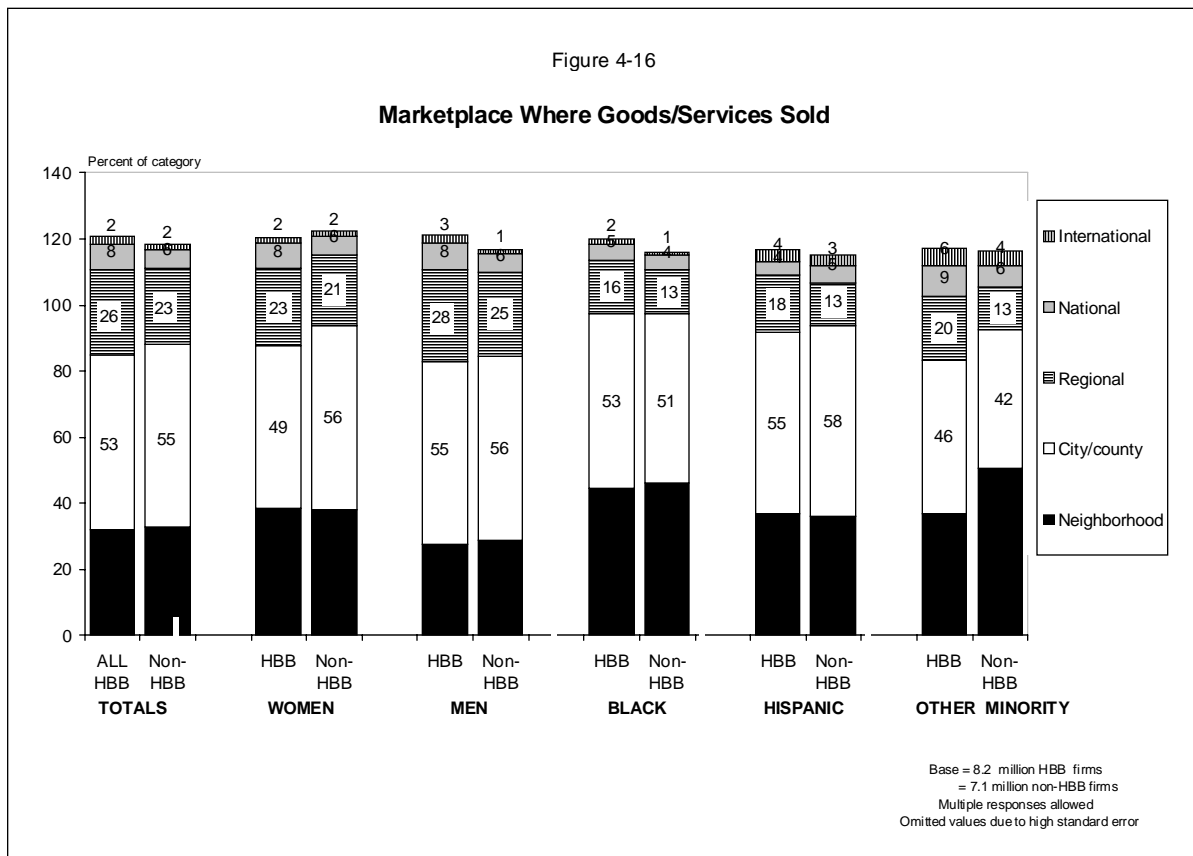


Market Area

- Homebased businesses sell in the same marketplace as non-homebased firms

Contrary to common perceptions, homebased businesses have the same geographical marketplace as firms located outside the home. About one third of both homebased and non-homebased businesses sell in the neighborhood and half market within the city or county.² Although the difference is not significant either in the local or international marketplace, more HBBs sell in the region and nationally than do non-HBBs. As Figure 4-16 illustrates, the larger differences exist between gender and ethnic groups. Over half of other minority non-HBBs sell their goods and services in the immediate neighborhood as do 37 percent of HBBs. In contrast, only about 30 percent of male-owned businesses sell in the neighborhood; over half do business in the city or county; and one-fourth or more sell regionally.

About 45 percent of black-owned businesses and nearly 40 percent of women-owned firms and Hispanic businesses sell in the neighborhood. But half or more of each group sell to the city/county and they also reach customers nationwide. A few percent of each of the gender and racial groups also does business internationally.



² There is no statistically significant difference for neighborhood, city/county and international sales. The difference is significant within a 90 percent certainty for regional and national markets.

Also, within industries, the differences between homebased and non-homebased marketplaces are not dramatic, but across industries the variations are substantial. While 42-46 percent of retail trade takes place in the neighborhood, and 50-54 percent in the city and county, about 50 percent of wholesale firms market to the region.

Exports

- **Few small businesses export**

On average, only 3 percent of the 17.3 million homebased or non-homebased firms export to international markets, about 520,000 firms. Naturally, much greater activity occurs in wholesale trade and manufacturing. For example, in wholesale trade, 15 percent of homebased and non-homebased nonminority male-owned manufacturing firms and 25 percent of Hispanic and other minority businesses export. Twenty-two percent of Hispanic firms in wholesale trade and 21 percent of the primarily Asian other minority firms that are not homebased also export.

Less than 8 percent of non-homebased black-owned businesses export in any industry; 15 percent of non-HBB women-owned manufacturing firms and 10 percent of wholesalers export, but only 9 percent of WOB wholesale firms export.

Exports account for less than one percent of total sales for either homebased or non-homebased firms, including Hispanic and other minority businesses.

For all non-homebased firms, markets representing 10 percent or more of sales include Canada, which receives exports from 4 percent of manufacturers and 3 percent of wholesalers, and Mexico, a market for 2 percent of wholesalers. Homebased firms and all other non-HBB markets are one percent or less or have too high a standard error to tabulate.

Agencies charged with helping homebased or non-homebased businesses start or increase their exports helped less than one percent of all firms (including those that did not export). The agencies include the international trade administration, small business development centers, minority business development agency and export import bank, state agencies, banks or commercial lending institutions, and accounting or consulting firms.

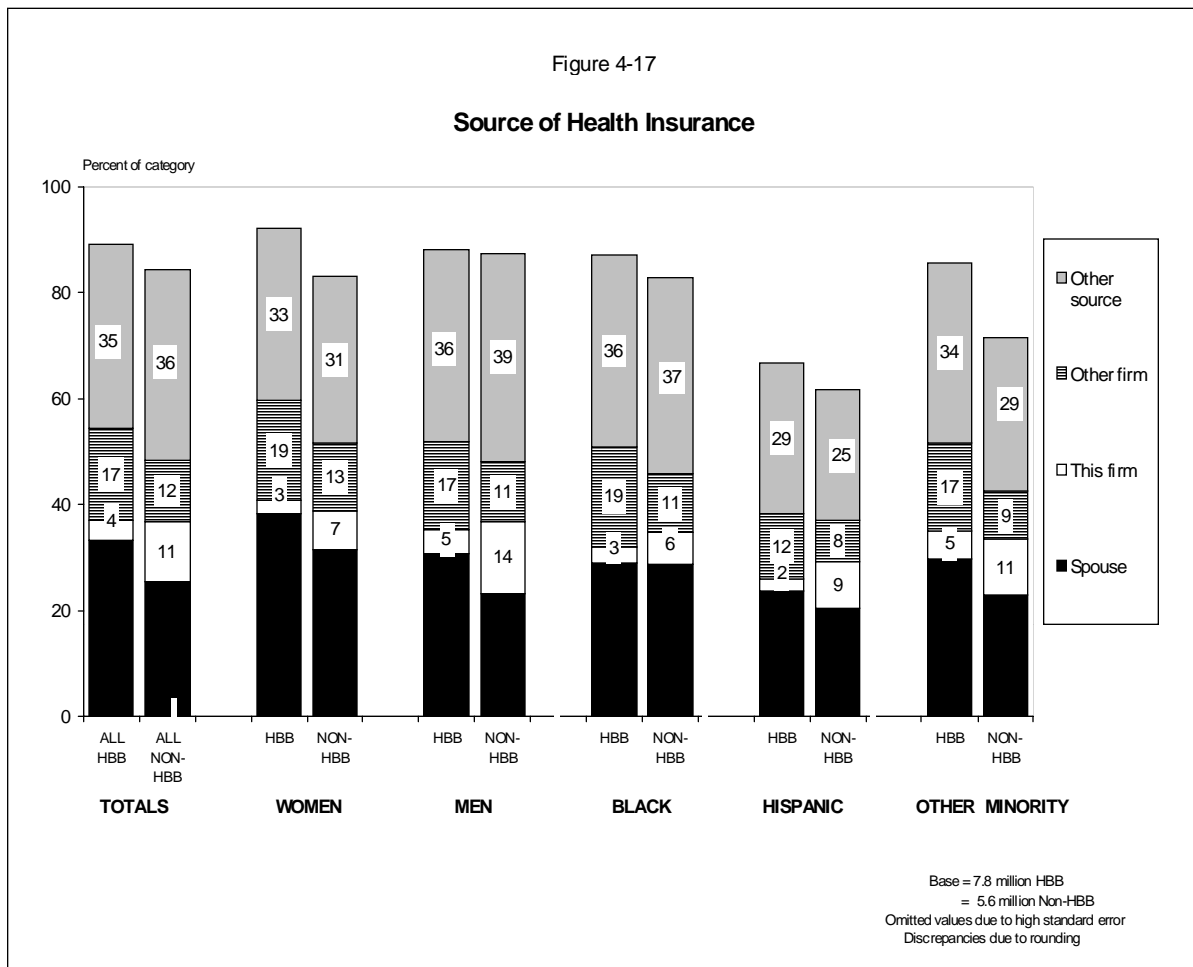
When asked about plans to start or increase exporting, minority businesses express greater interest than either women- or nonminority male-owned firms. For example, in the wholesale industry, 11 percent of black-, 21 percent of Hispanic- and 28 percent of other minority-owned homebased firms want to increase their exports compared with only 6 percent of WOBs and 8 percent of MOBs. Nineteen percent of other minority retailers also want to export.

Costs of Doing Business

- Most small business owners do not obtain health insurance from their own firms

Health Insurance and Retirement Plans

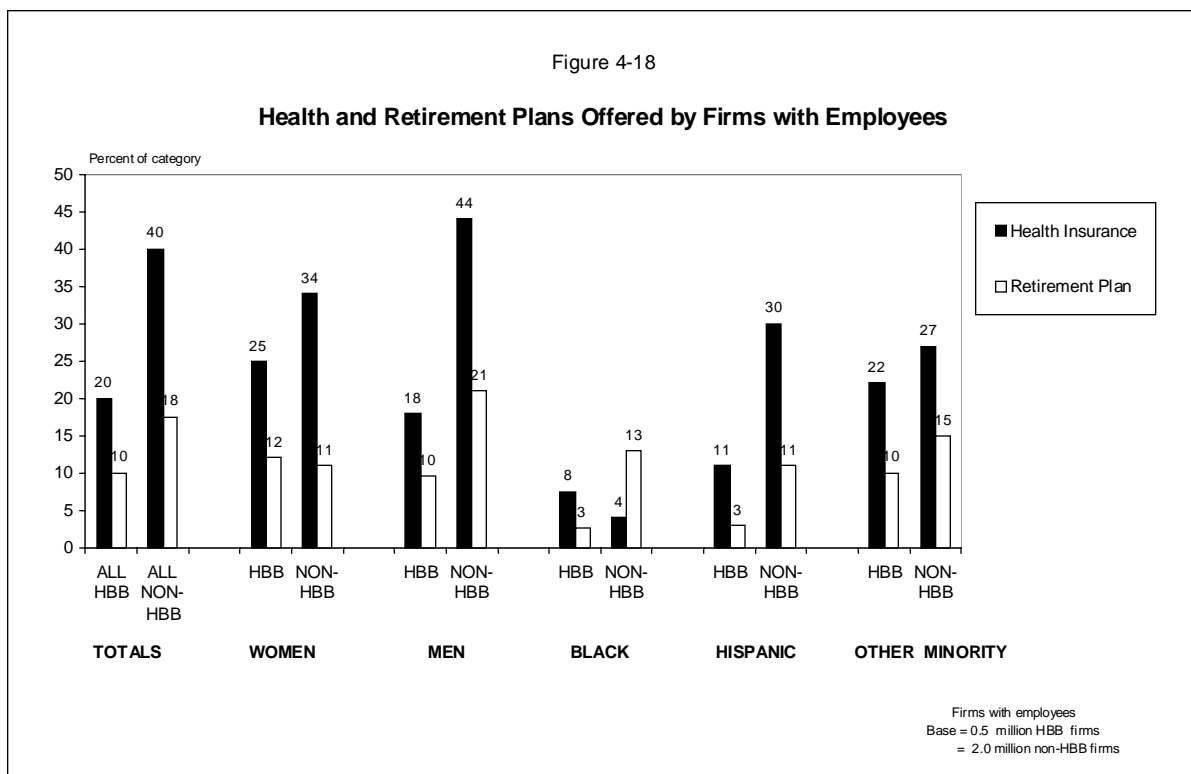
Overall, the owners of one-third of homebased businesses, compared with 26 percent of those located outside the dwelling, are covered by their spouse's health insurance (Figure 4-17). That holds true not only for WOBs and other minority firms but also for non-minority MOBs. Although there is no difference between HBB and non-HBB black-owned businesses, the small difference between Hispanic firms is statistically significant. Very few of all small businesses—7 percent or about 900,000—are the source of their owners' health care coverage. A surprising third or more of all HBB and non-HBB firms report an "other" source of their health insurance. Comparing benefits across industries, non-homebased firms in wholesale trade, at 20 percent of firms, are the most likely to offer health insurance.



- **More non-homebased than homebased businesses offer employee benefits**

Firms with paid employees, one-half as many HBBs as non-HBBs provide health insurance, although 10 and 18 percent, respectively, offer retirement plans (Figure 4-18). Forty-four percent of non-homebased nonminority MOBs do so. Thirteen percent of non-HBB black-owned businesses and 15 percent of OMBs have a retirement plan. But only 4 percent of black-owned firms, compared with 27 percent of OMBs provide health insurance.

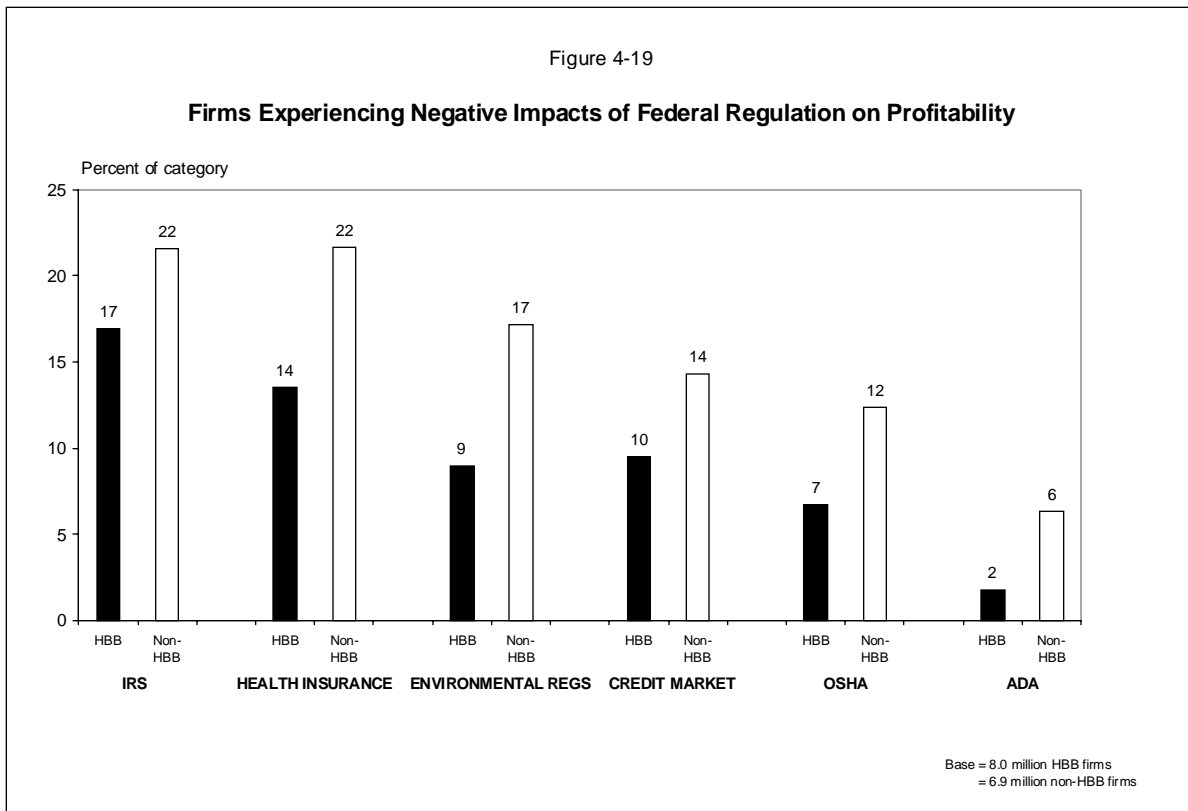
Asked why they did not offer a health plan, both homebased and non-homebased employers listed (in order of percent response by firms), costs of premiums, benefits not needed, or not desired. Being rejected or dropped by insurance companies was not a factor.



Impact of Federal Regulations

- Of various federal regulations, tax laws have the most negative impact on homebased businesses

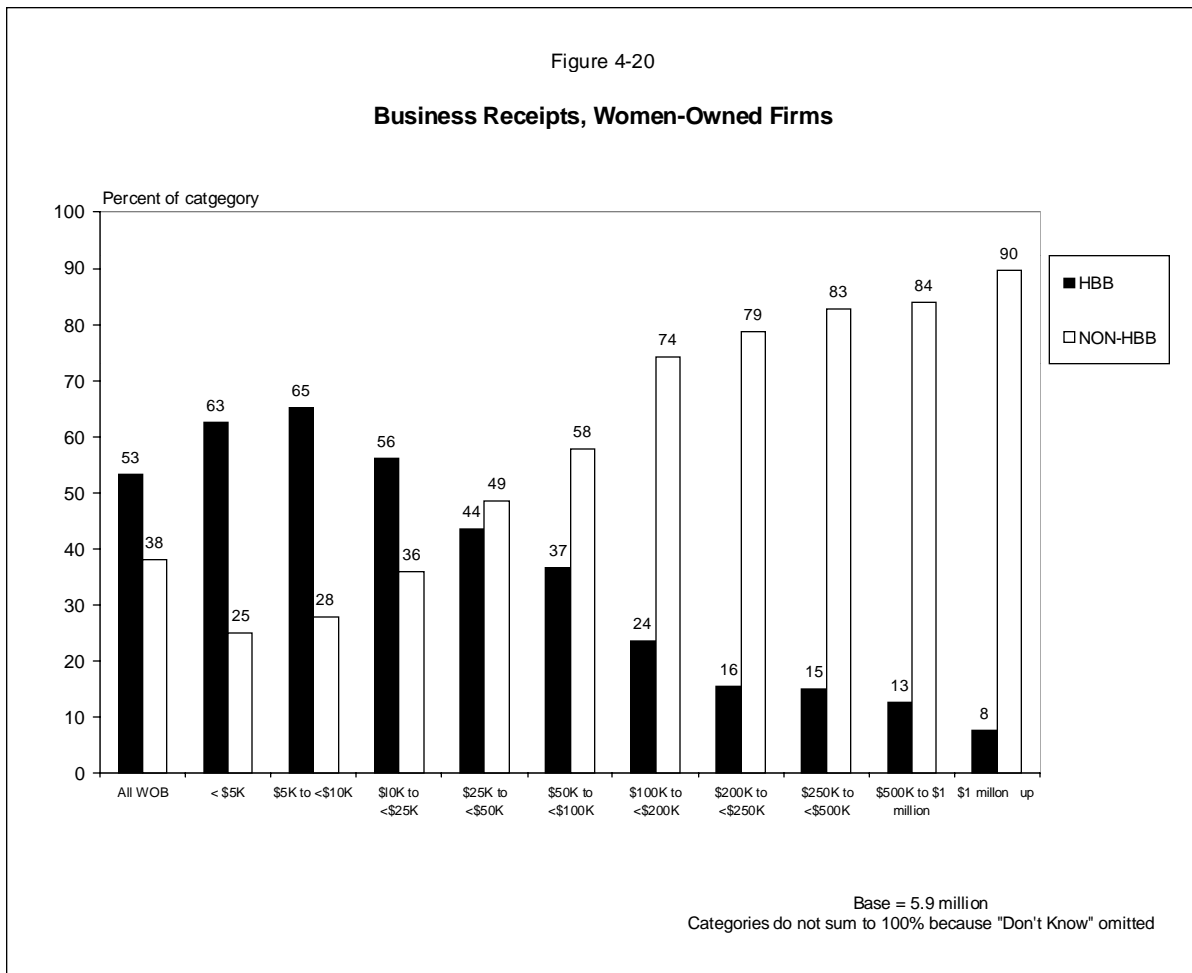
Generally, more non-homebased firms, than those that are homebased, are affected by federal regulations (Figure 4-19). In addition to costs of health insurance, 22 percent experience minor or strong negative impacts from the IRS, 17 percent from environmental regulations, 14 percent from credit market conditions, 12 percent from OSHA and 6 percent resulting from the American Disabilities Act (ADA). Interestingly, when the minor and strong negative impacts are looked at separately, there is a significant difference between HBBs and non-HBBs reporting *minor negative impacts* from IRS regulations and credit market conditions. However, there is no statistically significant difference between homebased and non-homebased firms citing *strong negative impacts* of those two factors on their business profitability.



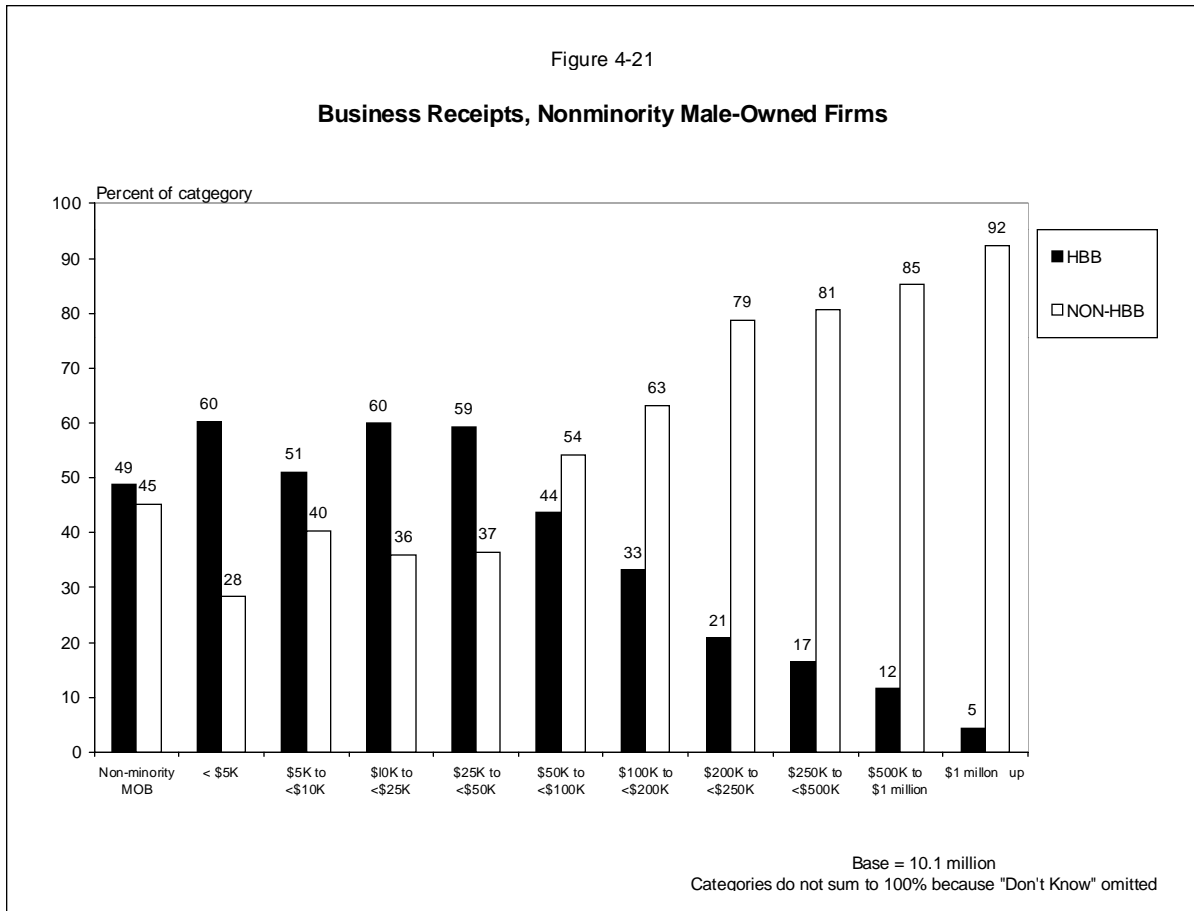
Business Sales and Receipts

- Eight percent of women-owned businesses

For all demographic groups, compared with homebased businesses, the odds of grossing high receipts are greater for firms located outside the home. Although five to six percent of black, Hispanic and other minority firms grossing one million or more are homebased, in general HBBs are associated with lower receipts than are non-HBBs. Forty-four percent of WOBs and 59 percent of MOBs grossing less than \$50,000 are homebased (Figures 4-20 and 4-21). For women earning in the range from \$25K to under \$50K in gross receipts, there is no significant difference between the 44 percent operating their business from home and the 49 percent who do not, meaning that the size of gross receipts earned in that range are independent of business location. However, at the cross-over in gross receipts for nonminority male-owned businesses, \$50K to less than \$100K, the difference of 54 versus 44 percent for non-HBB compared with homebased MOBs, is statistically significant; more non-residential firms than homebased businesses generate up to \$100K.



- Five percent of nonminority male-owned firms grossing \$1 million or more are homebased



- **Five to six percent of black-, Hispanic-, and other minority-firms grossing one \$1 million or more are homebased**

As seen in Figures 4-22 through 4-24, location makes little difference for black- or other minority-owned firms grossing from \$10K up to \$25K or for Hispanic firms grossing up to \$50K. Above \$50,000, the percent of HBBs decreases with increase in gross receipts regardless of gender or ethnicity. Thus, although some HBBs gross as much as businesses located outside the home, most do not.

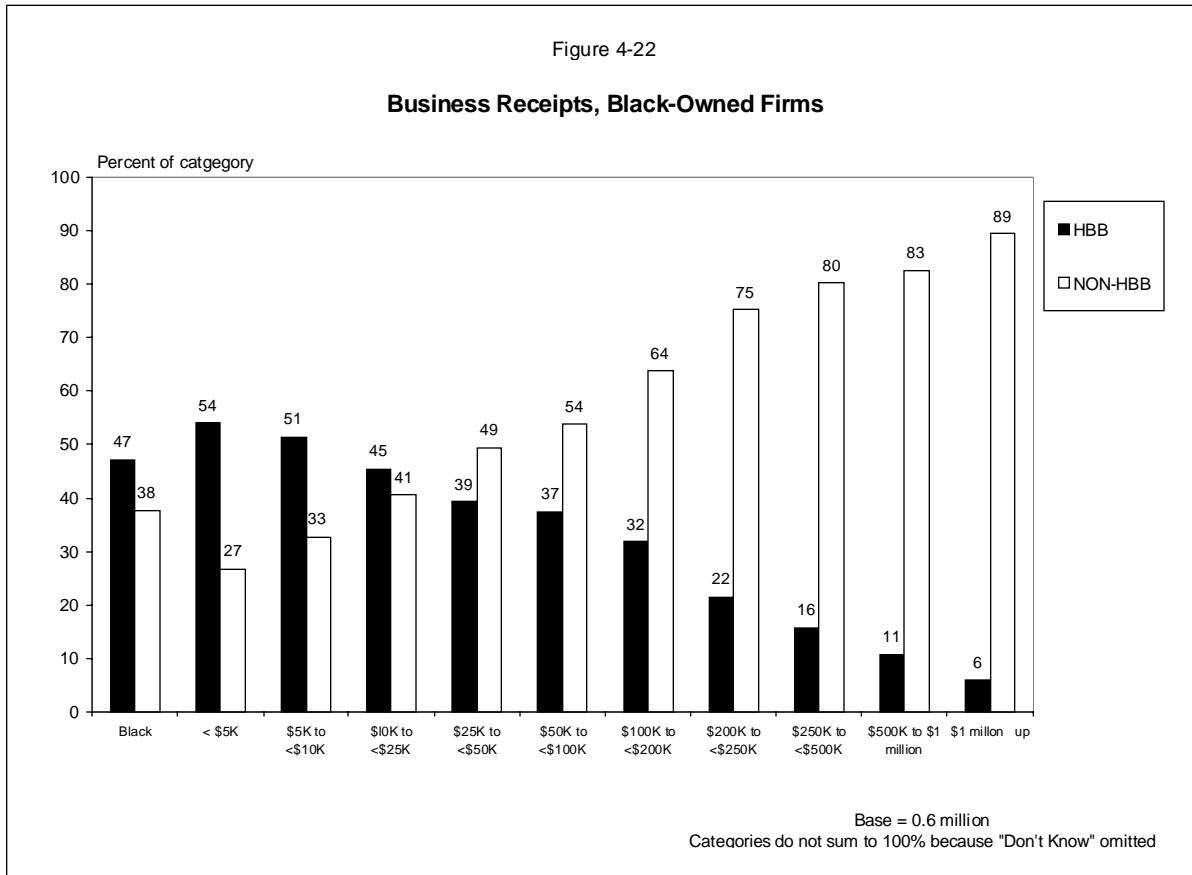


Figure 4-23

Business Receipts, Hispanic-Owned Firms

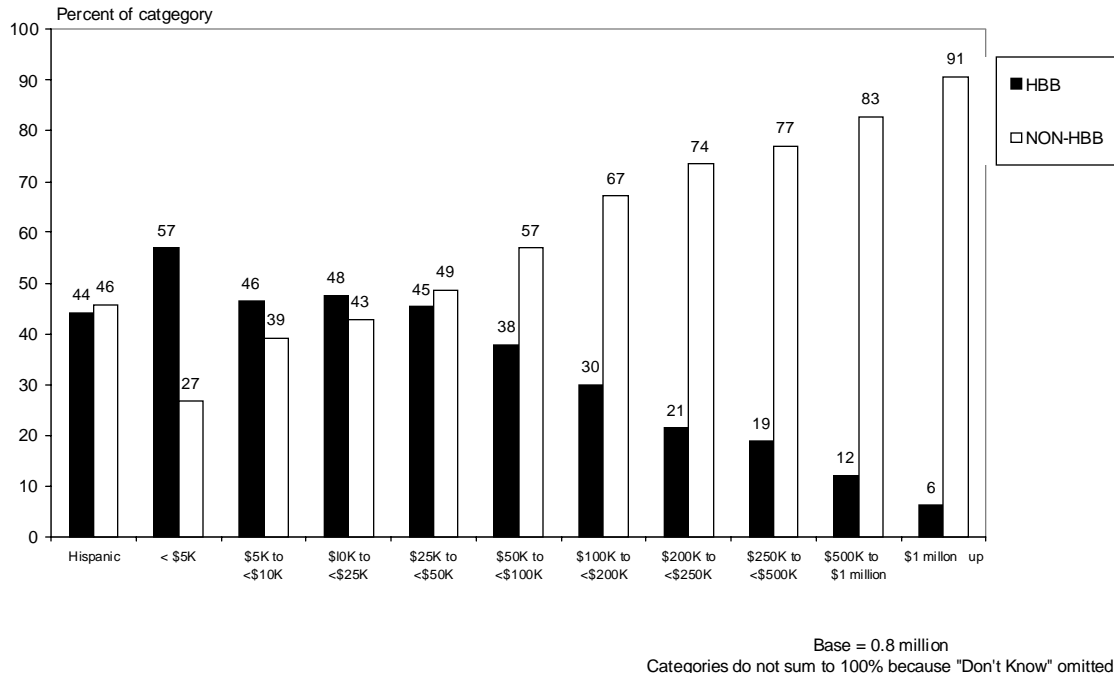
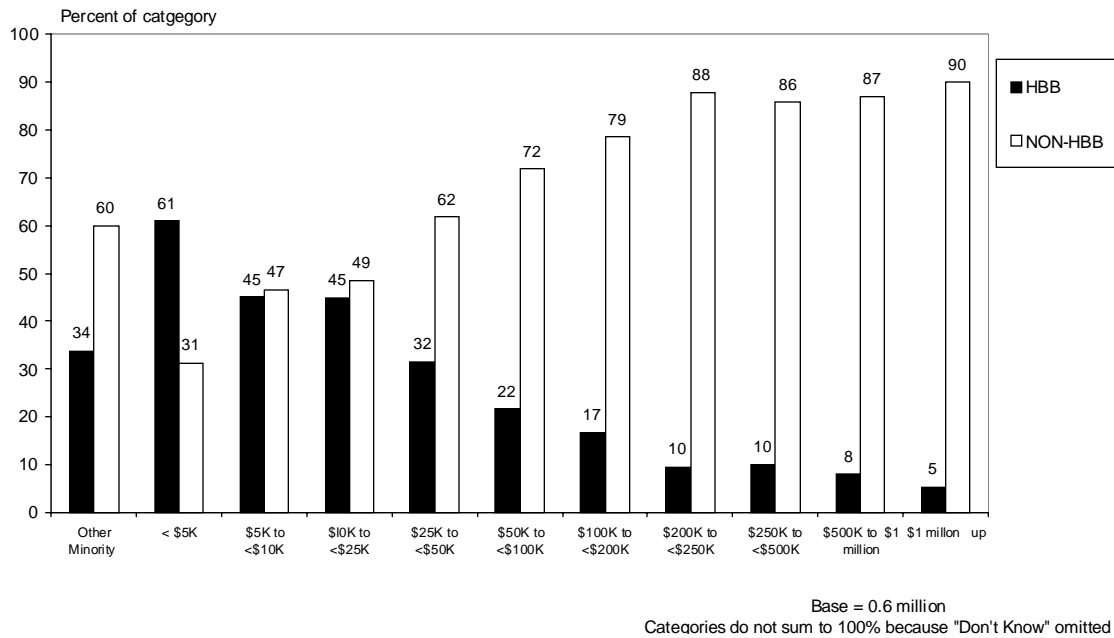


Figure 4-24

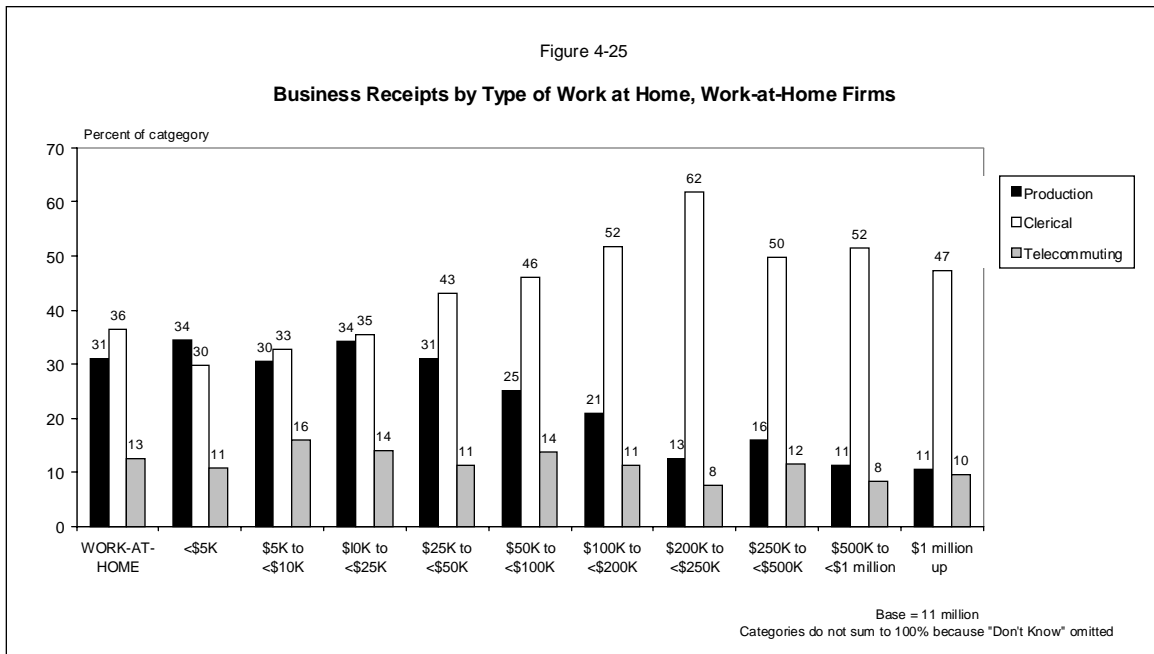
Business Receipts, Other Minority Firms



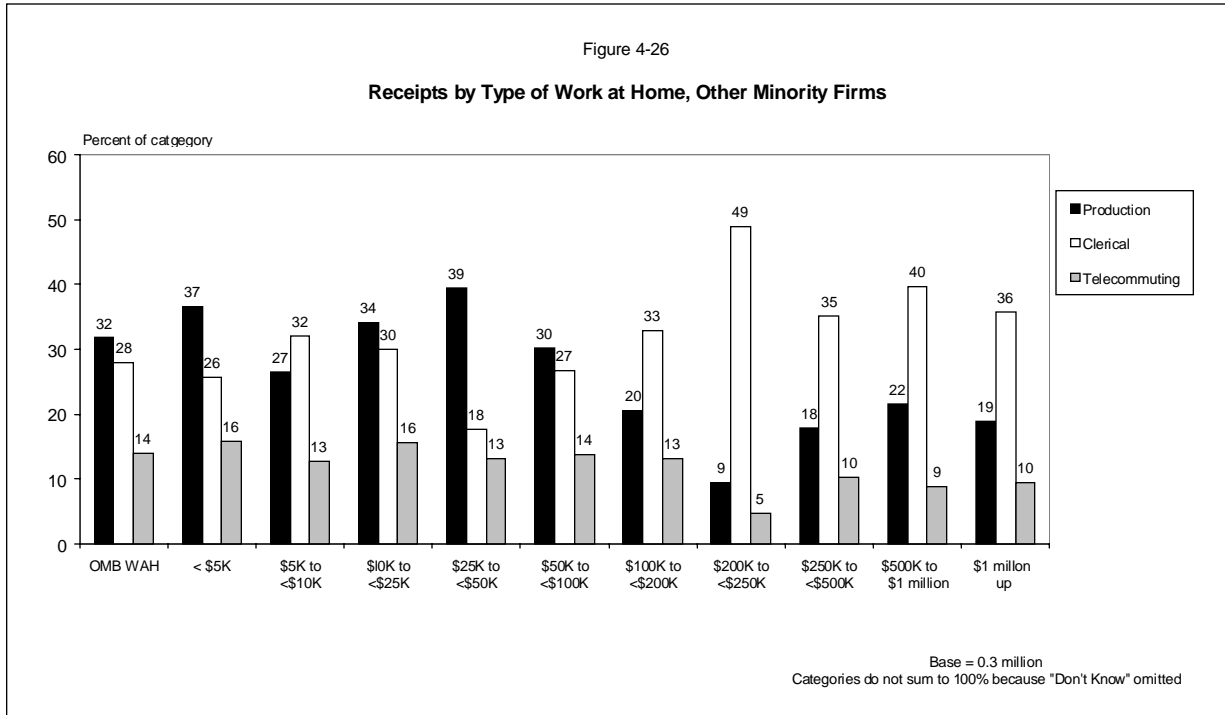
Business Receipts by Type of Work Performed

- Higher business earnings are associated with homebased clerical work, not the production of goods and services

For most of the sub-groups, the proportion of firms producing goods and services in homes drops off as receipts increase, while those using the home for clerical tasks predominate (Figure 25). As shown in Figure 4-26, other minority-owned firms are the exception: 18-22 percent of those grossing \$250,000 or more engage in homebased production.



- Low receipts are associated with production of goods and services in the home.



Profit

- **Homebased businesses tend to be less profitable than non-homebased firms**

Looking at all businesses in Figure 4-27, which compares gender and racial groups, some homebased businesses earn a profit of \$10,000 or more, but two to four times as many non-homebased firms do so. Only 6 percent of women-owned businesses and 7 percent of black-owned firms report greater than \$10K in profits if they are homebased, compared with 24 percent of WOBs and 17 percent of black-owned firms located outside the home.

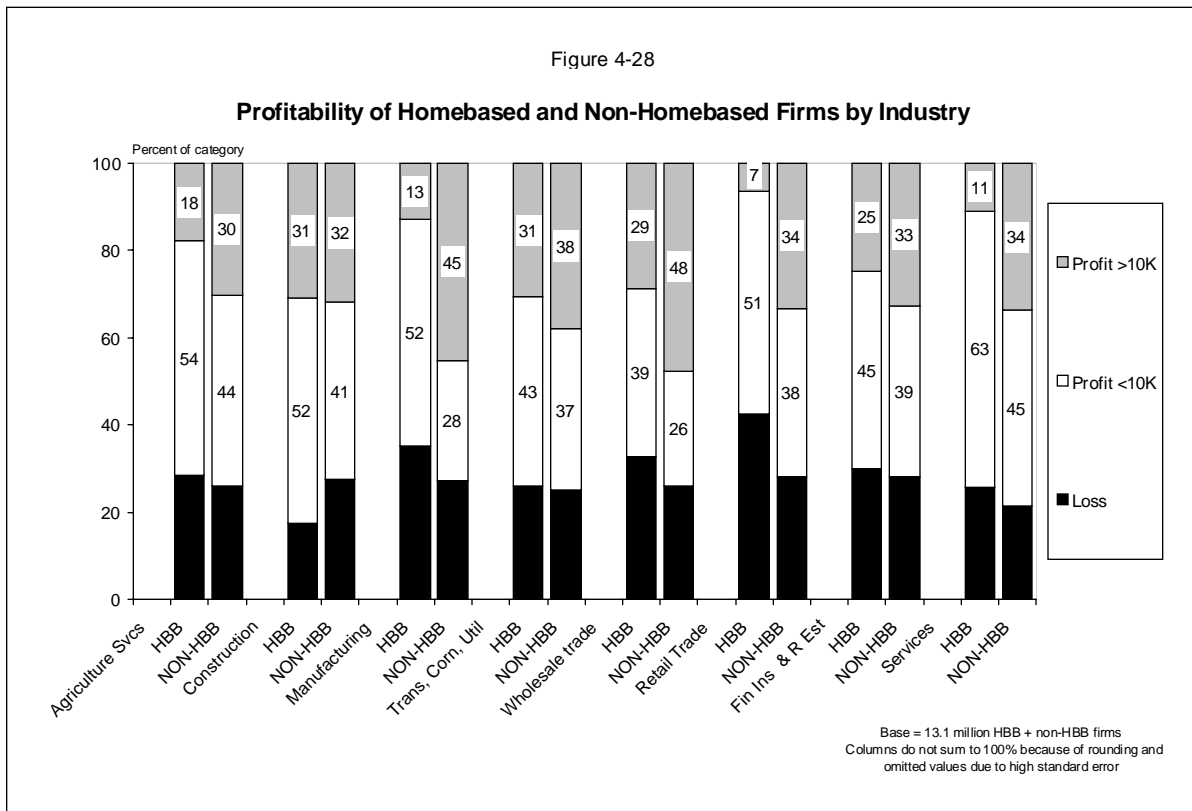
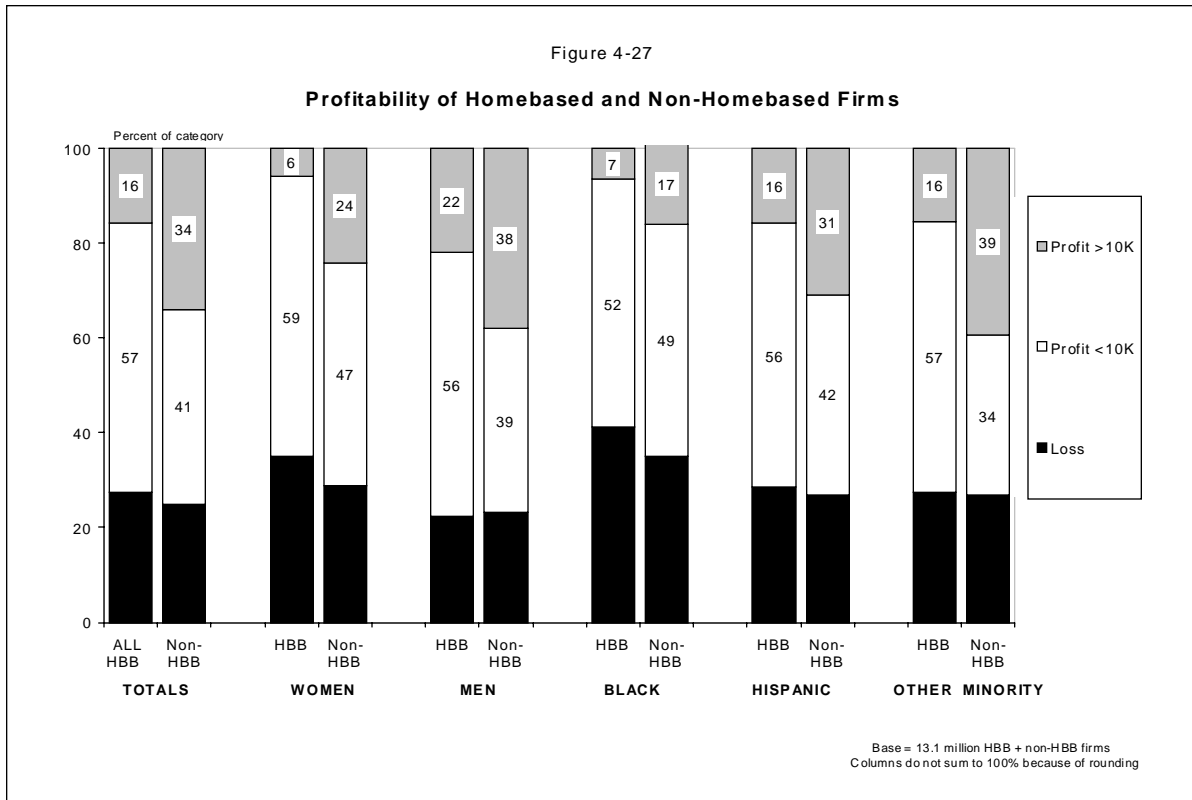
As Figure 4-28 illustrates, some industries, taken as a whole, provide greater profits than others. (Segments within given industries, can, of course achieve higher profits.) On average for all firms, non-HBB wholesale trade (48 percent), followed by construction (45 percent), provides the highest returns. More homebased firms earn over \$10K in construction (31 percent) and TCU (31 percent) than in other industries.

Comparing profits, by demographic groups and by industry, reveals that larger percentages of homebased women-owned firms do better in construction (18 percent) and wholesale trade (17 percent) than in other industries, but non-HBBs still outperform them. In those same industries, 34 and 36 percent, respectively, of non-HBBs report greater than \$10K in profits. Across industries, the greatest losses—50 percent of women-owned homebased businesses—are in retail.

Nonminority men do equally well operating as a homebased or non-homebased business if they are in construction or finance, insurance and real estate: the profits of about one-third of each exceed \$10,000. However, in retail trade only 11 percent of homebased male-owned firms versus 36 percent of non-HBBs report profits over \$10K.

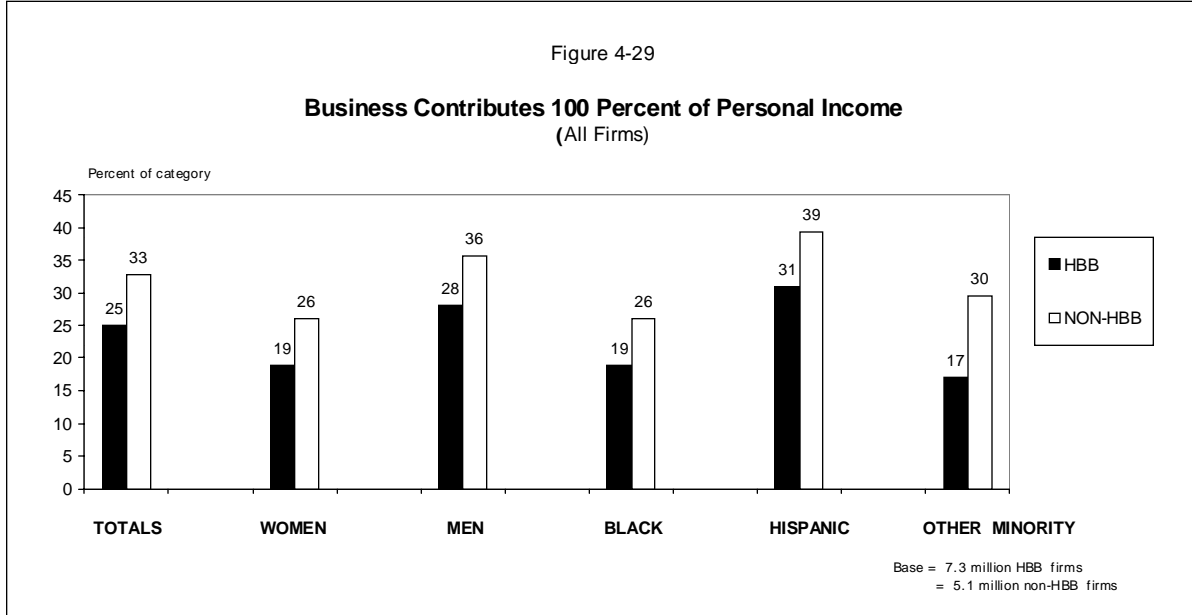
The three ethnic groups show about the same percentages of black, Hispanic and other minority businesses in construction or transportation, communications and utilities, and other minority firms in agricultural services, earning greater than 10K in profits— independent of location. The largest disparities between homebased and non-homebased firms are in other minority service firms. Forty percent of non-HBBs earn over ten thousand, compared with only 11 percent of those who work from home.

- Homebased firms earn profits equivalent to non-HBBs only in the construction and transportation, communications and utilities industries

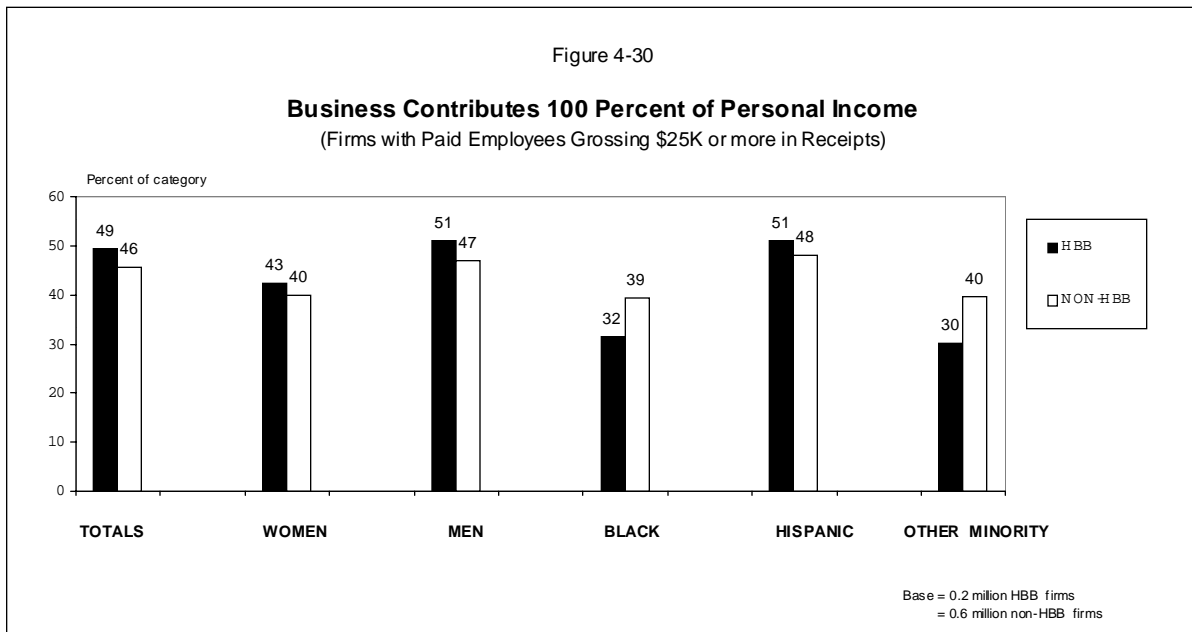


Contribution to Personal Income

- The average HBB contributes less than 100 percent of the owner's personal income



Typically, homebased firms contribute less income than non-homebased businesses (Figure 4-29). However, those that hire employees and gross \$25,000 or more in receipts, slightly exceed non-HBBs in providing personal income, as shown in Figure 4-30. Black- and other minority-owned firms the exception. At best, taken as a whole, small business contributes, on average, fewer than one half of personal income.



CHAPTER 5

BUSINESS SUCCESS

Chapter Highlights

Homebased businesses tend to remain in the home. As shown below, less than 5 percent of HBBs moved out of the home; only 0.5 percent of non-homebased firms moved into the home. Location has no bearing on survival rates. Over half of all homebased and non-homebased firms survive five years or more with no significant difference between them. Both close primarily from lack of cash or not having access to a business loan. More non-HBBs close because they do not have a personal loan. More firms with paid employees survive than those without, 85 to 51 percent.

The response to having cash flow problems or low sales differs significantly: more homebased firms use other income; more non-homebased businesses respond by adding capital, or seeking family help. Surprisingly, 37 percent of both HBBs and non-HBBs are rated as successful by their owners at the time the firms cease operations.

Table 5-1 Business Success Profiles

Business Characteristic Percent of firms in category	Homebased Businesses	Non-homebased Businesses
Change in location from startup	4.5%	0.5% *
Five-year survival, HBB + Non-HBB firms started in 1992		
With employees		84.6%
Without employees		51.3%
Reason for closure: no cash	75.7%	68.5%
Reason for closure: no business loan	7.9%	9.2%
Reason for closure: no personal loan	4.1%	10.3% *
Response to low cash flow: other income	21.6%	15.9% *
Response to low cash flow: add capital	6.8%	12.9% *
Response to low cash flow: family help	11.0%	19.1% *
Rated successful at time business ceased	36.5%	37.3%

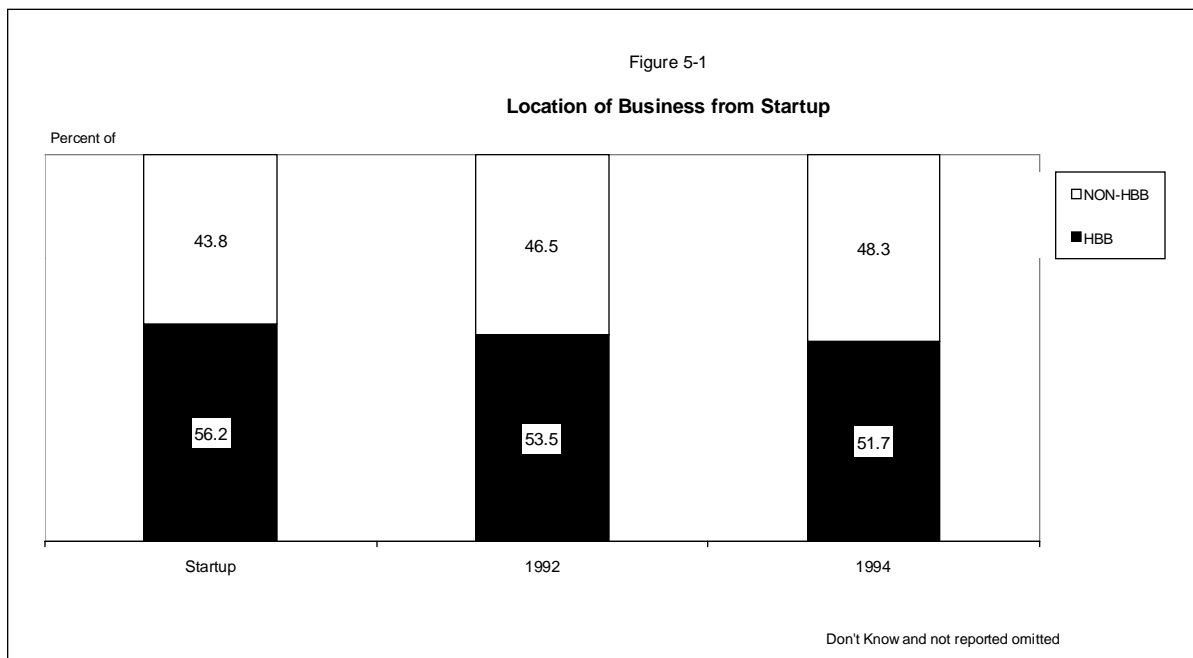
* Difference is significant with 90 percent certainty.

Homebased Businesses Remain Homebased

Is the home used to incubate fledgling enterprises or does it serve as the permanent business location? The fact that most businesses do in fact remain homebased, as shown in Figure 5-1, implies that the home is not being used simply for startups, rather it remains the permanent business location. Of all 1992 businesses sampled, 56.2 percent started in homes. By 1992, 53.5 percent were still homebased. Moreover, excluding businesses that began operations in 1993 and 1994, 51.7 percent of all businesses also were still homebased two years later, in 1994.¹ Thus, the number of businesses that moved out was less than two percent.

In 1992, only 24 percent of all 18.5 million homebased and non-homebased business owners had employees; the 76 percent majority did not hire employees for their firms. Apparently those HBBs that do have paid employees are no more likely to move out of the home than those without. From startup to 1991 – an unknown number of years – HBBs with paid employees fell from 30.0 to 24.5 percent. In the following two-year period from 1992 to 1994, the percentage of HBBs with paid employees dropped only one percent, from 24.5 to 23.4 percent.

Similarly, homebased firms without paid employees showed an initial change from 62.7 percent at startup to 60.6 percent in 1992 and a one-percent drop to 59.6 percent remaining in the home two years later. This data masks the impact that employees have on business survival rates as shown in the next section.

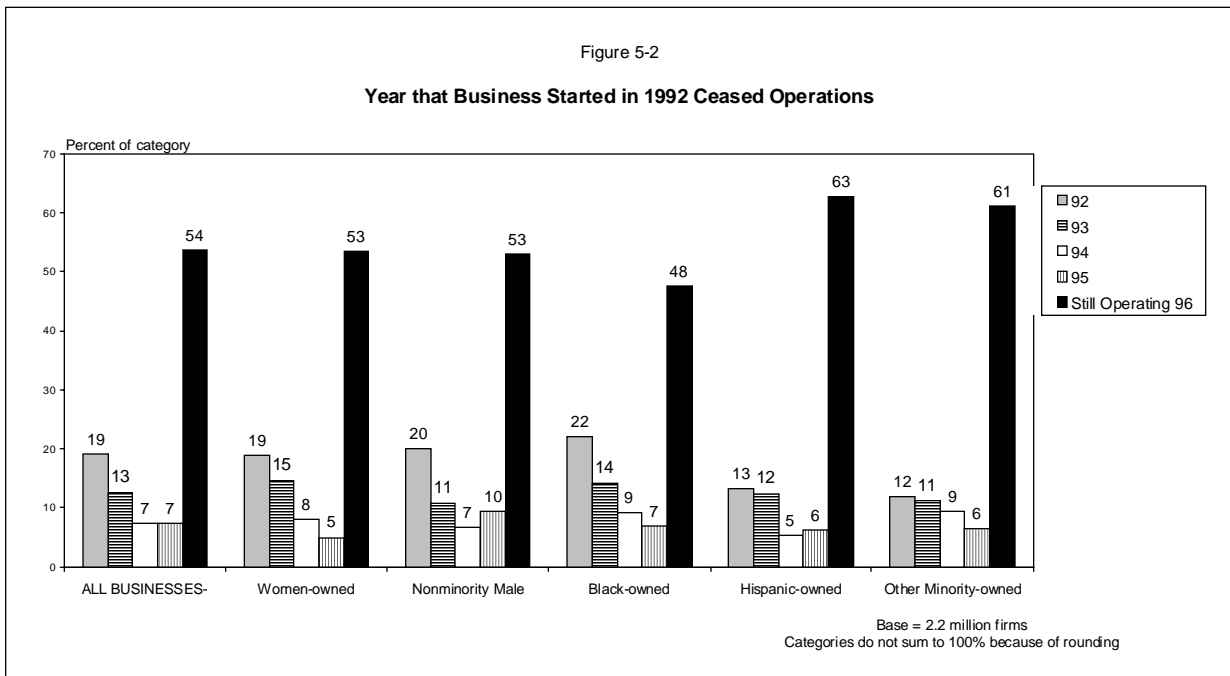


¹ The difference is significant at a 90 percent confidence level.

Critical First Two Years

- **Nearly one-third of all businesses close in the first two years**

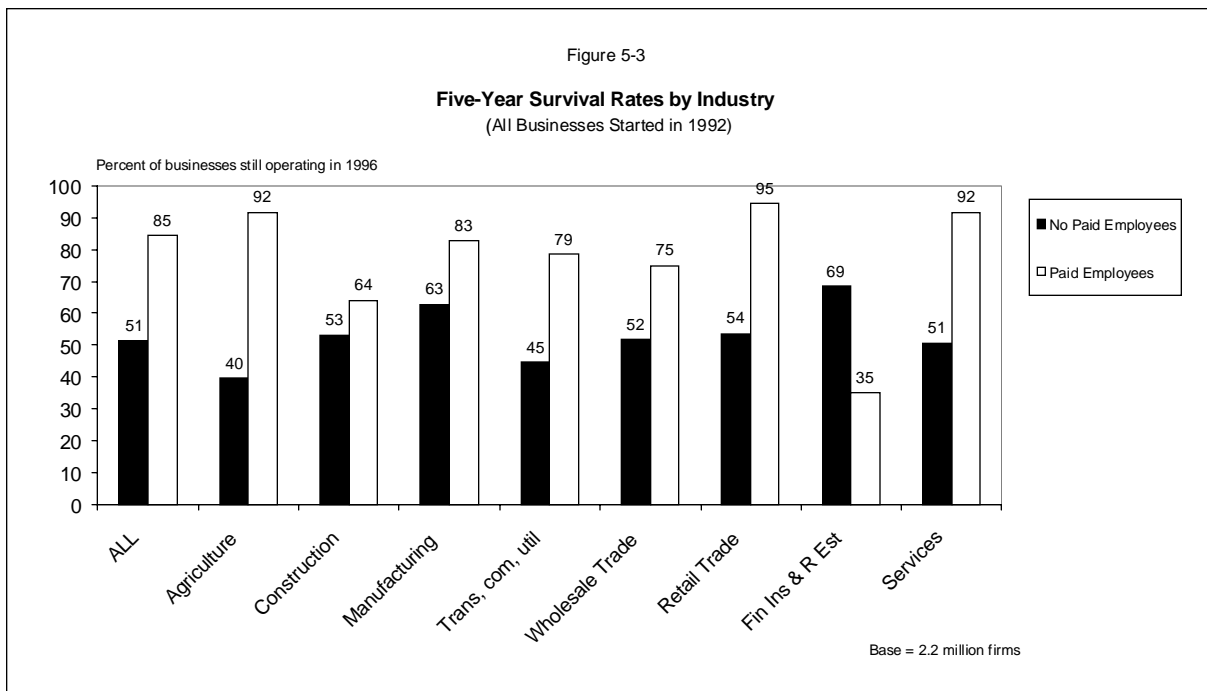
Figure 5-2 shows that nearly one third of all businesses close in the first two years, that is, in 1992 and 1993 for the 2.2 million firms started in 1992. There are some gender and ethnic differences: those women-owned businesses that close do so sooner than nonminority male-owned firms, but both have the same five-year survival rate. Relatively more black-owned firms cease operations in the first year and have the lowest overall survival rate. Nearly all other minority firms, most of which are Asian, do well the first year, but those that close gradually go out of business over the early years. The majority of “Asian” and Hispanic firms have relatively high success rates, 61 and 63 percent, respectively, at five years.



Survival Rates by Industry and Presence of Employees

- In all industries but finance, insurance and real estate, relatively more firms with employees, than those without, paid staff survive

Business survival rates are strongly tied to the presence of paid employees. For agricultural services, retail trade and service industries, the five-year survival rates nearly double from 40-55 percent to 92 percent or higher when the business has paid employees (Figure 5-3). Unexplained exceptions are FIRE industry firms that show a 69 percent five-year survival rate for those with no paid employees but only 35 percent survival for businesses with paid staff.²

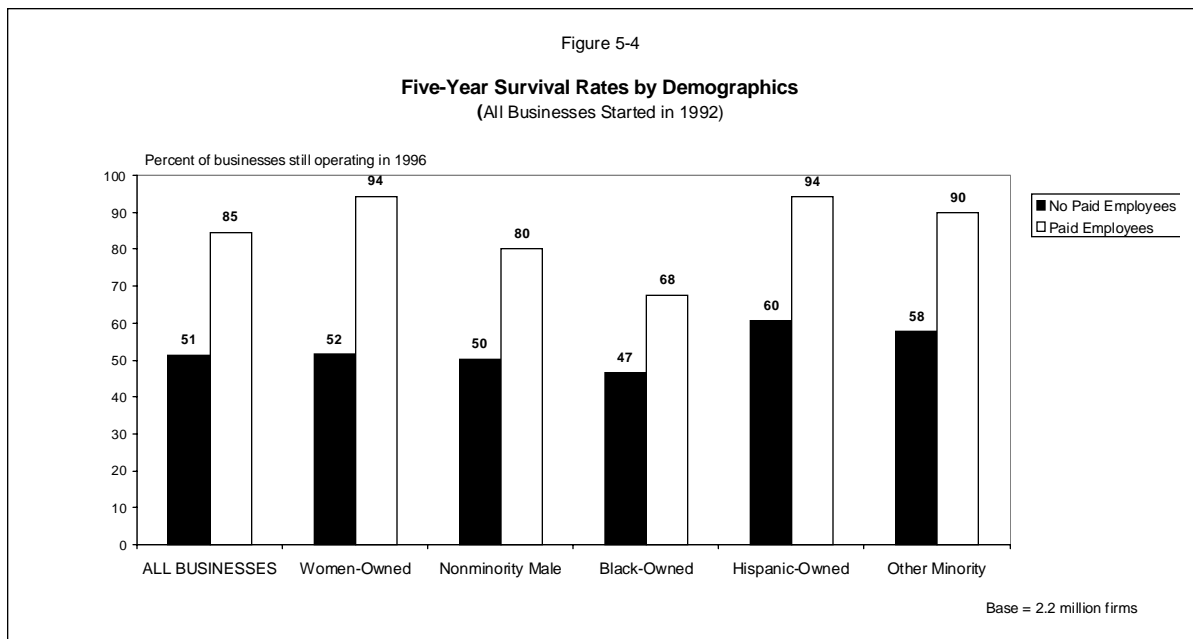


² The standard error is 10 for FIRE, which is not high enough to explain the discrepancy.

Gender and Race/Ethnicity

- **Businesses cease operations primarily because of lack of cash**

The presence of paid employees also has a strong impact on the survival of businesses for owners of various race/ethnicity and gender (Figure 5-4). For women-owned businesses the impact is striking: the survival rate nearly doubles for businesses with paid employees. Black-owned firms have the lowest survival rate of firms with or without employees.

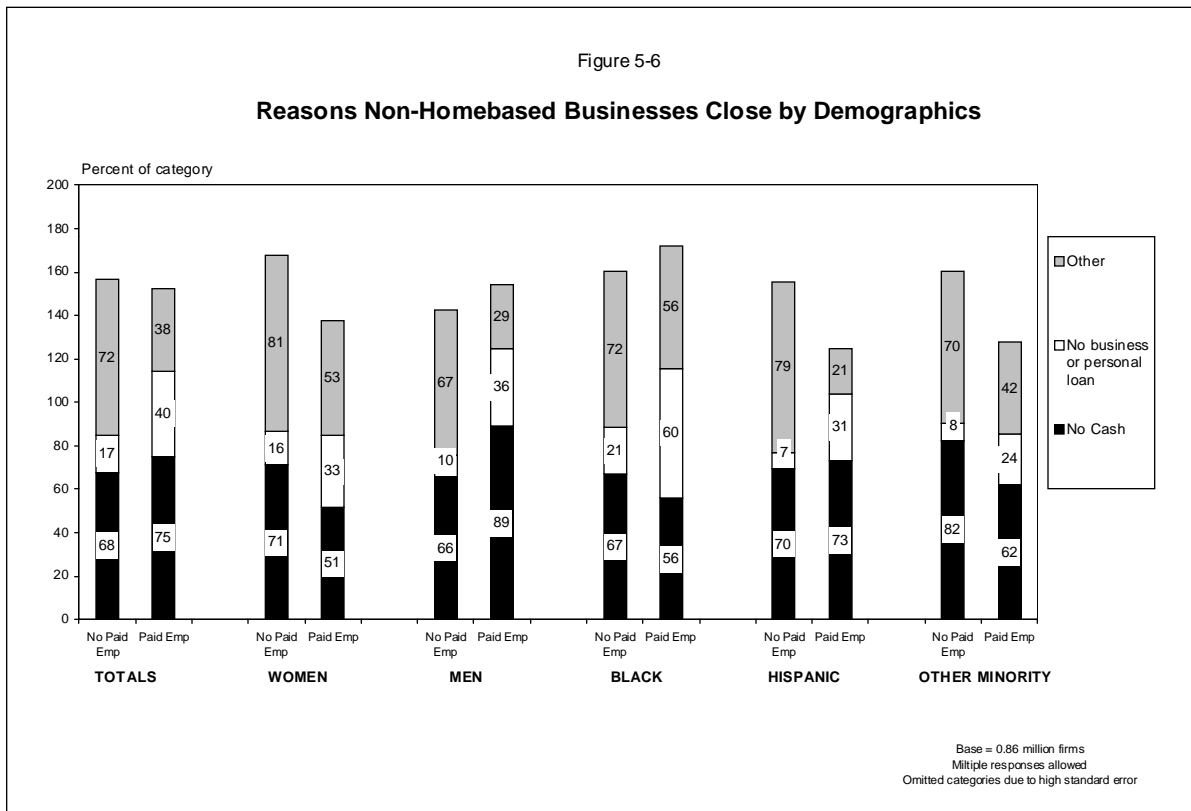
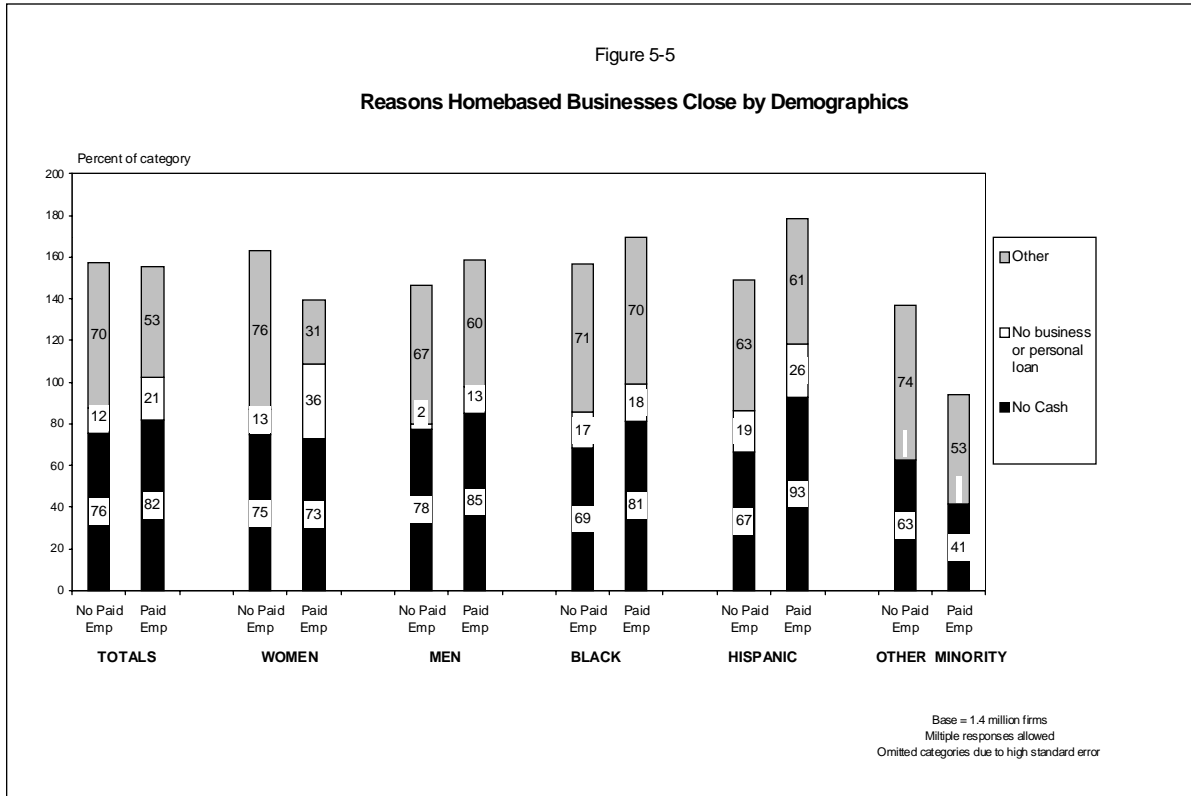


Why do Homebased Businesses Cease Operating?

Businesses cease operations because of lack of cash. Eighty-two percent of all HBBs with paid employees, and 76 percent of those without, closed for that reason. Non-HBBs also closed for lack of cash, but at the lower rates of 75 percent for those with, and 68 percent for firms without employees.

Although a majority of owners pointed to “no cash” as the reason for closure, 44 percent of homebased manufacturing firms with employees and 31 percent of non-homebased firms without employees could not obtain business loans. Firms in the retail trade that were located outside the home mentioned other factors as well. About 80 percent of those retailers located outside the home with employees and 95 percent of those without, said they had no cash; 10 percent with employees, and 17 percent without, attributed closure to having no business loan; and 19 and 9 percent, respectively, to not having a personal loan.

- Fewer homebased other minority firms close due to lack of cash in comparison with other groups

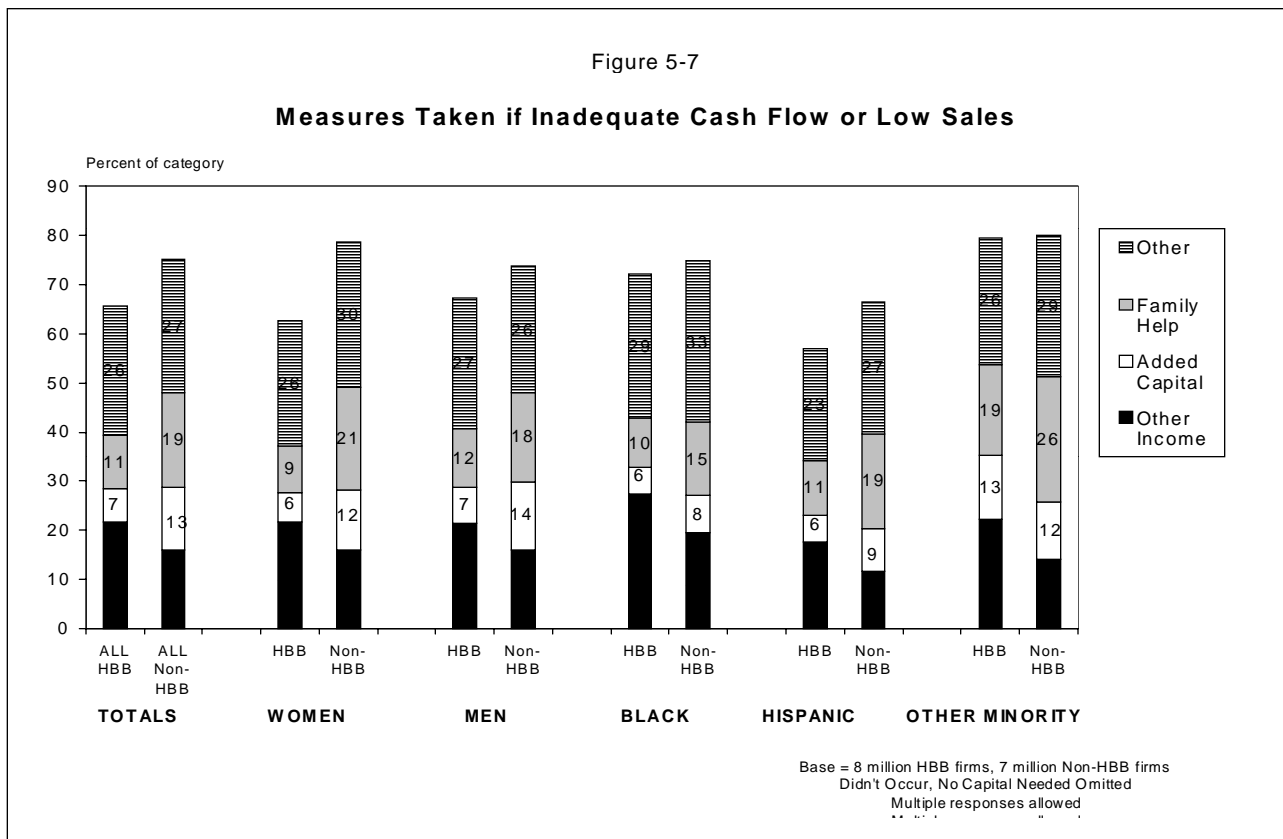


For HBBs, lack of a personal loan contributed to closure only in the transportation, communications and utilities sector, where more than one half of respondents cited no personal loan. In that industry, motor freight transportation accounts for 58 percent of HBBs, which suggests that operators do not have the money to acquire their vehicles. Probably for the same reason, non-HBBs with employees in that industry, attribute business closure to not having a personal loan.

Homebased manufacturers with paid employees are the only industry in which there is substantial closure because owners do not have business loans (44 percent). That also applies to non-HBBs – both those with and without paid employees. Throughout all industries, with the exception of retail, the majority of respondents listed “other” reasons for closure, such as lack of management skills, health, retirement, etc.

Measures Taken if Inadequate Cash Flow or Low Sales

Figure 5-7 shows that homebased firms, to a greater extent than non-homebased businesses, are financed with “other income” when they need cash because of low sales or inadequate cash flow. More women- and nonminority male-owned non-homebased businesses, 12 and 14 percent, respectively, than HBBs add capital. Family help is important for HBBs but especially for non-homebased other minority- (26 percent) and women-owned firms (21 percent). Non-HBBs are more apt to tide the firm over by delaying payment, but that practice is used by less than 10 percent of firms.



- **Businesses turn to family and “other income” sources when they need cash**

Across industries, about one fifth to one fourth of firms do not have a cash flow problem. Compared with all industries, fewer firms in the homebased service industry, 37 percent, need capital at all. There are no strong industry-specific differences in the measures taken to solve a cash flow problem. However, slow payment was used somewhat more widely in construction, manufacturing and wholesale and retail trades.

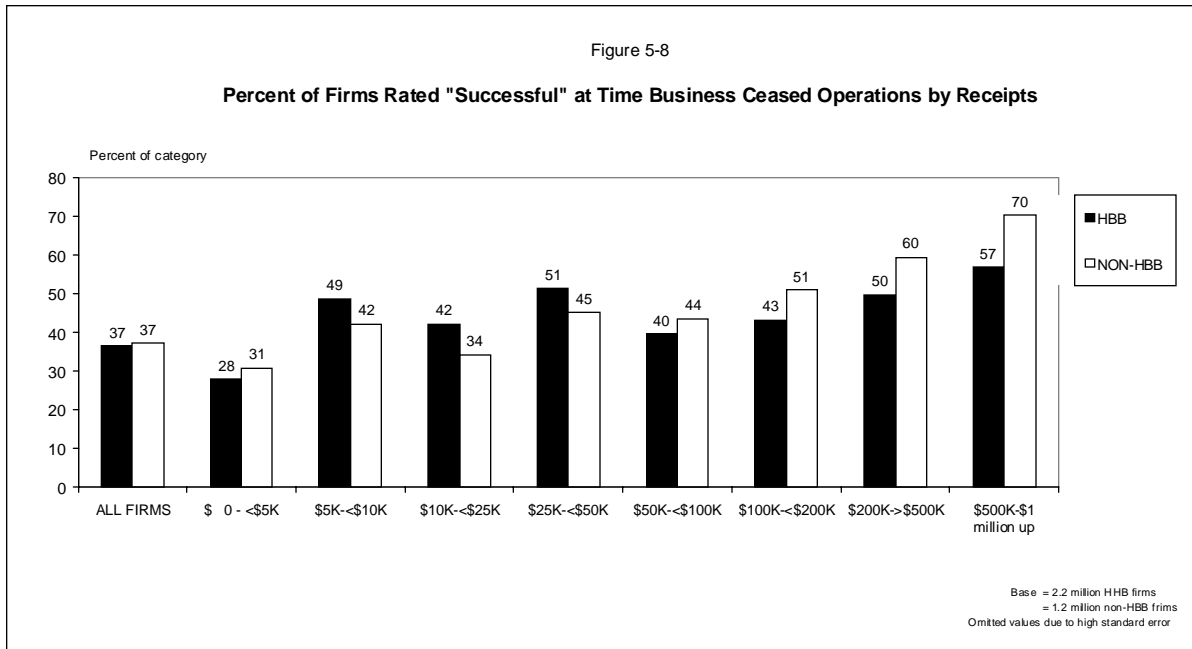
Owners’ Ratings of Success at Time Business Closed

- **More than one third of all firms that close are rated successful by their owners**

By Receipts

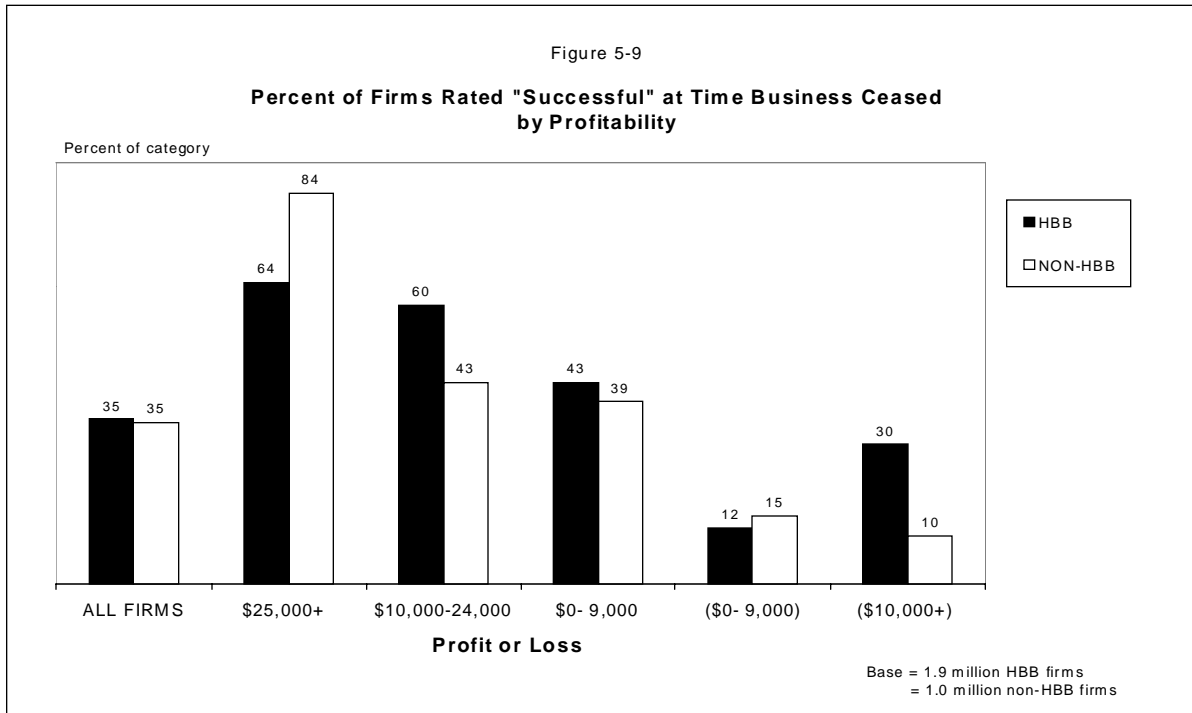
Owners of firms no longer in business were asked “Which item below best describes the status of this business at the time the decision was made to cease operations?” Figure 5-8 reveals that, overall, 37 percent of both homebased and non-homebased business were judged successful by their owners at the time they ceased operations. This response confirms other research, which found that the majority of firms were closed, not for lack of cash or the ability to obtain personal or business loans, but for “other” reasons.

As a general pattern, more homebased firms grossing \$5,000-49,999 were considered successful than their non-homebased counterparts, but the opposite is true for firms with receipts of \$50,000 or more.



By Profitability

Similarly, just over one third of homebased and non-homebased businesses were judged successful at the time the firm ceased when cross-tabulated by their profitability (Figure 5-9). The differences are revealed at various levels of profit and loss. Far more non-HBBs than HBBs—84 percent compared to 64 percent—were considered successful with profits of \$25,000 or more but three times as many HBBs as non-HBBs were said to be successful even with losses greater than \$10,000. A possible explanation for this surprising judgment is that HBB owners, most of whom are seeking a second income, can more easily offset their losses with other family income, than can non-HBBs. Most non-homebased firms provide the household's primary income.



By Weeks Worked

With two exceptions, the rating of business success at the time the firm ceased operations increases gradually from no work in the business (21-24 percent of homebased and non-homebased firms) to 48-52 weeks worked (42 percent and 37 percent, respectively of HBBs and non-HBBs). Over half of HBBs in which the owners had worked 36-47 weeks were rated as successful; nearly one half of non-HBBs whose owners worked only 1-12 weeks throughout the year also were called a success.

By Gender and Race/Ethnicity

- **With the exception of homebased Hispanic firms, more businesses with employees, than without, are rated “successful” at the time they close**

More homebased women- and nonminority male-owned businesses, and to a lesser extent, black and other minority firms which had paid employees, are considered successful at the time they close, than are firms without paid staff. Hispanic-owned businesses are the exception.

CHAPTER 6

BUSINESS OPPORTUNITIES AND CONTRIBUTIONS

Chapter Highlights

The majority of both women and non-minority men prefer homebased firms to businesses located in more traditional commercial locations. As shown in Table 6-1, the main reason they operate from their homes is to earn a second, not a primary income, by a ratio of 2 or 3 to 1. However, more men than women who choose a non-HBB seek primary income.

Women-owned businesses resemble nonminority male-owned firms, if they are homebased, in requiring little or no capital and relying on personal loans or savings to cover startup costs. But three times more MOBs hire employees and nearly four times as many earn profits exceeding \$10,000. Another difference is that women produce goods and services while men do clerical tasks at home. Also, twice as many industries afford a homebased MOB economically viable opportunities. Unlike women, when men operate their firms outside the home, one-quarter hire paid staff and more firms need capital in larger amounts, which they acquire from bank loans. In fact, men can choose to work either at home or not and achieve gross receipts within a range of \$50,000 to \$100,000. Women must operate their firms from commercial quarters if they want a better than average chance of grossing over \$50,000.

The majority of blacks, Hispanics and other minorities do not operate their businesses from home. The comparative summary in Table 6-2 highlights the fact that blacks have the highest proportions of female business owners, and they are the group most interested in supplementary, rather than primary income. Irrespective of business location, few black-owned businesses obtain capital. Instead, they draw on personal resources.

Relatively few Hispanic women own businesses. Even those who are separated, divorced or widowed do not operate businesses. Hispanic owners do somewhat more clerical than production work at home, which is consistent with their ownership of construction and wholesale trade businesses. Although twice as many non-homebased Hispanic owners want primary, not secondary income, their capital needs remain minimal and they tend to fund their enterprises from personal resources. Unlike blacks and other minorities who are more likely to gross over \$25,000, on average, if they operate in a commercial location, Hispanics can gross up to \$50,000, regardless of location.

Table 6-1 Business Profiles by Gender

Characteristic (Percent of firms in category)	Homebased Businesses	Non-homebased Firms
Women-Owned Businesses	55.2%	44.8%
Main reason for being in business	2.7/1 second income/primary	1.3/1 second income/primary
Main work at home	Production	NA
Percent with employees	3%	15%
Hours worked, maximum average	32 hours/week	38 hours/week
Capital need	< \$5,000	<\$5,000
Capital source	Personal loan/savings	Bank loan/ savings
Dominant industry	All but finance, insurance & real estate (FIRE)	FIRE
Best business opportunity	Construction, Wholesale trade	FIRE
Profits > \$10,000	6%	24%
Percent for whom firm contributes 100% of personal income	19%	26%
Range in which receipts are independent of HBB/non-HBB location	\$25,000-50,000	
Nonminority Male-Owned Businesses	51.7%	48.3%
Main reason for being in business	1.7/1 second income/primary	1.5/1 primary income /second
Main work at home	Clerical	NA
Percent with employees	9%	25%
Hours worked, maximum average	36 hours/week	44 hours/week
Capital need.	< \$5,000	\$5,000 - \$25,000
Capital source	Personal loan/savings	Bank loan/ savings
Dominant industry	Agric. services, Construction, Transportation, communications & utilities (TCU), Services	Manufacturing, Retail trade, Wholesale trade, FIRE
Best business opportunity	TCU, Wholesale trade, Construction, FIRE	Wholesale trade, TCU, Construction
Profits > \$10,000	22%	38%
Percent for whom firm contributes 100% of personal income	28%	36%
Range in which receipts are independent of HBB/non-HBB location	\$50,000-100,000	

Other minorities have the lowest percent of homebased firms and low representation of women owners. Four times as many non-HBBs as homebased firms have employees. Strikingly, over one fourth of those that do have employees, list family responsibilities as their main reason for starting a business.

A high percentage of other minorities are foreign-born. Compared with the other groups, other minority firms require the most capital, but the majority depends almost entirely on personal loans or savings for funds. Thirty-nine percent of non-homebased OMBs make \$10,000 or more in profits which puts them on a par with nonminority MOBs.

Sole proprietorships, partnerships and S corporations added \$2.9 trillion to the economy in 1992 with homebased firms contributing \$314 billion, or 11 percent. When Chapter C firms are included, the homebased contribution is 5 percent of the estimated \$6.4 trillion total contribution of all small employer firms with less than 500 employees.

The gap in gross receipts, profits and contribution to personal income is narrowed between homebased and non-homebased businesses when owners operate their firms to obtain primary, rather than supplementary income.

Table 6-2 Business Profiles by Ethnicity

Characteristic (Percent of firms in category)	Homebased Businesses	Non-homebased Firms
Black-Owned Businesses	48.3%	51.7%
Percent women owners	48 %	42 %
Main reason for being in business	2.5/1 second income/primary	1.3/1 second income/primary
Main work at home	Production	NA
Percent with employees	7%	13%
Hours worked, maximum average	34 hours/ week	38 hours/ week
Capital need	< \$5,000	<\$5,000
Capital source	Personal loan/savings	Personal loan/savings
Dominant industry	All but TCU, FIRE	FIRE, TCU
Best business opportunity	Construction, TCU	Wholesale trade
Profits > \$10,000	7%	17%
Firm contributes 100% of personal income	19%	26%
Range in which receipts are independent of HBB/non-HBB location	\$10,000 - 25,000	
Hispanic-Owned Businesses	46.2%	53.8%
Percent women owners	30%	28%
Born in USA.	53%	47%
Main reason for being in business	1.3/1 second income/primary	2.1/1 primary income /second
Main work at home	Clerical	NA
Percent with employees	8%	21%
Hours worked, maximum average	34 hours/ week	42 hours/ week
Capital need	< \$5,000	< \$5,000
Capital source	Personal loan/savings	Personal loan/savings
Dominant industry	Agric. services, Construction, Services	Manufacturing, TCU, Retail trade, Wholesale trade, FIRE
Best business opportunity	Construction, Wholesale trade	Wholesale trade
Profits > \$10,000	16%	31%
Firm contributes 100% of personal income	31%	39%
Range in which receipts are independent of HBB/non-HBB location	\$25,000 - 50,000	
Other Minority-Owned Businesses (Asian, Pacific Island, American Indian & Alaskan Native)	34.3%	65.7 %
Percent women owners	37%	30%
Born in USA.	37%	18%
Main reason for being in business	1.8/1 second income/primary	1.7/1 primary income /second
Main work at home	Production	NA
Percent with employees	5%	22%
Hours worked, maximum average	32%	48%
Capital need	< \$5,000	\$25,000+
Capital source	Personal loan/savings	Personal loan/savings
Dominant industry	Agric services, Construction, Services	Manufacturing, TCU, Retail & Wholesale trade, FIRE
Best business opportunity	Construction, Wholesale trade	Wholesale trade, Retail trade, Manufacturing, Services
Profits > \$10,000	16%	39%
Firm contributes 100% of personal income	17%	30%
Range in which receipts are independent of HBB/non-HBB location	\$10,000 - 25,000	

New Business Opportunities for All Groups

When examining the implications of this research, first recall that the CBO sample omits all C corporations, some of which are homebased. The CBO represents the self-employed owners of the 17 million businesses that filed Schedule C, partnership or S corporation tax returns in 1992. Second, owners' responses are recollections made when they filled out the surveys in 1996-7 regarding businesses they owned in 1992, businesses they may have started or acquired much earlier, or no longer operate. Finally, some respondents did not answer every question, so that the total number of firms, homebased and non-homebased, varies throughout the report.

Women

Over half of all self-employed women choose to operate a business in or from their homes (55.2 percent or 3.25 million.) Those without employees work to supplement their income (38 percent),¹ rather than earn their primary income (14 percent). Although women's reasons for owning a business are to earn money and to be their own boss, family responsibilities are the primary motivating factor for some (17 percent). Those who hire employees have different goals for being in business. Twice as many want to be their own boss (31 percent), more want a primary income (22 percent) and fewer own a business to serve family responsibilities (12 percent).

Women business owners are relatively well educated, having obtained at least some college, a bachelor's or advanced degree. Over half of homebased women owners had the benefit of a close relative's prior business experience.

Women operate homebased firms in all industries. Well over half of the women who work at home produce goods and services (60 percent). More than one fourth perform clerical tasks (29 percent) and a small number of those owning firms outside the home telecommute (11 percent).

The great majority of homebased women entrepreneurs need less than \$5,000 in business startup capital or none at all. They tend to rely on personal resources, for example, by contributing their own savings (39 percent) or using personal loans (11 percent) as their borrowed capital. Very few obtain bank loans (5 percent).

In comparison with women who choose to set up their businesses at home, more women who opt for a location away from their residence work to earn a primary income (20 percent non-HBB). As is the case with HBB owners, women-owned firms that hire employees are more interested in earning primary income (31 percent) and in being their own boss (30 percent). Thus, independent of choice of location, one could say that the hiring of employees indicates a stronger business motivation, relative to firms without paid staff.

¹ Percentages throughout are based on firms, not the owners. For example, 38 percent of homebased women-owned firms without employees are operated to gain secondary income.

Non-homebased business like women-owned HBBs are found in every industry. Strikingly, non-HBBs predominate only in finance, insurance and real estate (61 percent non-HBB vs. 31 percent HBB.)

Bottom Line for Women Business Owners

Of women-owned businesses with gross receipts of \$1 million or more, 8 percent are homebased; 90 percent are non-homebased. More firms grossing \$50,000 or more are non-homebased; more of those grossing \$25,000 or less are operated from home. Business location makes no significant difference in the range of \$25,000 to \$50,000 in receipts.

The type of work done at home affects earnings. More firms grossing below \$50,000 do production work, while more of those grossing above that amount do clerical tasks. For example, of women-owned firms grossing one million or more, nearly half do clerical tasks at home (46 percent).

Homebased firms tend to be less profitable than those located outside the home and more report a net loss. In spite of the presumed savings in cost of leased space, four times as many non-HBBs earn profits exceeding \$10,000 (6 percent HBB vs. 34 percent non-HBB) and over one third of HBBs report a loss (35 percent HBB vs. 29 percent non-HBB).

For women wanting to operate a homebased business, the best opportunities are in construction or wholesale trade. Close to one fifth of homebased firms in those industries earns \$10,000 or more in profits.

Why the difference between business locations? In comparison with women who choose a non-residential location, women who operate businesses from home acquire less capital and fewer have employees. Finally, they work 6 hours less per week and fewer weeks/year than do non-HBB owners.

Nonminority Men

Just over one half of nonminority male-owned firms are homebased (51.7 percent or 5.23 million). Men without employees want to earn a second income (35 percent), a primary income (21 percent) or to be their own boss (24 percent). Family responsibilities are not an incentive for men to start a homebased firm. Over one fourth of male-owned firms are owned by military veterans (29 percent). Somewhat more of the homebased male owners who hire employees seek a primary income (36 percent) and more want their independence (31 percent).

Male-owned firms have well educated owners, most having attained some college, a bachelor's (20 percent) or graduate or professional degree (11 percent). Over half had a close relative in business.

More nonminority male-owned businesses are homebased than not, except in retail trade and FIRE (32 percent and 31 percent homebased, respectively). MOB

manufacturing and wholesale trade firms are about equally homebased and non-homebased. More than one half of the work that men perform at home is clerical (51 percent), one-fourth production of goods and services (28 percent) and one fifth telecommuting.

Seventy-two percent of homebased male-owned businesses need less than \$5,000 or no capital, which they borrow about half from personal sources and half from business and bank loans. They also draw from personal savings.

On the other hand, male entrepreneurs and at-home professionals who opt for a location outside the home, but no employees, want a primary income (29 percent) and to be their own boss (27 percent). Few are trying to earn additional income (19 percent). Interestingly, a few mention family responsibilities as their reason for starting a *non-homebased* business (6 percent). With the addition of employees, interest in a primary income increases to 40 percent, the desire for a second income drops to 7 percent and wanting to be one's own boss becomes more compelling.

Most male-owned non-HBBs need more capital than homebased firms—\$5,000 to \$25,000 or more (59 percent). Men obtain capital from bank loans (22 percent), personal loans (16 percent) and business and government sources (9 percent). They rely on personal savings to the same degree as their MOB homebased counterparts (43 percent). Non-HBBs sell primarily to individuals and in the same marketplaces as homebased firms.

Bottom Line for Nonminority-Male Business Owners

Of male-owned firms that gross \$1 million or more, 5 percent are homebased. Firms grossing \$100,000 or more are located outside the home; those earning less are homebased. The crossover is \$50,000 to \$100,000, the range in which 10 percent more firms are non-homebased than are located at home.²

Blacks

Slightly under one half of black-owned firms are homebased (48.3 percent or 0.3 million). Those without employees work for a second income (40 percent), not as their primary means of support (16 percent). Black business owners want to be independent (20 percent) and a few mention family responsibilities (10 percent). Most of those who hire employees seek primary income (29 percent), in contrast to supplementary income (17 percent), or serving family needs (8 percent). Over one third with paid staff want to be their own boss (34 percent).

About half of the black HBB owners are male (52 percent) and one fifth are veterans. They are relatively well educated with some college, a bachelor's or advanced academic or professional degree. Less than one third had a close relative who owned a business.

² The difference is significant with a 90 percent confidence level.

Blacks own firms in every industry. BOB owners spend equal time in production and clerical tasks (42 percent) and owners of 16 percent of firms telecommute. Clerical work occurs in agricultural services, construction, TCU and wholesale trade; production work is strongest in services, manufacturing and retail trade, where blacks have a strong presence.

Black homebased business owners report limited needs for capital. Less than one fifth need over \$5,000 for startup (18 percent). Those who borrow acquire capital from personal (15 percent) or bank loans (5 percent) or draw from personal savings (38 percent).

Compared with black HBB owners, somewhat more black-owned firms, not located at home, want a primary income (22 percent) but fewer are working for secondary income. They are motivated by a desire for independence (25 percent) and to serve family needs (7 percent), as well as for a variety of other reasons (17 percent). Non-BOBs are slightly more common in FIRE (54 percent) and TCU (51 percent) but in all other industries, homebased firms outnumber those that are non-homebased.

The marketplace for homebased or non-homebased firms is largely the owner's city or county (about 50 percent of firms) and neighborhood (about 45 percent).

Bottom Line for Black Business Owners

Of BOBs that gross \$1 million or more, six percent are homebased. Firms earning \$25,000 or more are operated as non-HBBs. Those grossing less than \$10,000 are homebased. The crossover range is \$10,000 - \$25,000 for BOBs. Only 7 percent of black HBBs earn profits exceeding \$10,000. Over half make less (52 percent) and 41 percent suffer a loss. Somewhat more black non-HBBs are profitable: 17 percent earn over \$10,000, 49 percent less and 35 percent report a loss.

The best opportunities for blacks are in the transportation, communications, utilities industry and ownership of construction businesses, in which close to one fifth of firms net over \$10,000 in profits.

Hispanics

Only 46.2 percent or 0.36 million of Hispanic entrepreneurs own homebased firms. They seek supplementary income (30 percent), to be their own boss (25 percent) and also want primary income (23 percent). They are not motivated by family concerns. Firms with employees are more strongly influenced by a desire to be their own boss (44 percent).

Less than one third of homebased HOB operators are women (30 percent). Just over half were born in the USA (53 percent) and 16 percent are veterans. Nearly one fifth have less than a ninth grade education although a total of 42 percent have attained some college or a bachelor's or advanced degree. More than one third had a close relative in business (37 percent).

Hispanics operate businesses in all industries but homebased firms are the majority only in three: agricultural services, construction and services. Nearly one half of tasks performed at home involve clerical work (47 percent); slightly over one-third the production of goods and services (37 percent) and 17 percent telecommute.

Most HOBs need very little, if any capital (77 percent). They finance their enterprise with personal savings (40 percent) or with personal (11 percent) and bank loans (6 percent).

Contrasted to homebased Hispanic firms, fewer non-homebased Hispanic businesses are owned by women (28 percent), by people born in the U. S. (47 percent) and by veterans (16 percent). Owners are motivated by needs for primary income (30 percent), to be their own boss (30 percent) and to supplement income (14 percent). The main reason given by a few to open a non-HBB was to meet family responsibilities (9 percent). Unlike homebased HOBs, the fact of having paid employees makes little difference as to why owners go into business.

Hispanics who are not U. S. -born are quite evenly distributed across all industries, with somewhat more in non-HBB agricultural services (68 percent) and TCU (67 percent). Some non-HBB Hispanic firms need as much as \$25,000 or more capital (13 percent).

Bottom Line for Hispanic Business Owners

Of Hispanic businesses that gross one million or more, 6 percent are homebased. More firms that gross over \$50,000 are non-HBBs; those with receipts less than \$25,000 are homebased with the crossover in the \$25,000 - \$50,000 range.

Fifteen percent of Hispanic homebased and 31 percent of non-HBB earn profits of \$10,000 or more. Of those netting less than \$10,000, 56 percent are HBBs and 42 percent, non-HBBs. About 28 percent lose money regardless of business location.

The most profitable businesses for Hispanics who want to operate in or from their homes are in the construction and wholesale trade industries. The most profitable industry overall is non-homebased wholesale trade, in which over half of HOBs earn more than \$10,000 in profits.

Other Minorities

As few as 34.4 percent or 0.21 million other minorities choose to operate businesses from their homes. The group is composed of about 93 percent Asians and Pacific Islanders and 7 percent American Indians and Alaskan natives. One third of other minority owners is interested in a second income (36 percent), one fifth is in business for their main income (20 percent) and others are motivated by wanting to be their own boss (16 percent), by family needs (9 percent) and various other concerns (8 percent).

Less than one third of other minority homebased business owners are women (37 percent). Only 37 percent were born in the USA and a small number are veterans (13

percent). They are highly educated with college degrees (28 percent), master's (12 percent) and professional or doctoral degrees (7 percent). Under one half had a close relative in business (41 percent). OMB owners principally produce goods and services at home (51 percent) although one third do clerical tasks and some telecommute (15 percent). Having employees boosts the reason for acquiring a homebased business to 26 percent of responding firms.

Some homebased OMBs need \$10,000 or more for their business startup (37 percent). They obtain their capital from personal savings (46 percent) and from personal (15 percent) and bank loans (7 percent).

Other minority owners of non-homebased firms have fewer women owners (30 percent) and veterans (11 percent) than do OMB homebased firms. The most noticeable difference between non-HBBs and HBBs is the small number of non-homebased owners born in the U.S. — as low as 18 percent. Non-HBB other minority owners also are well educated: 17 percent have professional or Ph.D. degrees.

OMBs sell internationally but not many participate in those markets (6 percent HBB, 4 percent non-HBB). One fifth of HBB sales is regional, 46 percent city or county and 37 percent neighborhood. Similarly 13 percent of non-HBBs are regional, 42 percent city or county and 51 percent neighborhood.

Bottom Line for Other Minority Businesses

Sixteen percent of OMBs earn more than \$10,000 if they are a HBB, 39 percent if operated in more conventional locations. Fifty-seven percent of HBBs and 34 percent of non-HBBs earn less than \$10,000 and about 28 percent lose money regardless of location. The most profitable industries for other minorities interested in starting a homebased business are construction and wholesale trade. Most non-homebased firms that earn more than \$10,000 in profits engage in wholesale trade (54 percent) and retail trade (44 percent), manufacturing (43 percent) and services (40 percent).

Industry Profiles

Agricultural services

Of all industries, agricultural services has the highest proportion of small businesses seeking supplementary, rather than primary income (41 percent). But that holds true only for firms without employees. Forty percent of firms that have paid employees want a primary income, while only 5 percent are in business for a second income. Only a few percent of homebased firms and no non-HBBs choose this industry to serve family needs (6 percent).

The industry has the greatest number of biological and medical majors (16 percent HBB; 23 percent non-HBB). Over one half of homebased firms and one third of non-HBBs in the industry offer landscape services. Considering that landscaping is a seasonal business, the fact that three fourths of homebased firms with employees work throughout the year is remarkable.

Construction

Homebased business owners choose construction second to transportation, communication and utilities as their preferred industry for gaining primary income. Over three-quarters, 77 percent, of construction firms are homebased, the highest ratio of any industry. Construction also has the highest rate of telecommuting (28 percent).

Construction is tied with TCU for the most firms earning \$10,000 or more in profits (31 percent). Of all industries it has the lowest record of losses for HBBs (18 percent), but slightly greater than the average, for non-HBBs (27 percent).

The industry has one of highest concentrations of veterans (30 percent HBB vs. 37 percent non-HBB). As preparation for careers in this industry, business owners tend to major in construction (22 percent HBB and 36 percent non-HBB) and to have been previously employed by a relative (33 percent). But they have little prior ownership experience, whether they currently operate as either an HBB or non-HBB.

A large percentage of firms are general contractors doing residential construction or they are self-employed carpentry contractors. The owners work throughout the year. They are second only to those in TCU for the amount of time they work at their businesses. Those with paid employees work 48+ weeks (82 percent). However, only 50 percent of non-HBBs without employees work year-round.

Construction is the only industry in which all sales are local or regional, regardless of the business location, homebased or not. The industry attracts the greatest numbers of non-HBBs wanting primary income together with the responsibility of supervising paid employees. Homebased construction firms report the second highest number of firms in business to obtain primary income (47 percent without employees).

Manufacturing

Of all industries, manufacturing attracts the most owners seeking a primary income (52 percent of non-HBBs with employees). As expected, it has the highest percentage of firms using the home for the production of goods and services (73 percent) and the lowest for telecommuting (4 percent). More firms in this industry report profits greater than \$10,000, second to wholesale trade (45 percent non-HBBs). Over half of homebased firms earn less than \$10,000 (52 percent) and more HBBs suffer losses than in any other industry (35 percent).

One third of homebased and one third of non-homebased firms in manufacturing are logging companies. Nearly all owners of non-homebased manufacturing businesses with employees work 48+ weeks per year (91 percent) while only 64 percent of those without employees work that much. Owners of homebased manufacturing firms work less: 66 percent work 48+ weeks if they have employees but only 45 percent of those without employees work year-round.

Homebased firms sell about half-and-half to individuals and other businesses. More non-HBBs sell to business (80 percent) than to individuals (35 percent). About one fifth of manufacturing firms, regardless of location, sells nationally and 6 percent or so market internationally.

Transportation, Communications and Utilities (TCU)

The TCU industry has the highest use of the home for clerical work (60 percent). It is tied with construction for the highest percent of homebased firms with profits greater than \$10,000 (31 percent). In this industry only a few percentage more of non-HBBs earn that much (38 percent) and one fourth of firms lose money regardless of location.

More than one half of either HBBs or non-HBBs in this industry is motor freight transportation. More non-HBBs are purchased (32 percent), than the average across all industries (21 percent). A small percentage of homebased firms (6 percent) and one fourth of those that office in commercial space is in transportation services, which include travel agencies and tour operators.

HBBs in TCU need the least capital, that is, no firms require as much as \$25,000 for startup. However, 20 percent of non-HBBs need \$25,000 or more, just above the capital required for non-homebased construction startups. In transportation, communications and utilities, HBB and non-HBBs are closest in the percent of capital borrowed. For example, 15 percent of HBBs and 18 percent of non-HBBs borrowed 50 - 99 percent, which is not a significant difference.

TCU follows the pattern of firms in other industries. Of those with employees, owners of about 90 percent of businesses, homebased or not, work 48+ hours. Of those without staff, operators of only 53 percent of HBBs and 63 percent of non-HBBs work year round.

Wholesale Trade

Those HBBs, whose goal is to earn primary income from their business and hire employees, choose wholesale trade (45 percent). That choice is supported by bottom-line results: wholesale trade has the highest number of business with profits greater than \$10,000 (48 percent non-HBBs). One fourth of the owners of both homebased and non-homebased firms have at least 10 years management experience (23 percent).

Nearly all firms with employees (90 percent) and three fourths of those without, work throughout the year (75 percent non-HBBs, 63 percent HBBs). Homebased or not, the firms sell primarily to other businesses. Over half of homebased firms sell regionally and half nationally or internationally. More non-HBBs sell in the city or county (41 percent non-HBB; 28 percent HBB), but the apparent difference between their marketing within the region (54 percent HBB vs. 49 percent non-HBBs) is not statistically significant.

Retail Trade

Homebased firms operate in retail trade only to gain supplementary income, not primary (39 percent). In retail, equal percentages of firms do clerical and production work (46 percent). The industry has the record for the lowest number of homebased firms with profits over \$10,000. It also accounts for the highest losses for both homebased (43 percent) and non-HBB firms (28 percent). Retail trade has the highest number of female owners (73 percent HBB; 52 percent non-HBB).

The bulk of retail homebased and non-homebased business activity is sale of building materials and miscellaneous retail. Obviously there are very few homebased eating and drinking establishments compared with those that are non-homebased. More non-HBB retail firms are purchased (38 percent), than is the case for businesses in other industries.

Retail trade has the highest requirement for capital of all industries—59 percent of non-HBB need \$25,000 or more. Thirty-five percent borrow 50-100 percent of their capital from bank loans, personal and business sources. In contrast, only 9 percent of HBB retail firms borrow 50-100 percent. Those who do, borrow primarily from personal sources.

Retail owners spend less time in the business than entrepreneurs in other industries. Under half of retail HBBs work 48+ weeks (49 percent) and one third spend 23 weeks or less on their business (31 percent). More non-HBB owners work the full year (60 percent). Both homebased and non-homebased owners work more weeks if they have employees.

Retail firms overwhelmingly sell to individuals (84 percent HBBs, 90 percent non-HBBs), not to other firms. High percentages sell in the neighborhood (42 percent HBBs vs. 46 percent non-HBBs), which is more than any other industry. About half of firms in either location sell in the city or county. Somewhat more HBB firms sell regionally (27 percent to 17 percent non-HBBs).

Finance, Insurance and Real Estate (FIRE)

HBB owners with employees whose main reason for starting a business is to be their own boss, are attracted to the finance, insurance and real estate industry (51 percent HBB compared with 39 percent of non-HBBs). However, FIRE has the lowest ratio of HBB to non-HBBs of any industry (34 percent to 66 percent). Interestingly, the highest number of veterans is in FIRE (37 percent HBB and 36 percent non-HBB). FIRE also attracts the most business majors (44 percent of HBBs, 51 percent non-HBBs) and those with the greatest prior management experience (19 percent HBB, and 9 percent non-HBB). Some FIRE owners have more than 20 years experience, which is consistent with their having the highest prior ownership experience (23 percent HBB or non-HBB firms).

FIRE includes insurance and real estate firms. About the same proportion of insurance agents operate homebased and non-HBBs (16 percent). In contrast, more real estate operators are homebased; more real estate agents locate outside their homes.

The owners of 85 percent of non-HBB FIRE businesses with employees, and 67 percent of those without, work 48+ weeks annually. In contrast, fewer homebased FIRE owners work full time with or without paid employees (65 percent vs. 59 percent).

Services

People needing to meet family responsibilities cluster in the services industry (16 percent with employees; 14 percent without).³ It is also the industry that draws those wanting a second income (40 percent HBBs). Fewer wanting primary income choose services (16 percent without employees). Overall, the service industry generates profits under \$10,000 (63 percent for HBB vs. 45 percent non-HBB) but at least for non-HBBs, has the lowest losses (21 percent of non-HBBs).

The services industry attracts computer science graduates and biological and medical science majors as well as the at-home professionals with advanced degrees.

In comparison with service firms operated in traditional locations:

- Six times as many business service firms are homebased
- Three times as many health services are homebased
- Nearly six times as many child-care firms are homebased
- More engineering and architectural firms are HBBs
- Homebased management services account for 68 percent of its sub-category

Compared with homebased firms:

- The majority of beauty shops are non-HBBs, although some are homebased
- Somewhat more pest control/cleaning services, security services and business services are non-HBBs
- Many more doctors and dental offices are located outside the home

³ The difference is not significant with 90 percent certainty.

The owners of service businesses with employees work longer hours than those without paid staff and they work the full year. Fewer of those without employees work 48+ hours (58 percent non-HBBs and 49 percent HBBs).

Homebased Business: the Hidden Economy

Contribution to U.S. Economy

Homebased businesses have a high survival rate and should be recognized for their contribution to the economy. In the United States, an average of 53.5 percent of all sole proprietorships, partnerships and S corporations are operated in or from homes. As shown in Table 6-3, homebased firms add \$314 billion to the economy with the largest contribution from nonminority male-owned firms, followed in size of

Table 6-3 Business Profiles by Receipts

	Receipts (\$1000)	Average Receipt (\$1)	HBB as % of Non-HBB Total Receipts	HBB as % of Non-HBB Average Receipts
All Businesses	\$2,941,476,351	\$183,973		
Homebased	313,628,757	36,677.	12 %	10 %
Non-homebased	2,627,847,594	353,326		
Women-Owned Businesses	594,895,993	111,489		
Homebased	73,004,785	23,499	14	10
Non-homebased	521,891,207	234,115		
Nonminority Male-Owned Businesses	2,158,330,969	226,984		
Homebased	219,294,310	44,420	11	10
Non-homebased	1,939,036,658	424,121		
Black-Owned Businesses	24,139,704	49,965		
Homebased	5,158,637.	19,214	26	22
Non-homebased	18,981,067	88,425		
Hispanic-Owned Businesses	98,730,343	142,221		
Homebased	13,028,330	38,158	15	16
Non-homebased	85,702,014	242,937		
Other Minority-Owned Businesses The group is composed of about 93 percent Asians and Pacific Islanders and 7 percent American Indians and Alaskan natives.	132,932,677	231,835		
Homebased	10,376,568	50,122	8	15
Non-homebased	122,556,108	334,516		

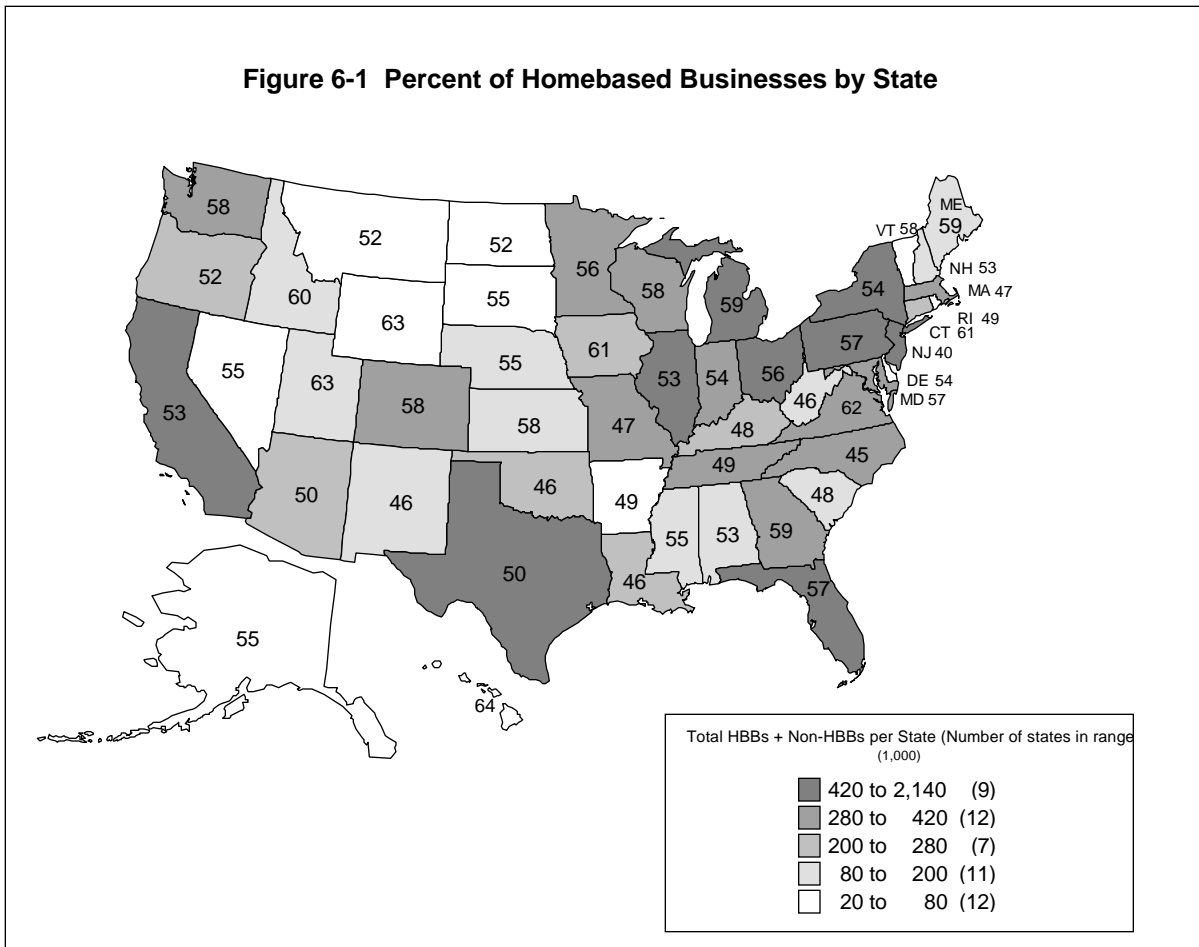
contribution by businesses operated by women, Hispanics, other minorities and black owners. Non-homebased firms contribute another \$2.6 trillion, adding to a total small business contribution of \$3 trillion. C corporations, which are not the subject of this

study, account for the balance of the estimated \$6.4 trillion total receipts for all small employer firms with fewer than 500 employees.

Contribution at State Level

Prevalence of Homebased Businesses

Businesses contribute at the state level but homebased businesses are not distributed evenly across the U. S. as shown in Figure 6-1. Individual states vary 10 to 14 percent from the average of 54 percent for all states, with no obvious explanation for the difference. Hawaii, Utah and Wyoming have the highest percentage of homebased, relative to non-homebased businesses and New Jersey, the lowest. Sixty-four percent of small businesses in Hawaii are homebased; 36 non-homebased. Yet in New Jersey only 40 percent of businesses are homebased. Although Utah and Wyoming are less populated states than New Jersey, homebased businesses evidently are not associated with only rural states. In New Mexico, for example, only 46 percent of small businesses are HBBs, less than average, even though the state has the reputation for being a center for artists and crafts persons.⁴



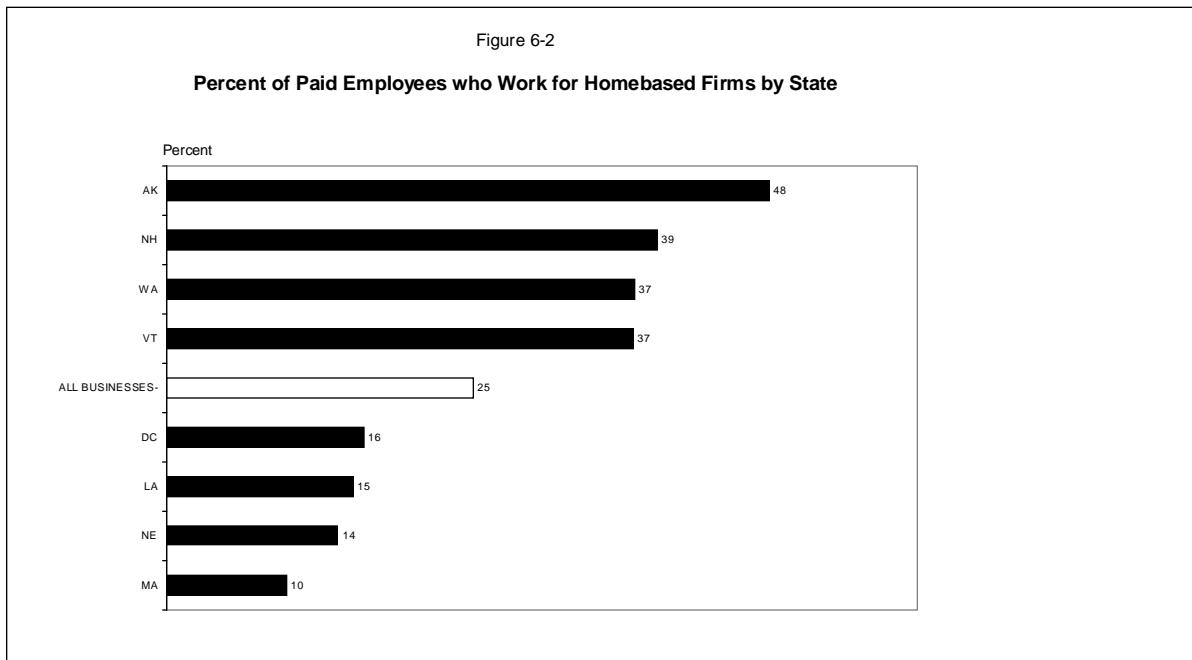
See also, Appendix, Table A-2, *Businesses Homebased in 1992 by State and Employees*

⁴ The difference is significant with 90 percent certainty between the group of states with the highest percentages of HBBs (HI, UT and WY) and the average of all businesses; it is significant between those states with the lowest percentages of HBBs (NM, NC and NJ) and the average but there is no significant difference between HI, UT and WY nor between NM, NC and NJ.

Employment in Homebased Businesses

To what extent do HBBs offer employment opportunities? As was shown in Figure 2-8, only nine percent of HBBs have paid employees, compared with 32 percent of non-HBBs. Is then, their contribution to employment in small business, that is, sole proprietorships, partnerships and Chapter S companies in any way substantial? Another way to answer the question is to look not only at how many small firms hire employees, but also to examine the distribution of workers in small businesses. Thus, although 53.5 percent of all businesses were homebased in 1992, they hired only 24.5 percent of all paid employees. The majority of businesses without paid employees, more than 60 percent, were HBBs. More than three fourths of paid employees worked for non-HBBs. Only 39 percent of non-HBBs had no paid employees. In fact, although only 9 percent of HBBs have employees, HBBs give jobs to 22 percent of all small business employees as was shown in Figure 2-9.

Although, on average, about one quarter of paid employees work for HBBs and three quarters for non-HBBs, in some states the proportion is quite different. As Figure 6-2 shows, in Alaska nearly half of all paid employees, 48 percent, work for HBBs but in Maine the number is less than ten percent. The states that have the highest proportion of HBBs with employees are relatively rural—AK, NH, WA and VT. However, HBBs in Nebraska, also rural compared with, say Massachusetts, accounts for only 14 percent of paid jobs while non-HBBs in the state provide jobs for 86 percent of all small business employees.⁵



⁵ The differences are not significant with 90 percent certainty between AK, NH, WA and VT or between any of those states and the average of all businesses; there is no significant difference between DC, LA, NE and MA but the difference is significant between those states and all businesses.

Homebased Business or Not? A Basis for Choice

This analysis of the CBO has revealed differences between homebased and non-homebased businesses that are largely independent of business location. The explanation appears to be that the owner's choices in regard to operating their business rather than the location per se that distinguishes HBBs from non-HBBs. The owners differ very little in their personal characteristics such as age, marital status, education and experience. But they operate their firms in quite different ways with respect to hiring employees and the amount of time they spend on their business day-to-day and throughout the year. Strikingly, the outstanding variable is motivation, that is, whether or not the owner operates a business to obtain primary, or only a secondary income.

To further explore that observation, cross-tabulations were prepared for the subsample of just those owners of HBBs and non-HBBs whose "main reason" for being in business was to obtain primary income. Table 6-4 confirms that motivated HBB owners who hire employees and spend equivalent time on their business, narrow the gap between HBB and non-HBB profits. Although the maximum average profit of HBBs remains lower than that of non-HBBs (\$25K vs. \$43K), HBBs operated for primary income, full time and throughout the year with paid employees, narrow the gap between HBBs and non-HBBs. In fact, as the table shows for the primary income CBO segment, 87 percent of HBBs versus 84 percent of non-HBBs generate net profits greater than \$10,000 and for 66 percent of HBBs versus 50 percent of non-HBBs, the business supplies 100 percent of personal income.

Thus, in choosing to be self-employed, business location may be less important than the owner's motivation, time commitment and decision to hire employees or work alone. Other determinants of business success, over which the owner has little or no control, include choice of industry and business type and race/ethnicity and gender differences.

Table 6-4 Business Profiles of Firms Operated for Primary Income

Percent of firms in category	Primary Income		All Firms	
	HBB	Non-HBB	HBB	Non-HBB
100% contribution to personal income, income < \$25K				
No paid employees	48%	47%	27%	32%
Paid employees	64%	46%	50%	41%
100% contribution to personal income, income > \$25K				
No paid employees	36%	39%	17%	26%
Paid employees	67%	51%	49%	46%
Maximum average profit	\$25K	\$43K	\$17K	\$35K
Net profit > \$10K, income < \$25K				
No paid employees	19%	30%	27%	32%
Paid employees	50%	60%	50%	41%
Net profit > \$10K, income > \$25K				
No paid employees	50%	59%	17%	26%
Paid employees	87%	84%	49%	46%
Work full-time week (40⁺ hours)				
No paid employees	48%	56%	28%	41%
Paid employees	79%	76%	66%	71%
Work full year (48⁺ weeks)				
No paid employees	65%	67%	51%	59%
Paid employees	88%	92%	86%	87%

The Future of Small Business

The future of small business rests on the response of entrepreneurs and at-home professionals to new business opportunities and lifestyle choices. New technologies have given firms the ability to leverage human capital. Moreover, affordable equipment prices enable a business to operate globally from almost any location. But there are tradeoffs entrepreneurs must make. What builds income? Our analysis has shown that hiring paid employees, acquiring capital, spending time on the business and motivation, all differentiate most non-homebased from homebased firms. Generally, the more that the entrepreneur invests of each component, the greater the business profitability. All individuals in this study file a Schedule C, partnership or sub-chapter S tax form. They are not corporations nor are they hobbyists; they are serious business operators. The barriers to greater profits for these individuals and their contributions to the economy are both business-related and personal.

Homebased Firms, as the Hidden Economy, Need Help in Removing Business Barriers

Given the contributions of HBBs what help do they need to boost profits? What are inherent limitations that are not easily overcome? This new data from the *Characteristics of Business Owners* survey documents that locating a business in or from a home is a viable option for entrepreneurs and professionals. Because homebased firms are the hidden economy, they, of all small businesses, need particular recognition. Continued monitoring of the HBB trend should elevate the reputation of HBBs and begin to allay the misleading assumption that they are too marginal and ephemeral to take seriously and support with capital and trade. The following actions also would lend credence to homebased firms and help them attain their goals:

Increase Access to Developing Markets and Electronic Commerce

Homebased business owners do not appear to have major problems accessing markets. They sell to the same geographical areas as non-homebased firms. However, the Internet is rapidly changing commerce for all firms by offering the smallest company, as well as giant corporations, new pathways to global markets. Anecdotally we know that HBBs as well as non-HBBs are finding the Internet to be an effective, low-cost way to reach new markets. One major problem for HBBs is obtaining and paying for the credit card merchant status they need for electronic sales. However, as this evolving market matures, firms will need help in developing their Internet strategies. Electing to enter electronic commerce with a niche business may be a more successful approach than trying to compete with mass product mass merchandisers like the Amazon.coms.

Remove Legal Barriers and Restrictive Tax Policies

Legal ordinances drafted to mitigate Industrial Age excesses need revising. Home occupation rulings and local zoning codes are outdated for Information Age work. Laws drafted to restrict commerce in the home are no longer appropriate, as written, when the commercial activity takes place on computers.

Tax codes also need updating to recognize the contribution of homebased firms to the economy. Restrictive rules for deducting home office expense and the threat of increased audit risk have a negative impact on homebased firms.

Provide Access to Capital

Capital may be less critical than success in identifying, reaching, and selling competitively in the global marketplace. The fact that so many entrepreneurs and at-home professionals are interested in second incomes may explain why they need so little capital that they can supply it from personal resources. Whether they would be helped by better access to loans, is another question. For example, are there contracts they do not pursue because capital is lacking for startup costs such as funds needed to obtain required insurance, hire staff or pay in advance for other project and overhead costs? As Internet commerce becomes more sophisticated, homebased businesses may need capital to develop and maintain profitable web sites.

Set Up Virtual Companies to Overcome Residential Space Limitations

Hiring paid employees increases gross income and profits. But there are limitations as to the number of non-family members that a residence can accommodate. Among the problems are that homes usually have space for at most two or three employees, business activity may intrude into family space and life, and neighbors may complain about employee traffic and parked cars.

One solution for entrepreneurs and at-home professionals is to operate as virtual companies, that is, form networks and joint ventures with other entrepreneurs, or hire teleworkers. The use of technology to work in teams without daily face-to-face interaction, allows the homebased firm to expand beyond the limitations of residential space.

Lifestyle Attitudes and Goals

The CBO data clearly documents the drive to be one's own boss, a motivation that accords with the independence and energy characteristic of entrepreneurs and self-made successes. But many business owners are making lifestyle as well as business decisions. New classes of workers include individuals who work part time by choice, and high tech, high-energy entrepreneurs who operate Internet-related businesses, leaving free time to mountain bike or sail, as well as high tech, high-energy entrepreneurs who operate Internet-related businesses. Given the choice between lifestyle and income, some choose lifestyle. Today's entrepreneur can take technology and run with it—literally to his or her location of choice. Technology as a partial equalizer allows individuals to leverage their abilities in either a homebased or non-homebased location.

Profits and Rewards for Business Owners

Small business affords opportunities for entrepreneurs and at-home professionals. Acknowledging the clear disparities between gender and ethnic groups,

within any one group, where to locate one's business is an economic and lifestyle choice. Independent of location firms *can* gross over a million dollars, so the opportunity exists. However, depending on the particular industry and business, the odds heavily favor businesses located in the traditional commercial location. Those wanting to earn at the high end do so by hiring employees, spending more time in the business and being motivated to earn primary income. Those who prefer to avoid managing employees or spend less time in the business—and needing only to supplement family income—can operate a business from home, knowing that the odds are weighed against their earning the highest income. So in part, the choice of a homebased or non-homebased business comes down to balancing economic needs with lifestyle choices. Some entrepreneurs manage to have it all:

The owner of a firm that does graphic design for shopping malls in the U. S. and Mexico moved her business from leased space in Dallas to her lake house outside of a small East Texas town. She has eight computers upstairs in her home and five employees plus independent contractors. Now, for example, when she needs photos made, she has the item sent to the photographer's studio rather than to her office, as she would have done in Dallas. She works until 3:30 p.m., then she goes fishing. Sometimes the staff all goes out on the dock to work on creative problems. Her only problem is that Federal Express doesn't pick up after 3:30 p.m. Her firm makes more money than it did in Dallas. ⁶

⁶ Personal communication to author

APPENDIX

General Information about these Tabulations¹

The following information was supplied by the Bureau of Census, which conducted special tabulations for this study.

These tabulations were specially requested by the Small Business Administration (SBA) from the (CBO) Survey. The CBO is based on a statistically chosen mail sample of 78,134 firms from a universe of about 17.3 million firms. The responses to CBO questionnaires are combined with administrative data originally obtained for the 1992 Economic Census. Approximately 62 percent of the sampled firms responded. For more information on the survey itself, refer to the introductory material in the 1992 CBO publication *1992 Economic Census, Characteristics of Business Owners*, U.S. Department of Commerce.

There were nonresponses to some questions. As requested, these nonrespondents were dropped from the computations. However, no reweighting was done based on item nonresponse. All tables were examined to ensure no major discrepancies occurred in firm counts between these tables and those found in the publication.

The sample used for the 1992 CBO is one of many possible samples that could have been selected, and estimates from different samples would differ. Sampling error is measured by standard errors. Standard errors for each cell are presented in the tables and can be used to construct interval estimates with a prescribed level of confidence. Nonsampling errors may also be present in the data, as for all censuses and surveys. Nonsampling errors are attributable to many sources: inability to obtain information for all cases in the universe; data errors and biases; mistakes in recording or keying data; errors in collection or processing; and coverage problems. Measures of nonsampling errors are not available, but nonsampling errors from sources such as mistakes in recording and editing data are believed to have been minimized. More information on both sampling and nonsampling error can be found on Page VI of the CBO publication. It also contains examples of confidence interval calculation.

Standard Census Bureau practices were followed to ensure the confidentiality of respondents was not violated.

¹ E-mail communication from David Harville, Census Bureau, July 9, 1998

Explanation of Universe

Table A-1 displays the details of the sample universe and size of sub-samples of respondents in percent and weighted values.

Table A-1 Sample Universe and Sub-samples

	Percent	Number
Universe	100 %	17.3 million
All respondent Firms	90.7%	15.7 million
All respondent Owners		18.5 million
HBB 92 Question respondent firms	92.8%	16 million
HBB Y/N, in operation 1992, 1994;		13.7 million
Firms started operations 1992	12%	2.16 million
Hispanic	6%	137,813
Black	3.9 %	85,345
Other Minority	4.5 %	97,821
Women-Owned	41.0%	889,181
Non-Minority Male	49.9%	1,080,848
1992 firms with paid employees	7.1% of 2.16 million	154,000
Still operating 1996 with paid employees	84.6% of 154,000	130,000
Firms whose main reason for business was "primary income"	HBB Non-HBB	1.27 million 1.33 million

Tables

The figures throughout this study are based on special cross-tabulations supplied by the Census Bureau as described in Appendix A.

Table B1 provides the breakout of homebased and non-homebased firms by State and number of employees. Other tables listed below were published in the 1992 *Economic Census, Characteristics of Business Owners*, U.S. Department of Commerce.

Selected Tables published in the CBO

Table 24A *Home-Based Businesses by Industry Division: 1992*

Table 24B *Home-Based Businesses by Receipts Size of Firm: 1992*

Table 24C *Home-Based Businesses by Employment Size of Firm: 1992*

Table 24D *Home-Based Businesses by Legal Form of Organization of Firm 1992*

Table 24D *Home-Based Businesses' Primary Use of Home by Legal Form of Organization of Firm 1992*

Table A-2
Businesses Homebased in 1992 by State and Employees

	Firms	Homebased	Non-	Standard error for	
	(1,000)		homebased	HBB	Non-HBB
ALL FIRMS-	15,989	53.5	46.5	0.5	0.5
No Paid Emp.	12,839	60.6	39.4	0.6	0.6
Paid Emp.	3,150	24.5	75.5	1.3	1.3
AK	49	52.9	47.1	6.6	6.6
No Paid Emp.	41	53.9	46.1	7.3	7.3
Paid Emp.	9	48.2	51.8	7.2	7.2
AL	196	52.5	47.5	4	4
No Paid Emp.	149	62	38	5	5
Paid Emp.	47	22.7	77.3	4.2	4.2
AR	140	48.6	51.4	4	4
No Paid Emp.	109	55.6	44.4	4.9	4.9
Paid Emp.	31	23.9	76.1	4.9	4.9
AZ	214	50.2	49.8	5.3	5.3
No Paid Emp.	178	53.7	46.3	6.7	6.7
Paid Emp.	37	33.3	66.7	6.4	6.4
CA	2,132	52.8	47.2	2.6	2.6
No Paid Emp.	1,709	59.6	40.4	2.8	2.8
Paid Emp.	423	25.1	74.9	3.5	3.5
CO	327	58	42	4.9	4.9
No Paid Emp.	268	64.9	35.1	6.5	6.5
Paid Emp.	590	26.8	73.2	4.4	4.4
CT	236	61.4	38.6	5.2	5.2
No Paid Emp.	196	69.2	30.8	5.9	5.9
Paid Emp.	40	23.5	76.5	5.9	5.9
DC	29	50.6	49.4	3.9	3.9
No Paid Emp.	25	56.5	43.5	4.6	4.6
Paid Emp.	4	15.8	84.2	3.6	3.6
DE	45	54	46	4.1	4.1
No Paid Emp.	37	59.4	40.6	4.9	4.9
Paid Emp.	7	26.1	73.9	5	5
FL	810	56.5	43.5	2.7	2.7
No Paid Emp.	625	63.3	36.7	3.2	3.2
Paid Emp.	184	33.5	66.5	5.6	5.6
GA	345	59.1	40.9	3.7	3.7
No Paid Emp.	284	67.6	32.4	4.9	4.9
Paid Emp.	62	20	80	3.8	3.8
HI	79	63.5	36.5	2.2	2.2
No Paid Emp.	69	69.5	30.5	2.6	2.6
Paid Emp.	9	19.1	80.9	3.4	3.4

	Firms	Homebased	Non-homebased	Standard error for column	
	(1,000)			HBB	Non-HBB
IA	217	60.8	39.2	3.2	3.2
No Paid Emp.	179	68.9	31.1	3.9	3.9
Paid Emp.	38	22.6	77.4	6	6
ID	85	60.2	39.8	5.3	5.3
No Paid Emp.	70	67.7	32.3	6.1	6.1
Paid Emp.	14	22.8	77.2	5.9	5.9
IL	674	53	47	5.1	5.1
No Paid Emp.	538	59.4	40.6	6	6
Paid Emp.	136	27.7	72.3	5.5	5.5
IN	344	54.2	45.8	4.9	4.9
No Paid Emp.	266	62.9	37.1	6.2	6.2
Paid Emp.	78	24.1	75.9	4.7	4.7
KS	181	58.3	41.7	4.9	4.9
No Paid Emp.	141	69.4	30.6	5.3	5.3
Paid Emp.	40	18.3	81.7	5.3	5.3
KY	210	48	52	5.4	5.4
No Paid Emp.	167	55.3	44.7	7.5	7.5
Paid Emp.	43	19.8	80.2	5.4	5.4
LA	214	46.2	53.8	4.8	4.8
No Paid Emp.	174	53.5	46.5	6.5	6.5
Paid Emp.	41	14.9	85.1	4.8	4.8
MA	387	46.5	53.5	5.1	5.1
No Paid Emp.	318	54.4	45.6	6	6
Paid Emp.	69	9.6	90.4	3	3
MD	290	56.8	43.2	5.3	5.3
No Paid Emp.	244	64	36	5.7	5.7
Paid Emp.	47	18.9	81.1	3.8	3.8
ME	110	59.3	40.7	4.6	4.6
No Paid Emp.	92	64.5	35.5	5.6	5.6
Paid Emp.	18	33.1	66.9	4.7	4.7
MI	546	59.3	40.7	4.6	4.6
No Paid Emp.	439	67.1	32.9	5.3	5.3
Paid Emp.	107	27	73	6.6	6.6
MN	316	55.6	44.4	3.3	3.3
No Paid Emp.	231	62.5	37.5	4.2	4.2
Paid Emp.	85	36.8	63.2	5.1	5.1
MO	350	46.7	53.3	4.9	4.9
No Paid Emp.	286	52.8	47.2	5.5	5.5
Paid Emp.	64	19.3	80.7	4.7	4.7
MS	126	54.9	45.1	4.1	4.1
No Paid Emp.	94	64.8	35.2	5.1	5.1
Paid Emp.	320	26	74	5.4	5.4

	Firms	Homebased	Non-homebased	Standard error for column	
	(1,000)			HBB	Non-HBB
MT	74	51.7	48.3	4.9	4.9
No Paid Emp.	59	59.9	40.1	5.7	5.7
Paid Emp.	15	19.5	80.5	4.6	4.6
NC	417	45.2	54.8	2.7	2.7
No Paid Emp.	335	49.3	50.7	3.9	3.9
Paid Emp.	81	28	72	3.2	3.2
ND	49	52	48	4.5	4.5
No Paid Emp.	38	60.5	39.5	4.8	4.8
Paid Emp.	11	21.8	78.2	4.3	4.3
NE	127	54.8	45.2	3.2	3.2
No Paid Emp.	102	64.9	35.1	3.9	3.9
Paid Emp.	25	13.7	86.3	3.8	3.8
NH	101	53.2	46.8	4.9	4.9
No Paid Emp.	79	57.1	42.9	4	4
Paid Emp.	22	39.2	60.8	8.2	8.2
NJ	459	40	60	6.5	6.5
No Paid Emp.	366	43.2	56.8	7.8	7.8
Paid Emp.	93	27.3	72.7	5.3	5.3
NM	84	45.7	54.3	4.2	4.2
No Paid Emp.	65	53.8	46.2	5.3	5.3
Paid Emp.	20	19.2	80.8	3.2	3.2
NV	73	55.2	44.8	5.9	5.9
No Paid Emp.	56	61.4	38.6	7	7
Paid Emp.	17	34.4	65.6	5.9	5.9
NY	1,012	54.2	45.8	3.2	3.2
No Paid Emp.	796	64.4	35.6	3.3	3.3
Paid Emp.	216	16.4	83.6	2.7	2.7
OH	617	55.9	44.1	4	4
No Paid Emp.	505	62.7	37.3	4.9	4.9
Paid Emp.	112	25.6	74.4	5	5
OK	234	46.1	53.9	5.9	5.9
No Paid Emp.	194	48.8	51.2	6.9	6.9
Paid Emp.	40	33.2	66.8	4.5	4.5
OR	241	51.9	48.1	3.8	3.8
No Paid Emp.	202	58	42	4.9	4.9
Paid Emp.	39	20.3	79.7	4.8	4.8
PA	800	57.2	42.8	4.7	4.7
No Paid Emp.	651	66.1	33.9	5.4	5.4
Paid Emp.	150	18.4	81.6	3.5	3.5
RI	66	49.3	50.7	6	6
No Paid Emp.	50	55.9	44.1	6.3	6.3
Paid Emp.	15	27.5	72.5	6.7	6.7

	Firms	Homebased	Non-homebased	Standard error for column	
	(1,000)			HBB	Non-HBB
SC	183	48	52	6.1	6.1
No Paid Emp.	144	52.2	47.8	7	7
Paid Emp.	40	33.1	66.9	6.7	6.7
SD	60	54.9	45.1	3.5	3.5
No Paid Emp.	49	62.9	37.1	4.8	4.8
Paid Emp.	11	19.7	80.3	4.3	4.3
TN	284	48.6	51.4	4.6	4.6
No Paid Emp.	220	56.5	43.5	6	6
Paid Emp.	64	21.3	78.7	5.2	5.2
TX	1,123	50.3	49.7	3.3	3.3
No Paid Emp.	919	57.1	42.9	3.7	3.7
Paid Emp.	204	19.8	80.2	3	3
UT	124	62.9	37.1	2.3	2.3
No Paid Emp.	104	70.6	29.4	2.9	2.9
Paid Emp.	20	22.8	77.2	5.5	5.5
VA	391	61.6	38.4	5.8	5.8
No Paid Emp.	334	67.2	32.8	6.6	6.6
Paid Emp.	58	28.9	71.1	4.5	4.5
VT	58	58.1	41.9	5.4	5.4
No Paid Emp.	44	64.6	35.4	7.5	7.5
Paid Emp.	14	37.3	62.7	8	8
WA	332	58.2	41.8	5.2	5.2
No Paid Emp.	265	63.4	36.6	6.4	6.4
Paid Emp.	67	37.4	62.6	6.4	6.4
WI	291	58.4	41.6	5	5
No Paid Emp.	229	67.8	32.2	6	6
Paid Emp.	62	23.7	76.3	5.5	5.5
WV	91	45.5	54.5	4.6	4.6
No Paid Emp.	71	50.3	49.7	5.3	5.3
Paid Emp.	21	29.2	70.8	5.8	5.8
WY	43	62.9	37.1	2.8	2.8
No Paid Emp.	34	76	24	2.8	2.8
Paid Emp.	9	16.1	83.9	5.1	5.1

The table represents all firms except those that did not respond when asked if the business was homebased in 1992. The sum of the homebased and non-homebased columns should be 100 but may differ because of rounding.