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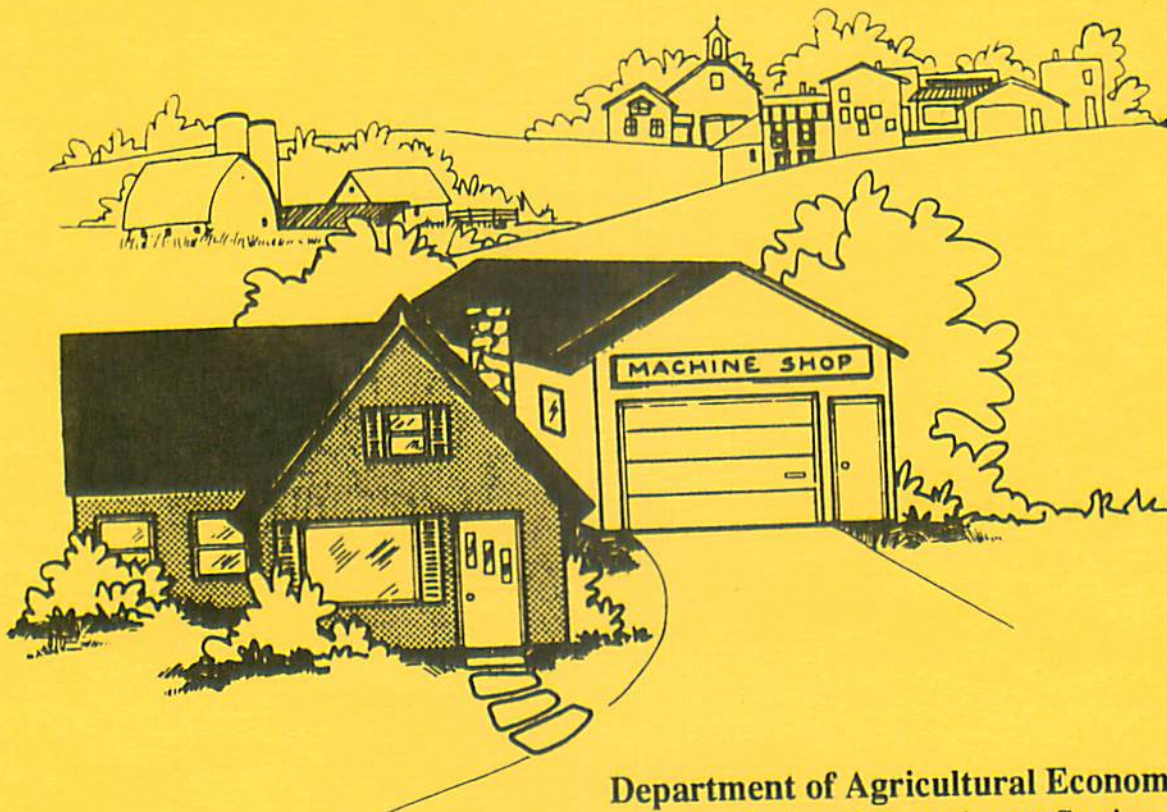
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Home-Based Businesses in North Dakota:

Characteristics of Present and Prospective Proprietors

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Highlights

This report examines the following characteristics of participants in a series of home-based workshops held throughout North Dakota: (1) demographics, (2) reasons for starting a home-based business, (3) financial characteristics, (4) utilization of professional services, (5) work and managerial experience, (6) business organization, (7) advertising and marketing techniques, and (8) risk perception. One hundred twenty-four individuals responded to the survey of participants who either had or were considering a home-based business.

Results indicate that the typical respondent was a well-educated, married female between the ages of 30 and 39 and with children living at home. Most had become involved in their business because their hobby had become profitable. Supplementing farm income and staying home with small children were also strong motivating forces for establishing a business. Most had been involved in business less than four years and had invested an average of about \$6,000 during the first three years of operation; half had invested less than \$2,000. Personal savings and household monies were the most common sources of financing. Over 60 percent stated that their business contributed less than 24 percent to their total family income, and few relied solely on the business for their livelihood.

These craftpersons used a variety of means to market their products; over half sold from their home, attended fairs and shows, and sold on consignment. Their most common means of advertising were word of mouth, business cards, and the newspaper. Only about one-fourth had a storefront sign, and fewer than 10 percent used the yellow pages to advertise their product (however, 33 percent of those offering a service used the yellow pages).

The picture that emerges is that these businesses are truly "run on a shoestring" with minimal investment of time and money. Although these businesses serve a valuable purpose by supplementing the family income, they could benefit from improved advertising and marketing procedures.

HOME-BASED BUSINESSES IN NORTH DAKOTA:
CHARACTERISTICS OF PRESENT AND
PROSPECTIVE PROPRIETORS

Holly E. Bastow-Shoop, F. Larry Leistritz,
and Brenda L. Ekstrom*

Introduction

Home-based businesses make up an important and growing sector of the United States economy, but little systematic research has been conducted either to measure their contribution to society or to understand their unique characteristics. Research of this nature is vitally important to develop policies to aid home-based businesses in their growth and development, because they are seen as a means to a more competitive economy through increased output and reduced prices. Home-based businesses can bring about a new perspective in the delivery of goods and services as well as serve new and smaller markets, which are of little interest and unprofitable for larger companies. In addition, a new business idea is often tested using the home as a base of operation and as an inexpensive start-up strategy.

Previous Research

Popular literature has offered much how-to information to the home-based business entrepreneur. Titles such as "Selling What you Make" (Brabec 1983), "Did You Mean to Make a Cottage Industry?" (Making It! 1983-84), "Stay at Home and Work" (Lovenheim 1984), and "Cottage Businesses Help Ease Farm-Belt Economy Burdens" (Galonte 1986) appear fairly frequently in widely read popular literature.

Government agencies have also become very interested in home-based businesses. As a result of the increased interest in this area, funding has been made available to evaluate national data. The U.S. Small Business Administration (SBA) Office of Advocacy commissioned Joanne H. Pratt Associates of Dallas, Texas, to determine the best approaches for counting, describing, and measuring the economic contributions of family-owned businesses and home-based businesses. After much hypothesizing and redefining of what and who make up a home-based business, Pratt and Davis (1986b) concluded that very little is known about home-based business. They suggest that there is a very broad range of research topics, many of which are important to pursue.

There have been some scholarly studies related to home-based work issues, but only a few (Pratt & Davis 1986a; Saylor 1987; Beach 1985; and Porter 1985). One study used a sample of 7,220 employed men and women to study the work-family balance issues of home-based workers (Heck & Walker

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1987). These workers were more likely to (1) be male, white, and without college educations than their counterparts who held more traditional employment; (2) be self-employed; (3) have a mean total labor income significantly lower than other workers (\$12,142 compared to \$17,017); and (4) spend more hours on their main jobs than their counterparts. Heck and Walker (1987) indicated that little is known about the characteristics of those involved in home-based businesses over time or the nature of their work and work environment and that further study is necessary.

Various state Cooperative Extension Services have assembled helpful literature related to home-based business for their state constituents.¹ These materials are available upon request and provide general information about starting a home-based business, researching the market, marketing the product or service, record keeping, pricing of goods, laws pertaining to home-based business, and tax considerations.

Purpose of the Study

Home-based business workshops and documents have been offered to the public for the last few years by such organizations as the North Dakota Extension Service, the Small Business Administration, and the Economic Development Commission. However, without baseline data that can describe the characteristics and needs of a home-based business entrepreneur, it is difficult to present workshops that meet the needs of the audience. The knowledge gleaned from a study of this nature will aid in filling this void.

The purpose of this research effort was to collect baseline data concerning the increased activity of home-based business in North Dakota. Continued efforts in stimulating the growth of successful home-based business among residents in North Dakota can only improve personal as well as statewide economic development.

Organization of the Report

The following selected characteristics are examined in this report as they relate to individuals who are interested in beginning, or who currently have, a home-based business and who attended home-based business workshops conducted by the Extension small business management specialist at North Dakota State University.

1. Demographic characteristics, such as age, sex, marital status, number of children, and level of education.
2. Reasons for involvement in a home-based business, such as need to supplement farm income, job dissatisfaction, or need to remain home with small children.

¹See, for example, Zetocha and Winge (1986), Cooperative Extension Service, Oklahoma (1986); Barnett and Shere (1980); Smith (n.d.); Stephenson (1983-84); and Passewitz (1984).

3. Financial characteristics of the home-based business, such as ownership, location of financial backing, and total investment in the business over the first three years.
4. Utilization of professional services by the proprietor of the home-based business, including the use of legal or accounting services.
5. Employment characteristics of the proprietor of the home-based business, such as previous work experience, length of work experience, type of employment, and managerial experience.
6. Structural components of the home-based business based on whether the business produces a good or provides a service, including the number of hours per week individuals and their family works at traditional employment and at their home-based business.
7. Advertising and marketing procedures.
8. Perception of personal and financial risk.

This report begins by describing the study procedures used in this research effort, then examines the specific characteristics of those individuals interested in beginning, or currently involved in, a home-based business. Implications and suggestions for future work in the area of home-based business in North Dakota are discussed at the conclusion of the report.

Study Procedures

The results reported here were obtained from a survey carried out during January and February of 1987. Fifteen multicounty home-based business workshops were coordinated and conducted by Dale Zetocha, the Extension Small Business Management Specialist at North Dakota State University. Persons from 82 communities, representing 32 counties, participated in the workshops (Figure 1). Participants generally either were already operating a home-based business or were contemplating a business in their home.

Questionnaires were distributed during the course of the workshops. Two weeks following each workshop, a second questionnaire with a self-addressed stamped envelope was mailed to each workshop participant who had not already returned the questionnaire. A reminder postcard was sent one month following each workshop as a third attempt to achieve a high response rate. Ultimately, 276 questionnaires were distributed, and 156 were returned, resulting in a 57 percent response rate. Of these, 124 (or 80 percent) were either considering starting a home-based business or already were in business. This group constituted the data base for this analysis. Because the workshop sites were well distributed throughout the state (Table 1), many communities were represented and workshop participants should be representative of other individuals interested in home-based business in the state of North Dakota.

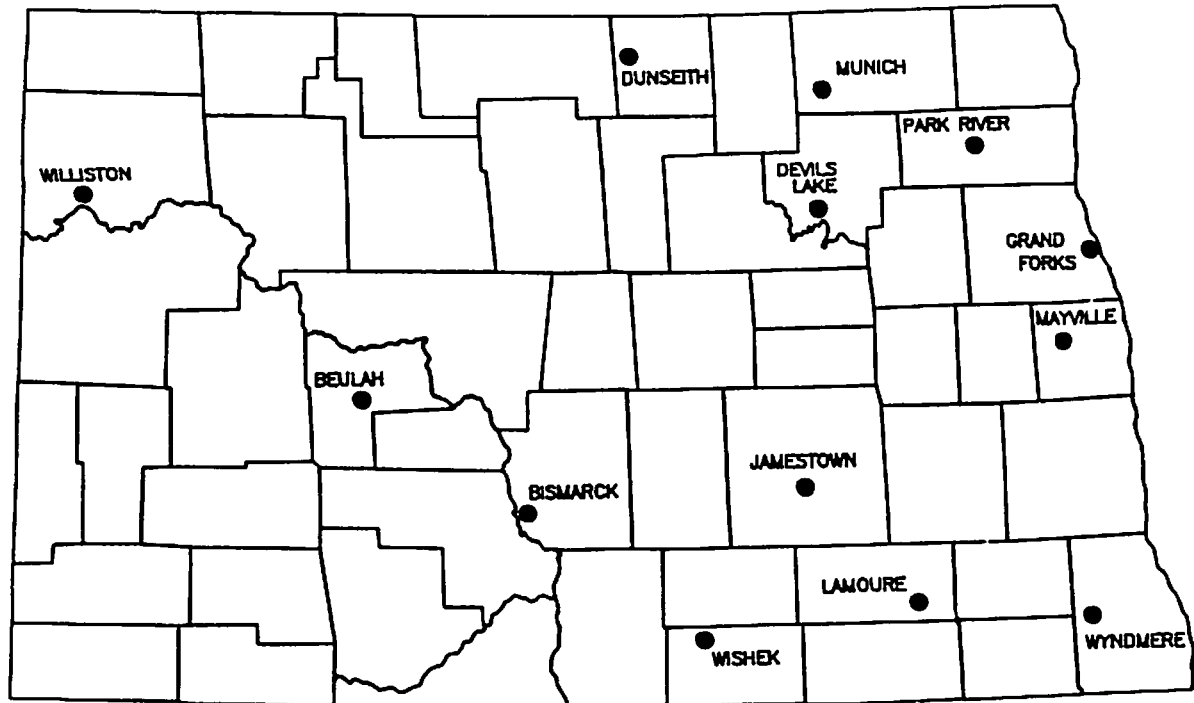


Figure 1. Sites of 1987 Home-Based Business Workshops in North Dakota

The questionnaire distributed to those who attended the home-based business workshops was developed to gather information in the eight main areas outlined above: (1) demographics, (2) reasons for involvement, (3) financial characteristics, (4) utilization of professional services, (5) work and managerial experience, (6) business organization, (7) advertising and marketing, and (8) risk perception.

The questionnaire was developed in such a manner that responses were separated between those who were contemplating a home-based business (37.9 percent) and those who already had a home-based business (60.5 percent). (The remaining 1.6 percent of the respondents did not answer the question.) The questionnaire was further subdivided so that respondents could answer questions related to whether individual businesses were producing a product or service oriented.

Characteristics of Workshop Participants

The characteristics of home-based business workshop participants, as outlined above, are summarized in this section. Responses of those currently involved in a home-based business will be discussed separately from those considering a home-based business in sections where differences exist.

TABLE 1. COUNTY OF RESIDENCE OF
SURVEY RESPONDENTS TO HOME-BASED
BUSINESS SURVEY, NORTH DAKOTA,
1987

County	Number	Percent
Barnes	2	1.4
Benson	5	3.4
Bottineau	2	1.4
Burleigh	7	4.8
Cavalier	3	2.1
Dickey	2	1.4
Emmons	2	1.4
Foster	1	0.7
Grand Forks	15	10.3
Grant	1	0.7
Griggs	1	0.7
LaMoure	7	4.8
McIntosh	3	2.1
McKenzie	1	0.7
McLean	1	0.7
Mercer	10	6.9
Morton	6	4.1
Nelson	4	2.8
Pembina	3	2.1
Ramsey	7	4.8
Ransom	1	0.7
Richland	3	2.1
Rolette	7	4.8
Sargent	1	0.7
Steele	2	1.4
Stutsman	11	7.6
Towner	6	4.1
Trail	5	3.4
Walsh	6	4.1
Wells	1	0.7
Williams	13	9.0
Out of State	<u>6</u>	<u>4.1</u>
Total	145	100.0
No county response	11	

Demographic Characteristics

The demographic characteristics of those considering a business and those already established were quite similar with the exception that those already in business were slightly older. Therefore, the demographic characteristics of these two groups will not be discussed separately. The majority of all respondents (76.9 percent) were female, and their age was most frequently between 30 and 39 years (Table 2). Nearly 90 percent were married, and 66.9 percent of the respondents had children living at home. More than three-quarters of the respondents had attended college or other postsecondary schools.

TABLE 2. DEMOGRAPHIC CHARACTERISTICS OF ALL SURVEY RESPONDENTS, NORTH DAKOTA, 1987

Item	Units	Value
Age of respondent:		
Less than 30 years	Percent	14.9
30 to 39 years	Percent	36.4
40 to 49 years	Percent	28.1
50 to 59 years	Percent	13.2
60 years and over	Percent	7.4
Sex of respondent:		
Female	Percent	76.9
Male	Percent	23.1
Marital status:		
Married	Percent	89.3
Not married	Percent	10.7
Number of children living at home:		
Mean	Number	1.5
Percent with no children living at home	Percent	33.1
Education level:		
Grade school completed	Percent	3.3
High school completed	Percent	18.2
Voc. Tech. school completed	Percent	7.4
Some college	Percent	36.4
Completed college	Percent	24.8
Some graduate work	Percent	6.6
Graduate degree completed	Percent	3.3

Reason for Involvement

The most frequently cited reason, mentioned by respondents already established in business, for becoming involved in a home-based business was that it was a hobby that turned profitable (Figure 2); nearly half of the respondents stated this reason. The next most often cited reasons were supplementing farm income, staying home with children, and job dissatisfaction or unsuitability.

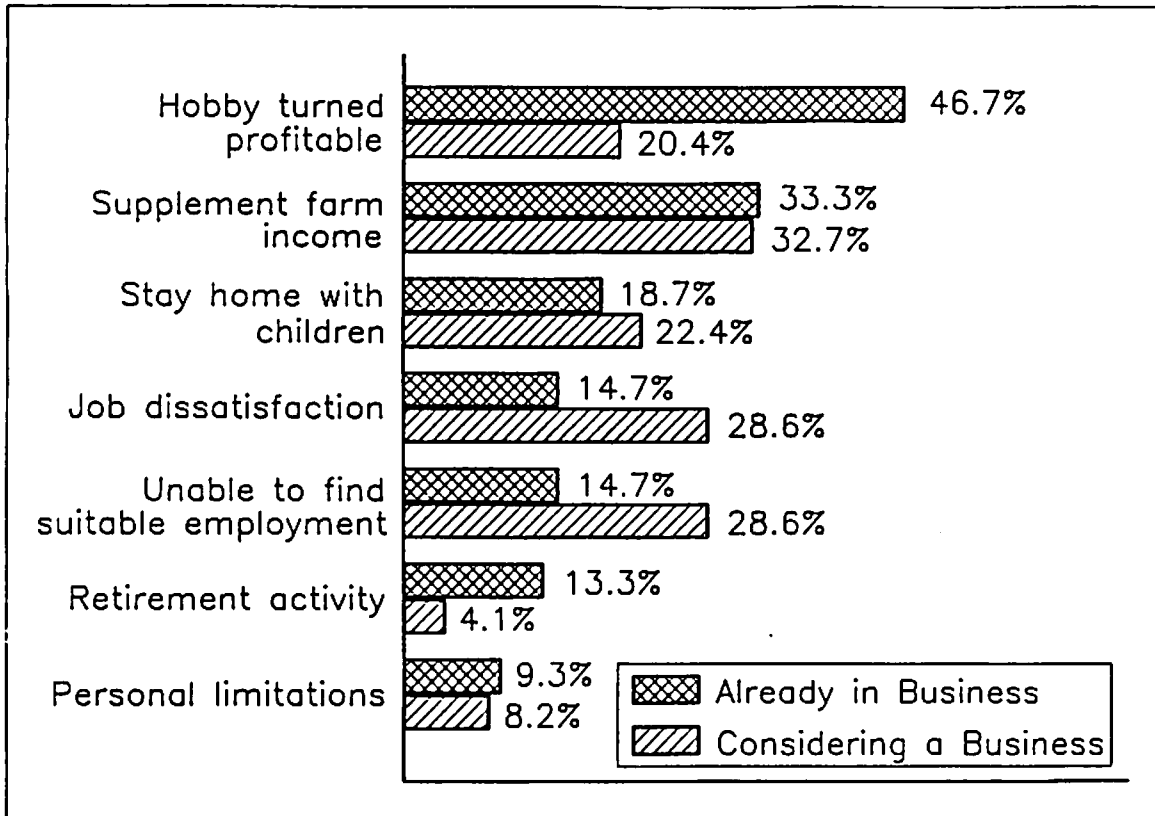


Figure 2. Reasons for Becoming Involved in a Home-Based Business

In contrast, those still considering a home-based business cited supplementing farm income most often as a reason for becoming involved in such a business. Recent studies have indicated that in North Dakota, as in many other regions of the country, many farm families are seeking additional income sources to counteract the economic stress resulting from adverse trends in commodity prices and land values (Murdock and Leistritz 1988; Leistritz et al. 1985).

Job dissatisfaction or unsuitability was cited next, followed by a need to stay home with small children. That their hobby had turned profitable was cited by only 20 percent of these respondents, compared to 47 percent of those already in business. Fewer than 10 percent of all

respondents stated that the business was or would be a retirement activity and that they had personal limitations or a need to set their own hours.

As previously reported, nearly 61 percent of the respondents were presently engaged in a home-based business. Most of these respondents (40 percent) had been involved for one to two years, 24 percent had been in business three to four years, and nearly 19 percent had operated a business for five to six years (Figure 3). Slightly more than 5 percent had been in business nine to ten years, and 12 percent had a home-based business for more than ten years. In addition, a very large percentage (92 percent) of those surveyed indicated they owned at least 51 percent of their business.

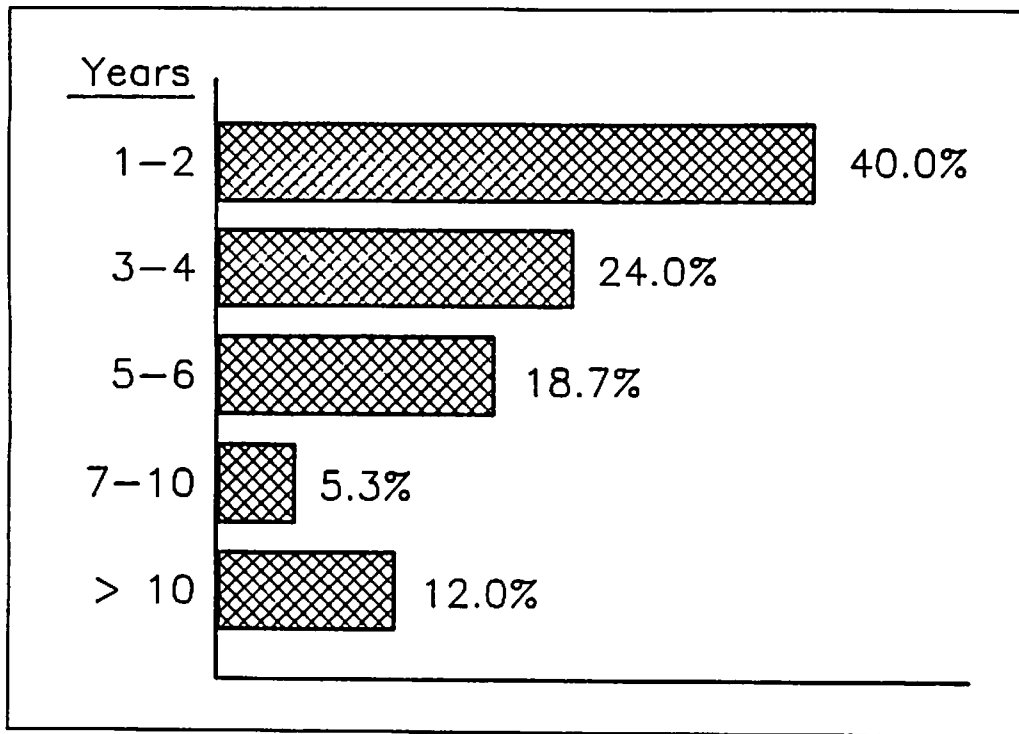


Figure 3. Years of Involvement in Home-Based Business

These data could have several implications. First, these statistics are similar to those of all small business endeavors. Many people are interested in having their own business, but the number of successful operations diminishes over time (Watkins and Allen, 1988). Second, the data could represent the nationwide trend toward greater interest in home-based business (as evidenced by the increasing number of programs offered by Cooperative Extension Services nationwide) as a means of generating supplemental or alternative income. In North Dakota the large number of newer home-based businesses (in operation one to two years) does coincide with the present economic stress in the state. These data could also represent a bias of those attending the workshop. Those just starting a business might be more inclined to attend such a workshop than those who have been in business longer.

Financial Characteristics

Established Business Operators. In response to a question concerning initial financial backing for the home-based business, slightly more than 40 percent of those already in business reported obtaining their total backing from personal savings. Another 20 percent of the respondents indicated they had used only household budget monies to finance their home-based business (Figure 4). Only 5.4 percent of those surveyed used bank loans as their only source of financing, and none of the respondents obtained financial backing through the Small Business Administration (SBA), a government agency that is frequently used as a source of funding for small business endeavors.

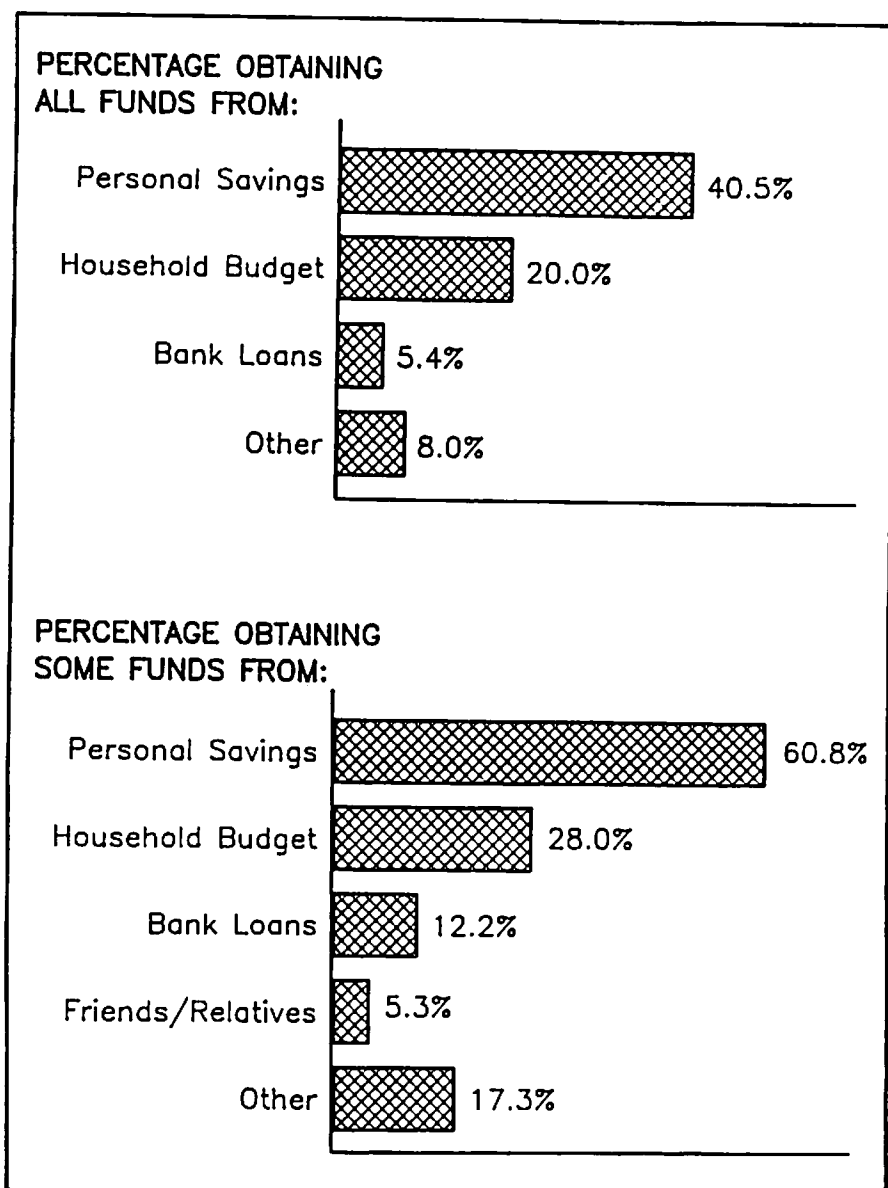


Figure 4. Source of Initial Financing for Home-Based Businesses

These respondents were also asked to estimate the amount they invested in their home-based business the first, second, and third years of operation. During the first year of operation (N = 75), the investments ranged widely from \$0.00 to \$35,000, with a mean of \$3,243 (Table 3). Half the respondents invested \$1,000 or less during the first year. The pool of respondents for the second and third years of operation (N = 51 and N = 47, respectively) was not as large because not all respondents had been in business that length of time. During the second year of the home-based business operation, the range of investment was from \$0.00 to \$17,000, with a mean of \$1,859--just over half as much as the first-year investment. During the third year of operation the investment continued to decline, ranging from \$0.00 to \$4,000, with a mean of \$1,000. Half the respondents invested \$500 or less during the second and third years. It is logical to assume that most equipment or materials needed for the operation of the business were purchased during the first two years of operation. This would account for the higher investment by some during that time.

TABLE 3. AMOUNT INVESTED IN HOME-BASED BUSINESS BY CURRENT OPERATORS

Year	Mean ^a	Median ^a
First year	\$3,243	\$1,000
Second year	1,859	500
Third year	<u>1,000</u>	<u>500</u>
Total of first three years	\$6,102	\$2,000

^aFor years 2 and 3, the median and mean were computed only for those businesses that had been in operation for the relevant length of time.

The majority of those involved in home-based businesses do not invest large amounts of money or utilize many of the usual means of financing a business, such as a bank or SBA loan. It would appear that many of these home-based businesses are truly "run on a shoestring." This approach to financing suggests that those interested in a home-based business do not want to be indebted, do not have collateral for an institutional loan, or do not perceive their business as a full-fledged money-making operation, so little monetary investment is made. The home-based business entrepreneur might also be testing the demand for the product or service provided prior to investing additional or borrowed money in the business.

When these respondents were asked what percentage of total family income (before payroll and tax deductions) their business provided, 46 percent stated it contributed less than 10 percent of total family income, and 64 percent stated it provided less than 25 percent (Table 4). Similar responses were received from those considering starting a business. Very few respondents relied heavily on their home-based business for their livelihood.

TABLE 4. PERCENTAGE OF INCOME THE HOME-BASED BUSINESS CONTRIBUTES TO TOTAL FAMILY INCOME

Percentage of Family Income	Considering A Business	Already in Business
	-----percent-----	
Less than 10%	34.9	45.8
10% - 24%	34.9	18.1
25% - 49%	16.3	9.7
50% - 74%	7.0	13.9
More than 74%	7.0	12.5

Respondents Considering a Business. An attempt was made to query workshop participants who have not yet begun a home-based business about financial projections they might make concerning their prospective enterprise. The sample is small (N = 50), and it appears that some of the respondents had not given a great deal of thought to these financial concerns (based on the number of "don't know" answers to these questions). Although the data may not be statistically meaningful, they do provide some insight concerning what the respondents were considering. Personal savings, bank loans, and household budget monies were the most frequent sources of financing anticipated by this group (Table 5).

These respondents were also asked questions concerning planned longevity of their business, percentage of ownership, and amount of planned investment necessary for the first three years of operation (Table 6). More than half (54 percent) did not know how long they would be involved in their home-based business, while 30 percent estimated they would be in business for more than ten years. Sixteen percent anticipated operating for less than ten years. Nearly all respondents (92 percent) indicated they would own at least 51 percent of their planned business.

TABLE 5. ANTICIPATED SOURCE OF FINANCING FOR PERSONS CONSIDERING STARTING A HOME-BASED BUSINESS

Source	Average Percent From Source	Percent Who Plan to Obtain All Funds From Source	Percent Who Plan to Obtain Some Funds From Source
Personal savings	54.9	22.0	80.0
Friends	0.4	0.0	16.0
Relatives	1.7	0.0	26.0
Household budget	6.0	8.0	48.0
Bank loans	31.6	2.0	46.0
Small Business Administration	2.8	0.0	20.0
Other	2.7	0.0	26.0

TABLE 6. BUSINESS PLANS OF PERSONS CONSIDERING STARTING A HOME-BASED BUSINESS

Item	Value
How long will respondent be involved in business?	(percent)
Don't know	54.0
3 to 4 years	4.0
5 to 6 years	2.0
9 to 10 years	10.0
More than 10 years	30.0
Will respondent own at least 51 percent of business?	
Yes	92.0
No	4.0
Don't know	4.0
Anticipated investment:	(dollars)
First year (mean)	3,646
(median)	1,625
Second year (mean)	2,126
(median)	1,000
Third year (mean)	2,506
(median)	1,000

Most respondents planned to invest less than \$5,000 during their first three years of business operation. Like respondents who already were involved in a home-based business, these respondents reported the greatest range and amount of investment during the first year of operation. The estimates averaged \$3,646 and ranged from \$200 to \$50,000 for the first year of operation (Table 6); however, 26 percent of the respondents did not estimate these costs. Estimated expenditures for the second year of business averaged \$2,126 and ranged from \$100 to \$10,000--a considerable drop when compared to the first year's figures. The same type of drop was seen among those who were currently operating a home-based business. The percentage of respondents who did not estimate second-year investments increased considerably, from 26 percent the first year to 51 percent the second year. The range for the third year of operation (\$100 to \$12,000) was greater than for the second year, and slightly more respondents (55 percent) were unsure as to the amount of investment they would need to make.

Utilization of Professional Services

Established Business Owners. Respondents were queried concerning the use of professional services, which would be provided by a lawyer and/or an accountant. The majority of respondents (92 percent) indicated they did not pay for legal advice related to their home-based business. Very few (4.0 percent) of the respondents utilized the services of an accountant to keep business records for their home-based business, but 61 percent did hire an accountant to complete their income tax returns.

Respondents Considering a Business. An attempt was made to determine possible planned use of professional services by respondents considering a home-based business. About 39 percent of these respondents indicated that they would pay for legal advice related to their home-based business, while 32.7 percent said they would not, and 28.6 percent were uncertain whether they would use a service of this nature. These data are interesting when compared to the responses of current home-based business owners (who had almost unanimously stated they do not pay for legal advice).

Respondents were also asked whether they planned to pay an accountant to keep business records for their home-based business; most (75.5 percent) did not plan to utilize the services of an accountant for this purpose. Twelve percent of the respondents answered they would use the services of an accountant for business records, and 12.2 percent did not know whether they would or not. Like those already in business, the majority (63.3 percent) of those respondents contemplating a home-based business indicated they would, however, pay an accountant to do their business income tax returns.

Employment and Managerial Experience

Several questions were devoted to obtaining information concerning the type, the number of years, the current employment status, and previous

work and managerial experience of the respondents. An attempt was also made to determine whether the respondents were working at other jobs as well.

Forty-six percent of the respondents operating a home-based business were also employed full- or part-time, compared to 61 percent of those contemplating a home-based business. The predominant occupations of those already in a home-based business were farming and administrative support. Three occupational areas stand out as most prevalent among those considering a home-based business: professional specialties, administrative support, and farming (Table 7). Other occupations less frequently mentioned included sales and service jobs. The remaining 16.7 percent of the respondents were employed in a wide variety of other positions.

Respondents who were currently employed for pay were asked to indicate how many hours per week they worked at their "outside position" (in addition to their home-based business). A fairly even distribution of hours between part- and full-time employment was indicated among those already in business (22 percent and 24 percent, respectively) (Table 7). In contrast, 18 percent of those considering a business were employed part-time, and 43 percent were employed full-time. It appears that about 20 percent of these respondents planned to give up their full-time jobs to start their home-based business. Only 21 percent of those considering such a business planned to work 40 hours or more per week in addition to their home business.

Almost all respondents have had previous, paid work experience (Table 7), and the majority of these respondents reported more than 10 years of work experience. The types of previous occupational experience most often mentioned were administrative support, sales, and professional specialties.

Nearly half of the respondents already in business had had previous managerial experience, and not quite 40 percent had owned another business. In contrast, about one-third of those considering a home-based business had previous managerial experience, and one-fourth had owned another business. Thus, those already in business appear to be slightly better prepared from a management standpoint than those considering such a business.

Business Structure

A series of questions regarding work hours and the amount of family involvement were asked in an attempt to determine the organizational structure utilized by those involved in or considering a home-based business. Respondents were first asked if they maintained (or will maintain) scheduled work hours. About one-fourth of those with a business stated they had scheduled hours; in contrast, about half of those considering a business thought they would keep scheduled hours. These respondents spent or planned to spend about 30 hours per week at scheduled work time.

TABLE 7. EMPLOYMENT AND MANAGERIAL EXPERIENCE OF RESPONDENTS CONSIDERING, OR ALREADY IN, A HOME-BASED BUSINESS

Item	Respondents Considering A Business	Respondents Already in Business
	-----percent-----	
Present employment status:		
Not employed	38.8	54.2
Employed part-time	18.4	22.2
Employed full-time	42.9	23.6
Present occupation:		
Professional specialties	33.3	12.5
Sales	6.7	12.5
Administrative support	20.0	15.6
Service occupations	10.0	9.4
Farming, forestry and related occupations	13.3	21.9
Other	16.7	28.1
Time spent at employment in addition to home-based business:		
None	25.0	17.2
Less than 10 hours/week	8.3	10.3
10 to 19 hours/week	12.5	10.3
20 to 39 hours/week	33.3	34.5
40 or more hours/week	20.8	27.6
Has respondent ever worked for pay?		
Yes	98.0	97.3
No	2.0	2.7
Years of work experience:		
Less than one year	2.0	1.3
1 to 5 years	10.2	14.6
6 to 10 years	30.6	16.0
11 to 15 years	22.4	22.7
16 to 20 years	14.3	14.7
More than 20 years	18.3	28.0
Has respondent ever managed another business:		
Yes	32.7	48.6
Has respondent ever owned another business:		
Yes	24.5	37.8

Respondents were asked how many hours per week they spent, or anticipated spending, on business-related financial matters. Over three-fourths of those already in business spend less than five hours on finances (Figure 5). In contrast, only two-fifths of those still considering a home-based business thought they would spend such a small amount of time. About one-third thought they would need to spend five to ten hours per week, and one-fourth believed they would spend over ten hours on finances. Nevertheless, almost all of the respondents stated they did or would spend less than ten hours per week.

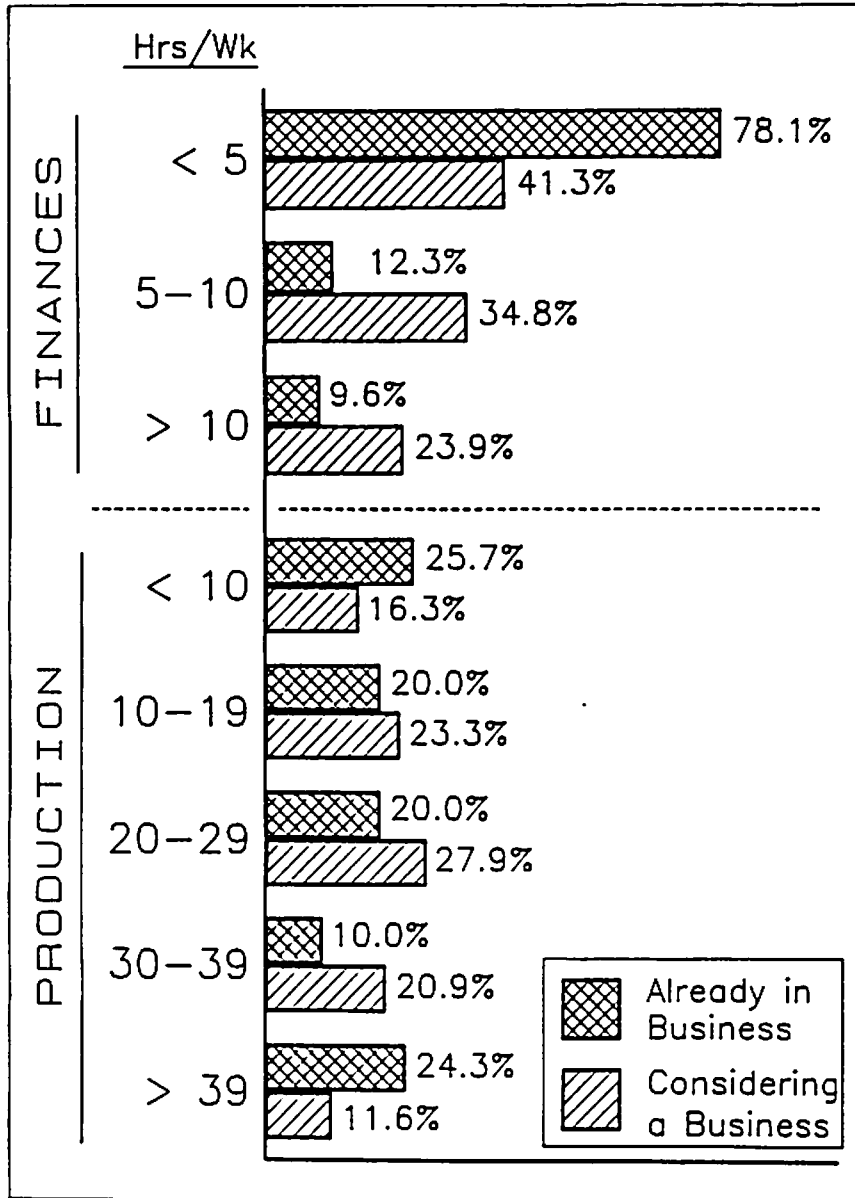


Figure 5. Hours Per Week Spent on Finances and Production of Home-Based Business

Very little difference appeared in the responses of the two groups when queried about the hours they spent or would spend on the production of their product or service. Approximately 45 percent spent or would spend less than 20 hours per week (Figure 5). Interestingly, about 25 percent of those already in business thought of their home-based business as a full-time occupation and spent 40 or more hours per week in production. In contrast, just over 10 percent of those considering a business viewed the venture as a full-time occupation.

The researchers were interested in whether other family members worked or would work in the home-based business. Answers were very similar between the two groups. Over 45 percent of respondents in both groups replied affirmatively to the question (Table 8). These respondents were then asked how many other family members are or would be involved, and the total number of hours they did or would work. Seventy percent of those considering a business stated that only one other family member would be involved. In contrast, 33 percent of those in business had involved only one other family member, 30 percent had involved two other members, and 37 percent had involved three or more other family members. It appears that after the business becomes a reality, more family members become involved than originally anticipated. Approximately 20 percent of respondents in both groups received or expected to receive 20 total hours per week from other family members, but approximately half reported fewer than 10 hours. The average weekly hours contributed was 14.

TABLE 8. PARTICIPATION BY OTHER FAMILY MEMBERS IN THE HOME-BASED BUSINESS

Item	Respondents Considering a Business	Respondents Already in Business
	-----percent-----	
Do/will other family members work in the home-based business?		
Yes	48.9	46.6
No	44.7	49.3
Don't know	6.4	4.1
How many family members are involved?		
1	70.0	33.3
2	15.0	30.0
3	10.0	23.3
More than 3	5.0	13.3
How many total hours per week did/will they work?		
Less than 5	15.0	17.9
5 to 10	40.0	39.3
11 to 20	25.0	21.4
More than 20	20.0	21.5

Marketing and Advertising Procedures

The means of marketing goods or services are very important to any business. If marketing methods are not predetermined, a business may fail. For this reason the researchers were interested in the marketing method used or being considered by those surveyed.

Respondents were first asked if their business was product producing or service oriented. It was found that nearly 57 percent of the respondents produced or would produce a product, while 38 percent had or planned to have a service (Table 9). The remaining respondents did not choose to answer the question.

Respondents Who Produced or Plan to Produce a Product. Respondents who produced or planned to produce a product were asked what means they used, or would use, to market their goods. Several alternatives were provided, including consignment, fairs or shows, wholesaling, in-home boutiques, and selling from one's own home. Responses of both groups were quite similar. The most widely agreed upon method of distribution was selling from one's home; 86 percent of the respondents used or would use this method. Nearly 71 percent of the respondents indicated fairs and shows were or would be a useful method of distribution, and almost 56 percent used or would use consignment sales.

Over one-third indicated they did or would use a wholesaler. If a home-based business operator chooses to wholesale products, that operator needs to guarantee production of a certain amount of merchandise. This may mean spending more money to make less. If it is necessary to purchase more machinery and/or hire more people to produce a specified quantity of goods, the operator needs to be sure the demand for the product is great enough to ensure the added investment will pay off.

The in-home boutique method of distribution has often been used by craftpersons. This technique involves emptying part of a home of its normal contents, generally prior to a holiday season, and aesthetically display the crafts for a period of time (generally one to three days). The boutique could be advertised by signs, notices in retail establishments, flyers, etc. to attract as many customers as possible.

Respondents who produce or are considering production of a product were asked which techniques they used or will use to advertise their product. The three most frequently cited means of advertising were word-of-mouth (94.5 percent), business cards (82.2 percent), and mail flyers (40.5 percent). Interestingly, over 95 percent of those considering a home-based business thought they would use newspaper ads. In contrast, only a little over half of those already in business used this method of advertising. Other alternatives less frequently used included storefront signs, weekly circular ads, radio ads, yellow pages, and television advertisements.

TABLE 9. MARKETING PRACTICES OF RESPONDENTS CONSIDERING, OR ALREADY IN, A HOME-BASED BUSINESS

Item	Respondents Considering A Business	Respondents Already in Business	All Respondents
	-----percent-----		
Does or will business produce a product or a service?			
Product	50.0	62.7	56.9
Service	41.7	34.7	38.2
No response	8.3	2.7	4.9
Methods of marketing product (percent who use this method):			
Consignment	56.0	54.2	55.6
Fairs/shows	76.0	66.7	70.8
Wholesaler	36.0	35.4	36.1
In-home boutiques	36.0	33.3	34.7
Sell from own home	92.0	83.3	86.1
Methods of advertising product:			
Newspaper	96.2	52.1	67.1
Radio	34.6	6.3	16.4
Television	3.8	2.1	2.7
Weekly circulars	23.1	14.6	17.8
Rent signs	0.0	2.1	1.4
Storefront sign at home	26.9	25.0	24.7
Word-of-mouth	100.0	91.7	94.5
Business cards	84.6	81.3	82.2
Yellow pages	11.1	8.3	9.5
Mail flyers	48.1	35.4	40.5
Methods of advertising service:			
Newspaper	70.0	83.3	77.8
Radio	10.0	16.7	13.3
Television	0.0	4.2	2.2
Weekly circulars	45.0	16.7	28.9
Rent signs	10.0	0.0	4.4
Storefront sign at home	20.0	28.0	26.1
Word-of-mouth	95.0	95.8	95.6
Business cards	75.0	87.5	82.2
Yellow pages	40.0	25.0	33.3
Mail flyers	45.0	37.5	40.0

Respondents Who Provide or Plan to Provide a Service. Respondents whose home-based business involved, or would involve, a service (N = 47) responded to the same list of advertising sources as did those who had or anticipated having a product. The method of advertising most frequently utilized was that of word-of-mouth, followed by business cards and ads in the newspaper (Table 9). Forty percent of the respondents cited mailing flyers to prospective customers as a means of advertising, and while the use of the telephone yellow pages service would appear to be an ideal way of increasing business for a service, only one-fourth of the respondents already in business listed their service in the yellow pages.

Businesses in general are increasing their use of weekly circulars to advertise products or services, but only 17 percent of the home-based business respondents utilized this medium. Another promising way to advertise a home-based service business would be to have a storefront sign at the home. This not only will advertise the service but will aid people in locating the business. Only 26 percent of the respondents used or would use this as a means of advertising the service.

Radio advertising, renting signs, and television advertising were the least frequently selected means of advertising a home-based service business. It is not surprising that these more costly means were not extensively utilized.

It would appear that individuals involved in or contemplating a home-based business, whether it is service or product related, could increase their volume of business by improving their marketing and advertising practices. While word-of-mouth advertising can be effective, other simple methods, such as a yellow page listing or storefront sign, can generate increased business.

Perception of Risk

Risk is usually a factor to be considered when entering into a business, and the willingness to take risks is a psychological trait of entrepreneurs (Dickson and Giglierano 1986). The researchers were interested in whether or not individuals who had a home-based business or who were considering one felt there was a financial or personal risk involved with such an endeavor. Respondents were queried concerning whether starting a home-based business was not risky, moderately risky, risky, or extremely risky.

Generally, those respondents already in business perceived the financial and personal risks to be less than those still considering a home-based business (Figures 6 and 7). Half of the respondents considering a business perceived the venture to be financially risky or extremely risky compared to only 28 percent of those already in business. Most of those already in business believed it was only moderately risky to start a home-based business. Similar responses were recorded regarding the personal risk of starting a business. Thirty-one percent of those already in business perceived it to be personally not risky compared to 8 percent of those still considering a business. This latter group was much more inclined to perceive the venture as risky or extremely risky.

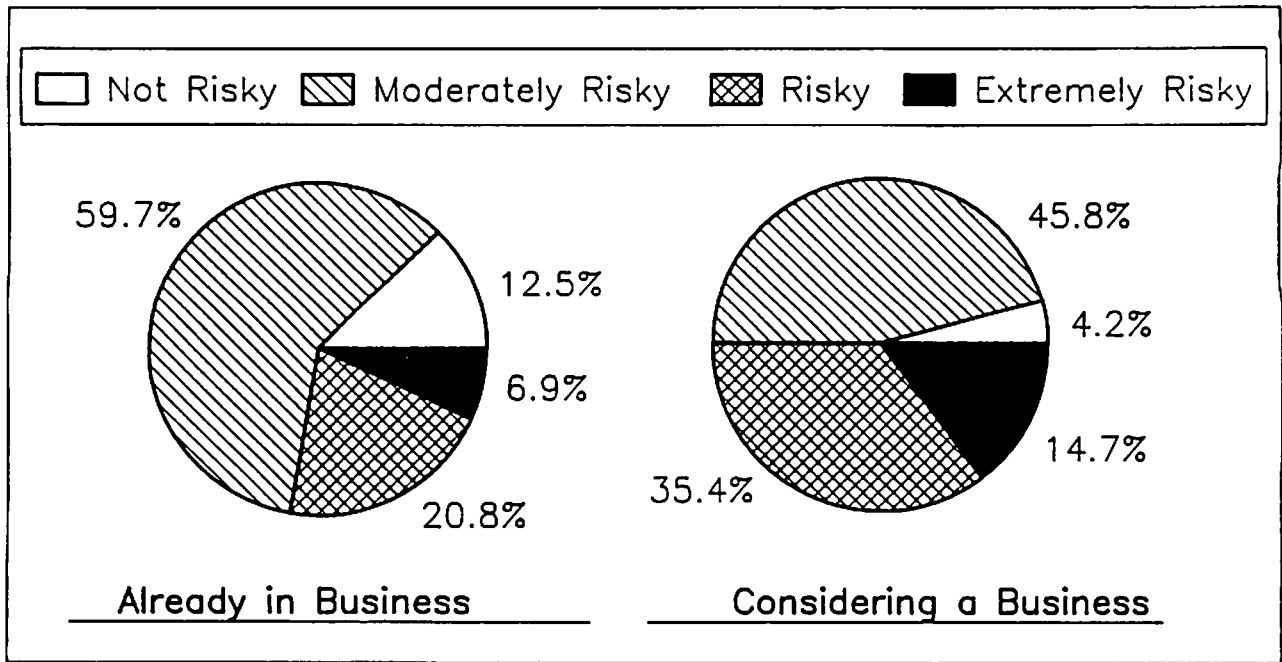


Figure 6. Perception of Financial Risk in a Home-Based Business by Survey Respondents

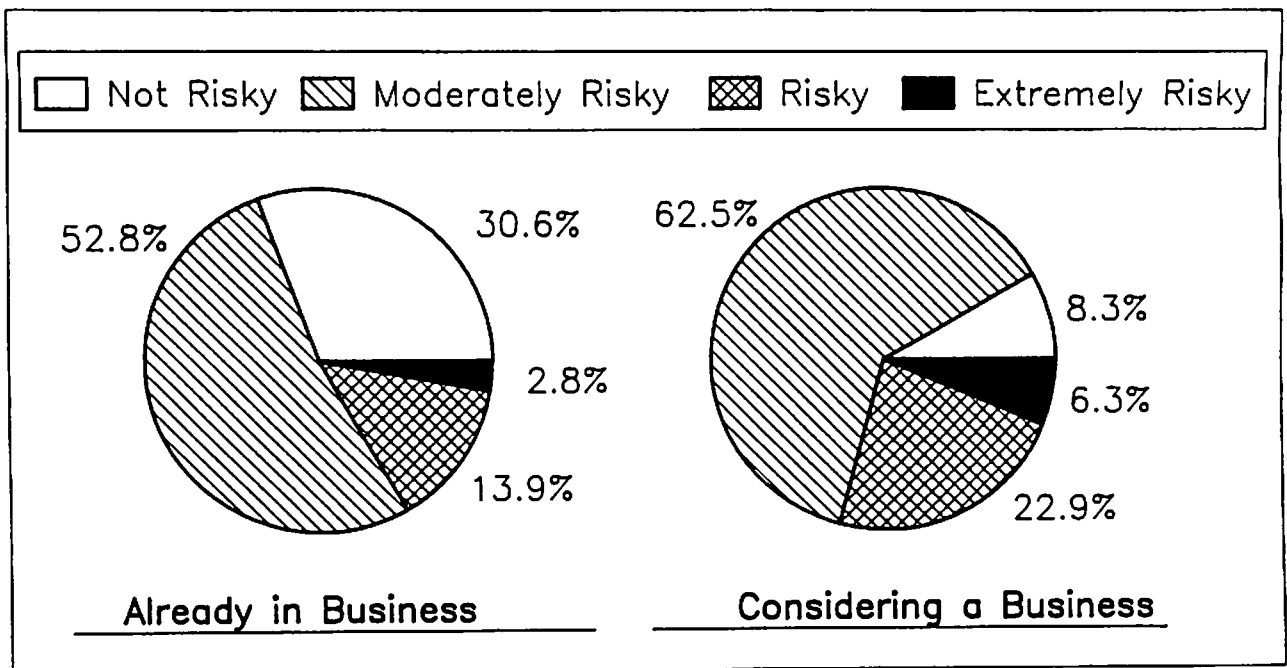


Figure 7. Perception of Personal Risk in a Home-Based Business by Survey Respondents

Respondents' perception of financial and personal risk was cross tabulated by various characteristics of the respondent to determine if any attribute strongly influenced the perception of risk. None of the following characteristics were found to be statistically significant using the chi square test: gender, age, educational level, previous management or ownership experience, and length of time in business. Any apparent relationships were due only to chance.

No further risk data were collected. However, this information does provide the researchers with the knowledge that the majority of the respondents perceived establishing a home-based business both financially and personally as moderately risky. Further data needs to be gathered to determine why respondents feel this way. This additional information would be useful in planning programs to educate home-based business entrepreneurs on how to control their risk.

Conclusions and Implications

Starting a home-based business is easy--ideas for such business endeavors are not hard to come by. Turning one of these businesses into a successful money making operation, however, is not so simple. This study was an effort to collect baseline data concerning the increased activity of home-based business in North Dakota. The results of this research can be used to aid individuals interested in beginning or continuing a home-based business through workshops directed at specific areas of need and by directing attention to the need for assistance in the sale of goods and services as well as in business counseling. The most important information gleaned from this study includes the following:

- Those involved or interested in being involved in home-based business are looking for more freedom in their work and/or increased financial security. In terms of increased freedom, the home-based business worker needs much greater self-control in order to produce. Many distractions from one's work are inevitable. The "freedom" one is seeking may be even less available than if the individual had traditional employment. The financial security achieved through a home-based business may be marginal. About 80 percent of the current home-based business respondents make less than 24 percent of total family income through their business.
- Little financial investment is made by those currently engaged in or contemplating a home-based business. About 60 percent of the established business operators either financed their business with personal savings or with household budget monies. Traditional means of financing these businesses were not utilized.

Underfinancing a home-based business may lead to self-doom. The home-based business worker needs to be committed to long-range planning and building. This means establishing a good foundation from which to build a successful business. Appropriate financing is essential to the success of a business.

- Professional services were underutilized. The majority of both those interested in beginning or who were currently engaged in a home-based business were unwilling to pay for legal advice. The services of an accountant would only be used for tax-return preparation by the majority of those interested in or currently involved in a home-based business. However, a number of laws affect home-based businesses (Zetocha and Torkelson 1985). A qualified lawyer may save the home-based business owner a great deal of time, money, and possible embarrassment.
- Nearly all individuals involved in or who are considering involvement in home-based businesses have previous paid work experience. Over 40 percent of these respondents have had managerial experience.
- Assistance in marketing and advertising goods and services would be beneficial to individuals already involved in or who are considering involvement in a home-based business.

Word of mouth, business cards, and the newspaper were the most frequently cited means of advertising. Few individuals used signs, and only 33 percent of those with a service were listed in the yellow pages. Advertising and marketing are expensive, but they are absolutely essential to the success of a business. There are many ways to effectively advertise and market within a modest budget.

- Financial and personal risk are factors considered when entering a business. The majority of respondents stated that, both financially and personally, establishing a home-based business was moderately risky. Techniques, however, can be learned to manage and control risk.

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