



Starting a Business in Your Home: Weighing the Pros and Cons

Writing for the University of Maine Cooperative Extension, business and economics specialist Jim McConnon says that for many people, home is not only where the family is—it's where the business is. During the last 20 years, large numbers of people have chosen to market their skills and talents from home. Recent studies estimate that as many as 20% of new small business enterprises are operated out of the home, and this trend is growing. Many home-based businesses are started on a part-time basis and then expand into full-time businesses as the market for the business develops and grows. It's interesting to note that the majority of home-based businesses are started by women and typically employ other family members.

Types of home-based businesses range from service-oriented child care businesses to product-oriented craft outlets. Other examples include:

farming, catering, specialty mail-order, home horticulture, computer software consulting, woodworking and bed and breakfast establishments.

People are attracted to home enterprises for many different reasons. They include: experiencing the personal satisfaction of making their own decisions, expressing their own ideas and being their own boss. Those starting home-based businesses come from many different groups, such as homemakers, single parents, youth, dislocated workers, hobbyists and people interested in adding to their incomes.

Operating a home business can give you a sense of independence and personal satisfaction. However, to be successful, you must make a total commitment to the business and its needs. Being your own boss doesn't offer you total independence. Meet-

Be Smart about Home-Based Business Opportunities

Chances are you've stumbled upon enticing advertisements for business opportunities that trumpet "be your own boss," "set your own hours," "work from home," and "earn money quickly." For more and more people, establishing a home-based business is becoming a reality. While many of these "micro entrepreneurs" succeed, others fall victim to "opportunities" that are often scams that take consumers' money and fail to deliver on the promises.

This issue of Dollars & Sense offers helpful insights to help you become more aware and informed should you be considering starting your own in-home business. ■

ing the various business needs (e.g., customers, suppliers, employees, etc.) will limit your independence. Operating a home-based business usually requires a greater commitment of time, energy and money than most jobs. It also requires a great deal of sacrifice, making it difficult to balance business and family needs.

Getting Started: Factors to Consider

There are many factors to consider before starting a business in your

(Continued on page 4)

Beware the Lure of Web-Based Business Opportunities

Whether it's recruiting people to sell so-called Internet-access devices, placing kiosks with Internet access in public places, or dealing in other Internet-related activities, consumers are being lured to the vast commercial potential of the Web by business promoters. However, the Federal Trade Commission (FTC) says that many of these business opportunities are scams that promise more than they can possibly deliver.

The scam artists lure would-be entrepreneurs with false promises of big earnings for little effort. They pitch their fraudulent offerings on the Web; in e-mail solicitations; through infomercials, classified ads and newspaper and magazine "advertorials,"; and in flyers, telemarketing pitches, seminars, and direct-mail solicitations.

Here are a few examples of Internet-related business opportunities that didn't live up to their promises:

Example 1: Providing TV Access to the Internet

The Pitch: The promoter promises that you can earn thousands of dollars a month by recruiting people to sell devices that provide television access to the Internet.

The Problem: The program claims to pay participants based on how many people they recruit into the program, not on their product sales. That makes the program a pyramid scheme—not a legitimate multi-level marketing plan. Pyramid schemes are illegal. Mathematically, nearly everyone who participates in them loses their money. When there are no new recruits, the pyramid collapses.

Example 2: Selling Walk-up Internet Access

The Pitch: The promoter claims you can earn big money by selling machines or kiosks that provide walk-up Internet access—for a fee—in places like airports, hotels and shopping malls. The machines cost thousands of dollars, but the promoter says the cost can be recovered because the machines generate "amazing" earnings. And, the company promises to help find profitable locations for the machines.

The Problem: Rather than the high-traffic locations that the promoter promises, the buyer's machines get placed where demand for Internet access is low. As a result, a would-be entrepreneur can't possibly make the promised earnings.

Example 3: Giving Seminars on Making Money on the Internet

The Pitch: The promoter advertises that you can earn more than \$150,000 as an "Internet consultant" who sponsors free seminars to teach other consumers how to make money on the Internet.

The Problem: The seminars really feature high-pressure sales pitches for the promoter's Internet yellow pages or Internet advertising. And, even though the promoter promises to provide Internet and sales training to buyers—for a fee of several thousand dollars—the buyers never get the promised training. In the end, they never earn the promised amounts.

The FTC offers this advice to consumers considering an Internet-related business opportunity:

1. Consider the promotion carefully. If it claims buyers can earn a certain income, then it also must give the number and percentage of previous

purchasers who achieved the earnings. If an earnings claim is there—but the additional information isn't—the business opportunity seller is probably violating the law.

2. Get earnings claims in writing. If the business opportunity costs \$500 or more, then the promoter must back up the earnings claim in a written document. It should include the earnings claim, as well as the number and percentage of recent clients who have earned at least as much as the promoter suggested. If it's a work-at-home or other business opportunity that involves an investment of under \$500, ask the promoter to put the earnings information in writing.

3. Study the business opportunity's franchise disclosure document. Under the FTC Franchise Rule, many business opportunity promoters are required to provide this document to potential purchasers. It includes information about the company, including whether it has faced any lawsuits from purchasers or lawsuits alleging fraud. Look for a statement about previous purchasers. If the document says there have been no previous purchases but the seller offers you a list of references, be careful: the references probably are phonies.

4. Interview each previous purchaser in person, preferably where their business operates. The FTC requires most business opportunity promoters to give potential purchasers the names, addresses and phone numbers of at least 10 previous purchasers who live the closest to the potential purchaser. Interviewing them helps reduce the risk of being misled by phony references.

5. Contact the attorney general's office, state or county consumer protection agency and Better Business Bureau both where the business opportunity promoter is based and where you live to find out whether there is any record of unresolved complaints. While a

(Continued on page 3)

(Continued from page 2)

complaint record may indicate questionable business practices, a lack of complaints doesn't necessarily mean that the promoter and the business opportunity don't have problems. Unscrupulous dealers often change names and locations to hide a history of complaints.

6. If the business opportunity involves selling products from well-known companies, call the legal department of the company whose merchandise would be promoted. Find out whether the business opportunity and its promoter are affiliated with the company. Ask whether the company has ever threatened trademark action against the business opportunity promoter.

7. Consult an attorney, accountant or other business advisor before you put any money down or sign any papers. Entering into a business opportunity can be costly, so it's best to have an expert check out the contract first. If the promoter requires a deposit, ask your attorney to establish an escrow account where the deposit can be maintained by a third party until you make the deal.

8. Take your time. Promoters of fraudulent business opportunities are likely to use high-pressure sales tactics to get you to buy in. If the business opportunity is legitimate, it'll still be around when you're ready to decide. ■

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The Bottom Line about Multilevel Marketing Plans

These days some of the most popular home-based businesses are multilevel marketing or "network" marketing types of businesses. As explained by the Federal Trade Commission (FTC) (www.ftc.gov), multilevel or network marketing plans are a way of selling goods or services through distributors. These plans typically promise that if you sign up as a distributor, you'll receive commissions—for your sales and those of the people you recruit to become distributors. These recruits are sometimes referred to as your "downline."

While some multilevel marketing plans are legitimate, others are illegal pyramid schemes. In pyramids, commissions are based on the number of distributors recruited. Most of the product sales are made to these distributors—not to consumers in general. The underlying goods and services, which vary from vitamins to car leases, serve only to make the schemes look legitimate.

Joining a pyramid is risky because the vast majority of participants lose money to pay for the rewards of a lucky few. Most people end up with nothing to show for their money except the expensive products or marketing materials they're pressured to buy.

If you're thinking about joining what appears to be a legitimate multilevel marketing plan, take time to learn about the plan. What's the company's track record? What products does it sell? Does it sell products to the general public? Does it have the evidence to back up the claims it makes about its product? Is the product competitively priced? Is it likely to appeal to a large customer base? How much is the investment to join the plan? Is there a minimum monthly sales commitment to earn

a commission? Will you be required to recruit new distributors to earn your commission?

Be skeptical if a distributor tells you that for the price of a "start-up kit" of inventory and sales literature—and sometimes a commitment to sell a specific amount of the product or service each month—you'll be on the road to riches. Often consumers spend a lot of money to "build their business" by participating in training programs, buying sales leads or purchasing the products themselves. Too often, these purchases are all they ever see for their investments.

Your Responsibilities

If you decide to become a distributor, you are legally responsible for the claims you make about the company, its product and the business opportunities it offers. That applies even if you're repeating claims you read in a company brochure or advertising flyer. The FTC advises you to verify the research behind any claims about a product's performance before repeating those claims to a potential customer.

In addition, if you solicit new distributors, you are responsible for the claims you make about a distributor's earnings potential. Be sure to represent the opportunity honestly and avoid making unrealistic promises. If those promises fall through, remember that you could be held liable.

The FTC suggests that you use common sense when evaluating a multilevel marketing opportunity. Do your homework and check with consumer report websites for reviews on the product and business. Be cautious of plans that offer large commissions for recruiters. And remember that no matter how good a product is you'll need to invest sweat equity as well as dollars for your investment to pay off. ■

TIPS & TRICKS

Starting a Business in Your Home

home. Do you have the personality and business skills to run a business? Does it make sense to operate the business out of your home? How will this business affect the family environment? Is there sufficient demand for your product or service? What price should be charged for your product or service? These and other important questions can be answered by writing a sound business plan. A business plan is a basic description of the goals and objectives of your business and how you plan to achieve them. Developing a business plan will help you answer important questions about your business idea before you actually start your business.

Keep in mind that managing a home-based business is similar to any other business in many respects. However, there are special circumstances that are unique to home businesses that need to be explored. The advantages and disadvantages of operating a business in your home, especially the impacts on the family, are important to explore as a first step in the process of deciding whether or not to start a home business.

According to McConnon, the following list of advantages and disadvantages of operating a business in your home was compiled from experiences of people who own a business and people who work with home-based business owners. Of course, there are other factors that you'll want to consider for your specific business. While the business involves a great deal of your time, energy and money, it does not have to come at the expense of your family. There isn't a strict trade-off between a good family environment and a successful business. However, you need to set pri-

orities and effectively manage your time to maintain a balance between your business life and family life.

Advantages of Operating a Home-based Business

- Can start as a part-time business.
- More flexible lifestyle and more integrated with the family.
- Lower start-up and operating costs.
- Cost-savings on child/adult care.
- No commuting.
- Flexible work hours.
- Satisfaction of being own boss.
- Increased tax benefits and write-offs.
- Outlet for creative/unique talents.
- Employment of family members by the business.

Disadvantages:

- Space may be cramped, limiting growth potential and family use.
- Personal and family lifestyle patterns may be disturbed.
- Business and family privacy may be disrupted.
- Long work hours and time away from family.
- Lack of fringe benefits.
- Lack of informal social contacts or opportunities to network.
- Stress due to inability to balance family and business needs.
- Family members and friends may

demand more of you when you're home all day.

- Business activities may cause problems with neighbors.
- Discipline is required to establish steady, homework patterns.

Balancing Family and Business Needs

Having the support of your family will help achieve the balance you need for a happy family life and successful business. Here are some suggestions for helping you strike such a balance:

- Involve family members, where it makes sense, in developing the business plan, and communicate intentions to all family members.
- Maintain a clear distinction between your business life and family life.
- Share home responsibilities with other members of the family.
- Manage your time effectively by developing good time management skills.
- Allow time for family vacations, and limit business hours to specific times of the day and week.
- Start your business when your children are older or consider operating part-time when they are young. ■

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