

Small Business Success Index Research Note

Homepreneurs: A Vital Economic Force

Alex Andon manufactures jellyfish tanks in his house, has several employees, and even raises jellyfish in one of his bathtubs.

Sheri Reingold teaches piano to over 90 students in her home. When she isn't teaching, she's training new teachers in the U.S. and as far away as Australia to improve their business. Her living room is her recital hall. Her office is her master bedroom. And her training facilities are other teachers' living rooms.

Chris Strausser helps high school student athletes realize their dream of playing at the college level. His home-based business, Getting in Edu, provides information and advisory services to student athletes and their parents across the U.S.

These people are all homepreneurs, small business owners running viable enterprises from their home. Some--interior designers, pool cleaners and performance musicians, for example--perform their core services elsewhere. Others, like freelance writers, artists, or online retailers, do the majority of work at home. In either case, they share one key common denominator: Their headquarters—their operational control center—is based in their home, anything from a bedroom or garage to a barn or a studio. What's more, they're building successful small businesses that provide at least 50% of their household income by selling products and services not just locally, but nationally and, often, around the globe.

Although roughly 6.6 million home-based businesses fit the homepreneur description – 43% of the over 15 million home-based businesses in the US -- they're the Rodney Dangerfields of the small business world, rarely regarded as significant players in the U.S. economy.¹ Instead, the common perception is that home-based businesses are merely hobbies or side businesses contributing little to the business owner's income or the overall economy.

Yet, data from the Network Solutions Small Business Success Index (SBSI) survey reveals a very different story: Homepreneurs are operating significant businesses that are as successful as non-home based businesses. Even more noteworthy, their home-based businesses are important contributors to employment and the overall U.S. economy. And, due to everything from advances in technology to demographic and economic shifts, the number of homepreneurs is likely to surge over the next few years.

More than Glorified Hobbyists

According to the SBSI data, homepreneurs comprise a seldom recognized economic force, accounting for about 34% of all small businesses that provide more than half of the owner's household income. The vast majority--75% --report they work full-time in their home business. Plus, many generate substantial revenue. About 35% have revenues of more than \$125,000 and 8% more than \$500,000. What's more, median household income is substantially higher than it is for the population as a whole: roughly \$75,000 for homepreneurs vs. \$50,233 for households in general.²

These businesses are also typically well-established and long-lasting. Almost half of the homepreneurs surveyed in the Network Solutions poll had been in business for more than 15 years. Only 20% of those surveyed had been in business for less than five years.

Homepreneurs: As Competitive as Businesses Outside the Home

Network Solutions and the Robert H. Smith School of Business at the University of Maryland teamed up last year to create the Small Business Success Index. This index measures small business competitiveness and success along six key functional dimensions – capital access, marketing and innovation, workforce, customer service, computer technology and compliance - and includes both internal (e.g. owner traits) and external (e.g. economic) factors that relate to small business competitiveness.

The upshot: An analysis of the index revealed that homepreneur businesses are as competitive and successful as businesses located outside the home. In fact, homepreneurs and non-home based small business owners scored roughly the same across the sub-indices of competitiveness.

SBSI Index Scores

	Home-based business	Non home-based businesses
Capital Access	68	69
Marketing & Innovation	70	71
Workforce	79	78
Customer Service	91	90
Computer Technology	76	75
Compliance	89	89

Engines of Job Creation

Of course, homepreneur businesses provide employment and income to their owners. But, more than that, they also help create a significant number of jobs. In fact, half of all homepreneurs have employees. While the average homepreneur business has two employees (including the owner), 39% have between two and five employees and 10% have more than five. Using these average employment numbers, Emergent Research estimates that homepreneur businesses currently employ roughly 13.2 million Americans, including the owner.³

To put these figures in perspective, let’s compare them to U.S. employment generated by two important industrial segments: venture-backed firms and the oil and gas industry. Analysis by the National Venture Capital Association shows that companies that received venture capital backing --including such corporate giants as Intel, Microsoft and Apple--employed 10.4 million in 2006.

For the oil and gas sector, an analysis by PriceWaterhouseCoopers shows that the oil and gas industry's total U.S. employment contribution was 9.2 million full and part-time jobs in 2007.⁴

A Vital Economic Role, No Matter What the Size

Home-based ventures are important for a number of other reasons, regardless of their size and contribution to household income. First, homes often nurture the initial step in business creation. Homes increasingly serve as do-it-yourself business incubators, providing a low-cost and convenient place to test business ideas. Most knowledge-based small businesses can be started at home with just a personal computer, printer and an Internet connection. For unintentional entrepreneurs in particular – people who turn to self-employment due to job loss – small home-based businesses provide a quick way to get their new ventures going.

What's more, entrepreneurs hoping to build larger businesses also often start their business at home. A recent study released by the Small Business Administration shows that about 50% of the growth-oriented small businesses surveyed that started in 2004 were home-based.⁵ The study also found that almost all of the growth-oriented businesses which started at home in 2004 stayed home-based through 2006.

Even smaller, part-time hobby or sideline businesses play an important part in the U.S. economy. While not generating a majority of the household income, these hobbypreneurs and part-timers still augment family income and provide opportunities for work/life balance that might be unavailable otherwise.

Important Now and More Important in the Future

A number of trends and economic shifts are likely to accelerate the growth of home-based businesses:

- The lower costs and risks associated with starting a home-based business: The Internet and new, lower cost technologies have made starting home businesses easier and cheaper than ever before. Also, with employer benefit packages being cut and the chances of losing a corporate job increasing, many view starting a home business as no more risky than traditional employment.

- Demographic and social shifts: Aging baby boomers, women, Gen Y and others are all seeing home business ownership as an increasingly viable work option. An interest in achieving work/life balance, flexibility, the opportunity to pursue a passion and working for yourself are some of the reasons given for starting a home business.

- A lack of corporate jobs: Large corporations have been battered by the recession. Even if the economic recovery is strong, it is unlikely these companies will dramatically increase hiring. Instead of hiring full time staff, they will stay flexible and lean through the increased use of technology, contractors, partnerships and outsourcing. As a result, starting a home business will be the best, and in many cases, the only option for corporate refugees.

The message is clear. Homepreneurs play a crucial role in income, job and business creation. It's time they got the respect they deserve.

Key findings about homepreneur businesses include:

- There are about 6.6 million home businesses that generate at least 50% of the owner's household income
- Homepreneur businesses employ over 13 million people.
- 35% of homepreneur businesses generate more than \$125,000 in revenue; 8% more than \$500,000.
- Homepreneur businesses are competitive, scoring roughly the same on the Small Business Success Index as small businesses based outside the home.

Who are Homepreneurs?

- Homepreneurs tend to be male, middle-aged and white. Specifically, according to the 2009 Network Solutions survey:
- 69% of homepreneurs are male, 31% female
- 88% of the respondents identified themselves as non-minorities and 11% identified as minorities
- 52% were over 55 or older and only 6% were less than 35.
- 46% of homepreneurs reported completing college.

About the Small Business Success Index

Given the importance of the small business sector, Network Solutions®, LLC and the University of Maryland's Robert H. Smith School of Business have partnered to track the competitive health of small businesses over time.

The baseline survey for the Small Business Success Index (SBSI) was collected in December 2008 through January 2009 by interviewing 1000 small business owners over the telephone. The second wave was collected in June 2009 from 500 small business owners.

Small businesses included in the study are privately owned, for-profit, have fewer than 100 employees, and have a payroll and/or contributed to at least 50% of the owner's household income. The data are weighted to ensure representativeness to the entire population of small businesses in the U.S. The survey is longitudinal in nature, tracking small business trends over time; the completion of the second wave provides a six month trend line.

The SBSI is composed of 6 distinct dimensions, which combine to give a total competitiveness score, ranging from 0 to 100. Competitiveness in this study is defined as the level of success a small business achieves in conducting the organizational activities critical to its short and long term viability. The more competitive a small business is, the more likely it is to meet the personal and business goals of its owners and show positive financial results.

The survey is sponsored by Network Solutions, LLC and the Robert H. Smith School of Business, University of Maryland. Rockbridge Associates, Inc., an independent marketing research firm, conducted the survey.

About This Research Note

The research in this note was conducted by Emergent Research based on analysis of the SBSI survey data. Emergent Research is a research and consulting firm that identifies, analyzes and forecasts the trends and forces impacting small businesses and their role in the global economy.

Small Business Success Index Research Note - Footnotes

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1. The U.S. Small Business Administration Office of Advocacy *Frequently Asked Questions* document states there are 29.6 million U.S. small businesses and 52% are home-based.

The 6.6 million estimate of the number of homepreneurs – which we define as home-based businesses that provide at least half of the owner’s household income – is based on analysis by Emergent Research of the U.S. Census *2002 Survey of Business Owners* business receipts data and Network Solutions *Small Business Success Index* survey data on home-based businesses.

2. 2007 U.S. median household income from the U.S. Census.
3. Emergent Research estimate based on average number of homepreneur employees from *Small Business Success Index* data and the number of homepreneurs (footnote 1).
4. *Venture Impact: The Economic Importance of Venture Capital Backed Companies to the U.S. Economy* 4th edition, 2007. Prepared for the National Venture Capital Association by Global Insights, Inc.
5. *The Economic Impacts of the Oil and Natural Gas on the U.S. Economy: Employment, Labor Income and Value Added*, September 2009. Prepared for the American Petroleum Institute by PriceWaterhouseCoopers.
6. *Startup Business Characteristics and Dynamics: A Data Analysis of the Kauffman Firm Survey*, a working paper by Ying Lowry, SBA Office of Advocacy, August 2009.

The Small Business Success Index, an ongoing measurement of overall health of the U.S. small business sector, was commissioned by Network Solutions, LLC and the University of Maryland's Robert H. Smith School of Business. Rockbridge Associates, Inc., an independent marketing research firm, conducted the survey.

The full Small Business Success Index Report can be found online at www.GrowSmartBusiness.com, or by reaching out to the press contacts below.

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