

Considering self-employment: What to think about before starting a business

by George T. Silvestri

Working for oneself holds great attraction for many people. Some view self-employment as a chance to advance professionally by becoming their own boss, earning more money, or gaining status. Others seek the personal advantages it may provide, such as the ability to work at home, have more flexible working hours, or create profitable ventures from activities they enjoy. Still others want to try something different from their current job or the one they retired from.

Whatever the reasons for its appeal, self-employment continues to be the career of choice for about 8 percent of the work force. In 1996, self-employed business owners accounted for nearly 10.5 million workers, a number projected to increase to over 11.6 million by 2006. (The box on page 16 explains the way the Bureau of Labor Statistics counts self-employed workers.) However, not all of these self-employed workers stay in business long enough to realize their dreams: According to the U.S. Small Business Administration, over half of all entrepreneurships fail within the first 5 years.

Nobody can guarantee success for any business. But you can increase your chances by taking steps before starting one. This article focuses on the importance of preparing for self-employment by making informed choices, exploring business and personal suitability, and planning carefully. It does not discuss the day-to-day management and operation of a business. For those details and additional information, consult the sources at the end of the article.

Choosing a business

Many people pursue self-employment because they would like to develop some area of expertise into a full-time business.

George T. Silvestri is an economist formerly with the Office of Employment Projections, BLS.



Business ideas may involve many different types of work, but some occupations and industries are more conducive to self-employment than others.

Those who decide to start a new business or buy an existing one must first determine if it holds enough appeal for them to invest their time and money into making it work. In addition, some occupations and industries are more conducive to self-employment than others, especially over the next decade. Choosing a business requires attention to both your interests and the realities of the occupation you choose.

Personal resources. When deciding on a business, you will want to find a venture that satisfies your career goals. Start by considering your own abilities and knowledge. Do you have a hobby, such as interior design, that can be converted into a business? Do you have experience or skill in doing something well, such as setting up personal computers? If so, you probably

already have ideas about what you want to do.

If you have no clear ideas about the kind of business you would like to own, consider your personality and preferences along with your background. Do you enjoy working with your hands? Do you prefer working behind a desk to dealing with the public? Evaluate your work experience to see if all or part of it can be used to start a business. And read as much as you can about small businesses; magazines and trade journals may provide inspiration for your project.

Another option for self-employment is to buy an existing business. Although it may not hold the same excitement as starting from scratch, buying an established business has several advantages. These advantages include a history and track record already in place as well as an opportunity to readily acquire customers, employees, suppliers, equipment, and facilities. And financial institutions usually have more confidence lending to an established business. If you buy a franchise, you will have the added benefit of a recognized name, trademark,

(continued on page 20)

Who are the self-employed?

In this article, self-employed workers are defined as those who rely on their businesses for their primary source of income. According to the Bureau of Labor Statistics (BLS), these are owners of unincorporated businesses who get their income directly from their profits.

But BLS also collects data on two other entrepreneurial groups: secondary jobholders, who work for wages or salaries in a job and have another job in their own unincorporated businesses as well, and owners of incorporated businesses, whose primary form of compensation is a regular wage or salary. Some people might consider workers in both groups to be self-employed. However, because they are primarily wage or salary earners, they do not meet

the narrow BLS definition of self-employed.

Three examples clarify the BLS definition of self-employment. BLS counts as self-employed a freelance carpenter who earns money only when a customer pays him or her and there is money left after expenses. On the other hand, a carpenter who works for a construction company for \$9 per hour and occasionally does freelance work would be considered a secondary jobholder by the BLS definition. An owner-chef who runs an incorporated restaurant with several investor partners and receives a salary of \$500 per week, plus a share of the profits of the business, is counted by BLS as an owner of an incorporated business rather than a

self-employed worker.

Data from the 1996-2006 projections for self-employment, discussed in this article, are based on the number of unincorporated business owners. Of course, the number of self-employed workers is larger—and the distribution slightly different—when the total comprises incorporated business owners and secondary jobholders along with unincorporated business owners. Below is a table showing self-employed workers by occupational group in each of these definitional categories, ranked according to each group's distribution as a share of the total. The data are from the 1997 Current Population Survey.

Distribution of self-employed workers by occupational group, 1997

(numbers in thousands)

Occupational group	Total self-employed		Unincorporated businesses	Incorporated businesses	Secondary jobholders
	Number	Percent			
Total, all occupations	17,250	100	10,513	4,341	2,396
Executive, administrative, and managerial occupations	3,958	23	1,832	1,692	434
Marketing and sales occupations	3,219	19	1,730	969	520
Professional specialty occupations	2,639	15	1,600	629	410
Precision production, craft, and repair occupations	2,226	13	1,651	370	205
Agriculture, forestry, fishing, and related occupations	2,015	12	1,403	156	456
Service occupations	1,402	8	1,179	107	116
Operators, fabricators, and laborers	841	5	629	131	81
Administrative support occupations, including clerical	808	5	414	256	138
Technicians and related support occupations	142	1	75	31	36

Source: Current Population Survey

Self-employed workers by occupation, 1996, projected 2006, and percent change 1996-2006

(numbers in thousands)

Occupation	1996	2006, projected	Percent change in self-employed, 1996-2006
Total, all occupations	10,490	11,615	11
Marketing and sales occupations	1,809	1,957	8
Cashiers	17	20	20
Insurance sales workers	123	123	0
Marketing and sales worker supervisors	795	860	8
Real estate agents, brokers, and appraisers	265	284	7
Brokers, real estate	50	56	12
Real estate appraisers	11	13	12
Sales agents, real estate	203	215	6
Salespersons, retail	183	196	7
Securities and financial services sales workers	64	86	34
Travel agents	22	16	-27
Executive, administrative, and managerial occupations	1,783	2,169	22
Managerial and administrative occupations	1,469	1,781	22
Construction managers	40	48	19
Education administrators	30	36	22
Financial managers	9	11	24
Food service and lodging managers	206	240	16
Property and real estate managers	113	127	12
Management support occupations	318	388	22
Accountants and auditors	108	136	25
Management analysts	111	134	21
Personnel, training, and labor relations specialists	15	23	54
Wholesale and retail buyers, except farm products	12	13	7
Precision production, craft, and repair occupations	1,594	1,706	7
Blue collar worker supervisors	188	195	4
Construction trades	843	918	9
Bricklayers and stone masons	32	31	-1
Carpenters	310	347	12
Carpet installers	39	49	27
Drywall installers and finishers	39	39	-1
Electricians	61	66	9
Hard-tile setters	13	14	8
Painters and paperhangers, construction and maintenance	185	206	12
Plumbers, pipefitters, and steamfitters	71	73	3
Roofers	41	40	-1
Mechanics, installers, and repairers	401	438	9
Electrical and electronic equipment mechanics, installers, and repairers	18	23	28
Machinery and related mechanics, installers, and repairers	58	61	4
Vehicle and mobile equipment mechanics and repairers	241	265	10
Automotive body and related repairers	43	40	-8
Automotive mechanics	158	184	16
Heat, air conditioning, and refrigeration mechanics and installers	38	38	1

(continued) Self-employed workers by occupation, 1996, projected 2006, and percent change 1996-2006
(numbers in thousands)

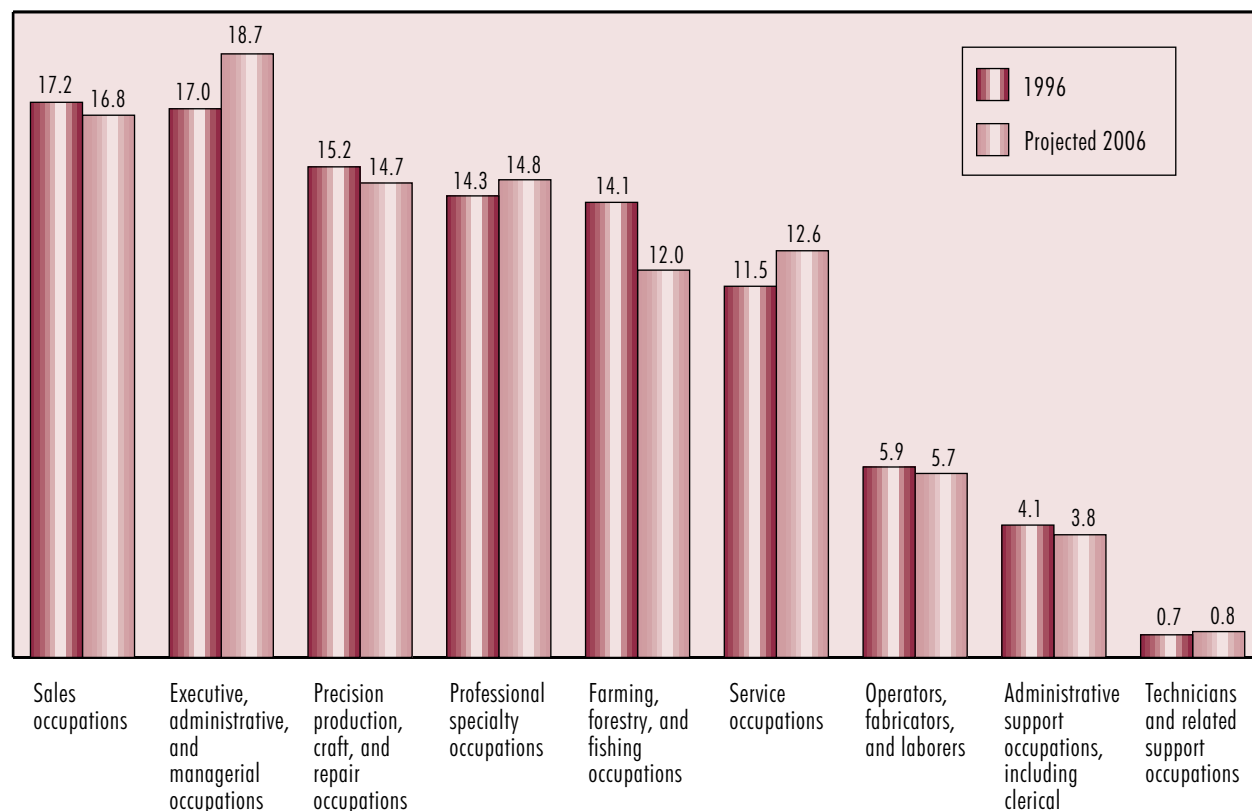
Occupation	1996	2006, projected	Percent change in self-employed, 1996-2006
(continued) Precision production, craft, and repair occupations			
Production occupations, precision	158	153	-3
Metal workers, precision	37	35	-4
Jewelers and silversmiths	12	10	-14
Textile, apparel, and furnishings workers, precision	69	69	-1
Custom tailors and sewers	45	43	-4
Upholsterers	16	17	9
Woodworkers, precision	26	23	-11
Professional specialty occupations	1,501	1,722	15
Engineers	46	52	13
Architects and surveyors	39	41	4
Life scientists	8	10	19
Computer, mathematical, and operations research occupations	61	102	66
Physical scientists	10	12	15
Social scientists	73	72	-1
Psychologists	58	56	-5
Social workers	16	22	34
Lawyers	196	214	9
Teachers, librarians, and counselors	170	181	6
Health diagnosing occupations	228	209	-8
Chiropractors	24	29	18
Dentists	73	73	1
Physicians	91	63	-30
Veterinarians and veterinary inspectors	20	24	17
Health assessment and treating occupations	60	80	34
Registered nurses	14	18	29
Therapists	28	41	47
Writers, artists, and entertainers	573	706	23
Artists and commercial artists	158	197	24
Athletes, coaches, umpires, and related workers	13	16	18
Designers	128	163	27
Musicians	74	96	30
Photographers	63	73	17
Producers, directors, actors, and entertainers	29	34	18
Writers and editors, including technical writers	90	105	16
Agriculture, forestry, fishing, and related occupations	1,476	1,395	-5
Animal caretakers, except farm	34	37	10
Farmers	1,106	995	-10
Farm workers	37	34	-6
Fishers, hunters, and trappers	30	23	-22
Forestry and logging occupations	29	29	3
Gardening, nursery, and greenhouse and lawn service occupations	219	255	17
Gardeners, nursery workers and laborers, landscaping and groundskeeping	176	206	17
Lawn service managers	35	41	17

(continued) Self-employed workers by occupation, 1996, projected 2006, and percent change 1996-2006
(numbers in thousands)

Occupation	1996	2006, projected	Percent change in self-employed, 1996-2006
Service occupations	1,210	1,467	21
Cleaning and building service occupations, except private household	164	219	34
Janitors and cleaners, including maids and housekeeping cleaners	138	189	37
Food preparation and service occupations	76	82	9
Health service occupations	34	41	23
Nursing aides, orderlies, and attendants	34	41	23
Personal service occupations	814	994	22
Barbers	44	39	-10
Child-care workers	477	613	29
Hairdressers, hairstylists, and cosmetologists	251	280	12
Homemaker-home health aides	21	34	65
Protective service occupations	11	13	22
Detectives and investigators, except public	10	12	22
Operators, fabricators, and laborers	621	664	7
Machine setters, setup operators, operators, and tenders	98	107	9
Printing press operators	11	12	9
Textile and related setters, operators, and related workers	26	23	-11
Laundry and drycleaning machine operators and tenders, except pressing	22	27	27
Hand workers, including assemblers and fabricators	93	86	-8
Welders and cutters	27	28	4
Transportation and material moving machine and vehicle operators	374	411	10
Motor vehicle operators	329	363	10
Taxidrivers and chauffeurs	34	34	1
Truckdrivers	293	326	11
Material moving equipment operators	41	43	6
Operating engineers	14	17	23
Helpers, laborers, and material movers, hand	56	60	6
Freight, stock, and material movers, hand	14	15	3
Vehicle washers and equipment cleaners	18	19	4
Administrative support occupations, including clerical	427	444	4
Adjusters, investigators, and collectors	11	15	33
Computer operators, except peripheral equipment	6	4	-31
Information clerks	18	20	12
Messengers	11	11	4
Material recording, scheduling, dispatching, and distributing occupations	8	8	0
Records processing occupations	227	233	3
Secretaries, stenographers, and typists	101	101	-1
Technicians and related support occupations	70	91	31
Health technicians and technologists	25	30	19
Engineering and science technicians and technologists	12	13	11
Technicians, except health and engineering and science	32	48	47
Computer programmers	20	32	60

Distribution of self-employed workers by occupational group, 1996 and projected 2006

(percent)



(continued from page 16)

and business appearance.

Self-employment by occupation. Opportunities to start a business exist across a broad spectrum of occupations. The table on pages 17-19 lists prevalent occupations of self-employed workers who depended on their businesses as the primary source of their income; it also shows the projected outlook for these occupations between 1996 and 2006. The chart on this page shows the distribution of self-employed workers by occupational group.

The largest number of self-employed workers were in sales occupations—about 1.8 million people, or just over 17 percent of the total number of self-employed. Although the group is expected to increase more slowly than average overall, some occupations are projected to provide more opportunities than others do. For example, the Bureau of Labor Statistics (BLS) projects the number of self-employed securities and financial services sales workers to grow faster than average through 2006

as investors rely on financial planners to help them choose among the many alternatives for managing their money.

Almost equal with the number of self-employed sales workers were the nearly 1.8 million people, or about 17 percent of business owners, working in executive, administrative, and managerial occupations. Self-employed people in this group were in all industries, either managing their own businesses or working for themselves in management support occupations such as accounting and auditing. Most of these occupations are expected to grow as fast as or faster than average, providing continued opportunities for self-employment through 2006. The increase in personnel, training, and labor relations specialists is expected to be much faster than average.

Precision production, craft, and repair occupations accounted for about 1.6 million self-employed jobs, or 15 percent of the self-employed. More than half of these workers were in construction trades occupations, which are expected to grow

more slowly than average overall; carpet installers is the only construction occupation projected to increase faster than average. In fact, the precision production, craft, and repair group as a whole is expected to increase more slowly than average through 2006, with growth in most occupations projected to slow or cease.

Significant opportunities for self-employment have long existed in professional specialty occupations. This group of workers numbered 1.5 million in 1996—14 percent of all business owners—and is expected to increase as fast as average through 2006. The largest concentration of self-employed professionals was among writers, artists, and entertainers; most occupations within this category are expected to have average or faster than average growth. Two professions expected to increase much faster than average, providing even more opportunities for self-employment, are therapists and computer, mathematical, and operations research occupations.

The large number of self-employed workers in the agriculture, forestry, fishing, and related occupations group is expected to decline through 2006. The numbers of self-employed farmers and fishers, hunters, and trappers are expected to decline significantly. However, self-employment opportunities in gardening, nursery, and greenhouse and lawn service occupations are expected to be good.

About 1.2 million self-employed, or 12 percent of the total, worked in service occupations, which are projected to grow faster than average through 2006. The largest occupation was child-care workers, and the trend toward formal child care and away from informal at-home arrangements is expected to provide numerous opportunities for starting a business. Contracting for janitorial and cleaning services is projected to create expanded opportunities for cleaning and building service occupations. And homemaker-home health aides should expe-



Two of the most important requirements for starting a business are having access to enough money and marketing your product or service well.

rience much faster than average growth.

Fewer opportunities for self-employment exist among operators, fabricators, and laborers; administrative support occupations, including clerical; and technicians and related support occupations. Each of these groups had less than 6 percent of the total number of self-employed workers in 1996. The operators, fabricators, and laborers and administrative support groups are projected to grow more slowly than average. The technicians group is expected to increase faster than average, spurred by much faster than average growth for computer programmers.

Exploring feasibility

Choosing a business is only the first step to pursuing self-employment. The next is determining whether you understand—and can manage—the business and personal demands required for success.

Most new businesses fail because their owners do not look far enough beyond their dreams. Enlisting the aid of experts, especially those who have worked with other business owners, will help you analyze your capabilities. That knowledge should reveal gaps between your expectations and the reality of succeeding with a business idea, allowing you to rethink your plan before your livelihood depends on its success.

Business considerations. Two of the most important requirements for starting a business are having access to enough money and marketing your product or service well. An accountant or financial advisor can help determine how much capital you need for startup costs and operating expenses. Advertising or sales workers and other business people may be able to assist with your marketing strategy.

The amount of money needed for a new venture varies greatly from one business to another. But lack of capital is a major cause of failure in the early years of new businesses.

Educate yourself by getting as much information as possible about your chosen business concerning the costs of employees, rental space, materials, equipment, and other necessary items. Then, consider how much personal money you have to invest in the business and how much, if any, you will have to borrow.

Lending officers will be more likely to support your business proposal if you do your homework before requesting funds. Plan a sound, realistic budget. Your startup budget will usually include one-time-only costs such as major equipment, licenses and permits, utility deposits, beginning inventory, and down payments. An operating budget reflects the continuing expenses you will incur and how much money you need to make to meet those expenses. Because it often takes time to develop a customer base, you should allocate enough money to operate for the first 3 to 6 months without steady revenue. Finally, your budget should show how much income from the business is required just to break even.

Having access to capital helps you get your business started, but the degree of your project's success depends on how well you market it. Get to know your customers—their likes, dislikes, and expectations—to determine whether people will buy a product or service from you rather than from someone else.

Begin informally by talking to your friends and neighbors to find out if they would buy what you have to offer. Explain why your product or service benefits them and what makes your business different from others like it. Then, do an in-depth investigation of your market. Consider the size of the market and your expected share. Determine the maximum price customers will pay for your product or service and whether your prices will be competitive. Finally, identify the strengths and weaknesses of your competitors and how your business compares with them. Try to target gaps in the local economy where op-



Preparing a business plan allows you to anticipate and solve many problems before you open for business.

portunities exist for you to start a new venture.

As you review your options, you may again wish to consult local experts and business people about the growth potential of businesses in your area. Enlist the help of experienced people who can help you match your background with the local market. Together, you can establish a plan to define your target market and develop sound marketing strategies.

Personal considerations. Successful business people share certain traits. Most can handle a great deal of responsibility and are hard working, persevering, and capable of honest self-appraisal. They understand that self-employment usually involves the pressure to perform, long hours, and irregular income.

To decide whether you should become self-employed, you must examine your motivation and commitment to

such a venture. Then, you need to honestly evaluate your strengths and weaknesses. Once you identify them, you can capitalize on your strengths and compensate for your weaknesses.

When making your decision, some questions you should ask yourself include:

- ◆ Will becoming self-employed meet my career goals?
- ◆ Am I willing to work long hours each day?
- ◆ Do I have skills in a profession, trade, or hobby that can be converted into a business?
- ◆ Does my idea for a business effectively use my skills and abilities?
- ◆ Am I a good planner and organizer?
- ◆ Can I make my own decisions?
- ◆ Am I willing to postpone my plans in order to get more education, if necessary?
- ◆ Does my family support my endeavor?
- ◆ Can I afford the financial and emotional risks if the business fails?

If you answered no to some of these questions, give more

thought to whether you really want to start a business; the desire to own a business is not sufficient to go ahead with your plan. Part of determining your personal suitability to self-employment is the willingness to accept that such a career path might not be for you. After all, it is better to discover this fact before you invest a lot of time and money.

Creating a plan

Prior to its inception, every business needs a plan. A business plan precisely defines your business, identifies your goals, and serves as your firm's résumé. It incorporates much of the financial and market information you've already gathered. Prospective lenders and investors will use your plan to decide whether your ideas are sound.

Preparing a business plan also allows you to anticipate and solve many problems before you open for business. According to the Small Business Administration, a business plan should clearly describe the business, the marketing plan, the financial management plan, and the management plan. It should address additional details about the organization and legal requirements of your business.

You may need a lawyer to assist you in drawing up a business plan and setting up the details of operation. There are often Federal, State, and local licenses and permits required. In addition, most business owners find they need some kind of insurance protection for their ventures.

When writing your plan, you will need to address legal issues such as who will actually run the business, how it will be organized, and what its structure will be—sole proprietorship, partnership, or corporation.

The business plan will reflect other business decisions as well. One of the more important will be your business' location. You must decide where you should rent a store or office or whether to operate your business from home. Your location will need to be accessible to customers and in compliance with zoning laws.

Remember: Each business plan is unique because there is no single route to follow in starting a business; each is based on individual goals and circumstances. But a well prepared business plan increases your chances for success. Take time to investigate, consult with experts, and prepare a plan that closely resembles what you expect of your business.

For more information

Your local library is a great place to find information on starting and managing a business. Look for books and periodicals on

topics such as self-employment, entrepreneurship, and small or home-based businesses. Also consult sources on the type of business you intend to start—books on subjects such as baking, food design, and catering, for example, might be helpful in preparing for a pastry business.

The *Occupational Outlook Handbook* contains information on the education, training, and other characteristics of numerous careers that may be appropriate for you to pursue as an entrepreneur. The *Handbook* is available in most libraries and school counseling offices. It is also accessible online at <http://stats.bls.gov/ocohome.htm>.

In addition to the *Handbook*, your college and career counselor has other resources available. A source of information for college students is the Association of Collegiate Entrepreneurs (ACE), an international organization for students interested in entrepreneurship. Most colleges and universities have an ACE chapter, and many chapters have websites.

The U.S. Small Business Administration (SBA) has numerous publications on starting a business. In addition, Small Business Development Centers throughout the Nation offer training for owners of small businesses. Several associations affiliated with the SBA, such as the Service Corps of Retired Executives and the Women's Network for Entrepreneurial Training, offer business counseling and mentoring at no charge. To request information, locate the Center nearest you, or receive business counseling from an SBA-affiliated group, call the SBA answer desk at 1 (800) 827-5722. You can also access the SBA website at <http://www.sba.gov>.

The National Association for the Self-Employed (NASE) provides access to specialists, resources, and other information to answer your questions and to help you keep current on legislative matters affecting self-employment. For more information, visit its website at <http://www.nase.org> or call 1 (800) 232-6273. You may also write:

NASE
PO Box 612067
DFW Airport
Dallas, TX 75261-2067

The American Association of Home-Based Businesses is a national, nonprofit organization formed to support and promote home-based businesses. Locally run chapters address the needs of their members. For more information, visit its website at <http://www.aahbb.org> or call 1 (800) 447-9710. Or, write:

AAHBB
PO Box 10023
Rockville, MD 20849

