

## The Rise of the 'homepreneur'

John Tozzi

*New research shows the economic importance of home-based businesses: They account for more than half of all U.S. businesses and employ more people than venture-backed companies.*



*Stephen Labuda, 35, is planning to hire a fifth employee for the Web development firm he runs from his home in Cambridge, Mass. Carbonaro photography*

More than half of all U.S. businesses are based at home. These companies often are dismissed as quaint hobbyist ventures, but new research suggests that's a mistake. An estimated 6.6 million home-based enterprises provide at least half of their owners' household income. Together these "homepreneurs" employ one in 10 private-sector workers, and by many measures they're just as competitive as their counterparts in commercial spaces.

Ask Stephen Labuda, the 35-year-old president of Agency3, a Web development firm he runs from his home in Cambridge, Mass. A former programmer at Deutsche Bank (DB), Labuda started building Web sites as a side job in 2003 and took the venture full time three years later. Agency3's revenue is in the millions, and Labuda is about to hire his fifth employee, who will work remotely, like the rest of the staff and the slew of contractors he taps. "I'm not intending to go rent office space," he says.

You can trace the rise of home-based businesses to the early days of telecommuting in the 1980s and the mass adoption of the Internet in the 1990s. Cloud computing, online collaboration, and smartphones have accelerated the trend, and recent research clarifies the economic significance of companies like Labuda's. "We're seeing more and more home-based businesses that are real businesses," says Steve King, who coauthored the new report with his wife, Carolyn Ockels. (The couple runs Emergent Research, a small research and consulting shop, from their home in Lafayette, Calif.) The pair analyzed U.S. Census data and Small Business Administration research, along with data from the Small Business Success Index, a survey of 1,500 companies sponsored by Network Solutions and the University of Maryland's Robert H. Smith School of Business.

### Wide acceptance and legitimacy

Here's more of what they found: The 43% of home-based businesses that provide at least half of the owners' household income are, on the whole, smaller than non-home-based companies. Only about 35% have revenue above \$125,000, compared to 75% for non-home based businesses. But they measure up to other small companies on key aspects of doing business, including access to capital, benefits to workers, marketing, and innovation. On average they

have two employees, including the owners, and together they employ more than 13 million people—more, King notes, than venture-backed companies. (Venture-backed companies employed 12.1 million people in 2008, according to the National Venture Capital Association.)

In some of these companies, the operations are concentrated in the owner's home. Others use their residence as a headquarters but do most of their work at clients' homes or offices. The variety of home-based businesses cuts across industries, but the top sectors are business and professional services, construction, retail, and personal services.

A few trends are driving the growth of sophisticated home businesses. First, technology has made it easier to start and run a business from anywhere. But just as important, there has been a change of consciousness in the business world to recognize home-based enterprises as legitimate.

Labuda has seen that shift at Agency3. "When I first started, I really felt compelled to go rent an office. I felt like in order for me to be taken seriously as a business, I had to have an office that my clients could come to," he says. It didn't matter—clients didn't want to visit him. Labuda meets most of them at their businesses or at coffee shops. He also uses on-demand office space, where he can rent a conference room by the hour, if needed.

Lower costs are a competitive edge

Now, Labuda never feels that his working from home damages Agency3's credibility. Instead, it's a selling point. "It's reflected in our pricing that we don't have the same kind of infrastructure costs and fixed costs that some of our competitors do," he says.

Indeed, the most obvious financial benefit for home-based entrepreneurs is lower operating costs. A 2006 SBA study compared tax returns of sole proprietors who deducted home-office expenses with those who deducted commercial rent. That analysis found that home businesses, on average, had lower sales and net profits than companies in commercial spaces. But profitable home-based ventures retained a greater share of their total receipts as net income: 36%, vs. 21% for non-home-based businesses.

King predicts that as large companies try to reduce their fixed costs by outsourcing business functions, small home-based enterprises will play an even larger role in the economy. "Over the next 20 to 30 years, you could see the percentage of people who are self-employed and home-based double, potentially," he says.

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