

So You Want To Start A Home-Based Business In Texas!

Some General Business Tips

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Home-based businesses are becoming popular with Texans. The American economy was born through businesses based in the homes of our forefathers. The idea of a home-based business may be appealing to you. However, taking the actions necessary to make that idea a reality is a challenge.

The purpose of this publication is to help you examine your reasons for starting a business and understand the resources available to help you do so. Understanding why some businesses succeed and why some fail can help you reduce the risk of business failure. By answering key questions in the business planning process, locating available resources to help you, and considering the pros and cons of a home-based business, you can make the best decision about whether, and how, to start your own home-based business.

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Why have a home-based business?

Why do you want a home-based business? You might want to work independently and be your own boss. However, you might be your own worst critic and drive yourself harder than an employer would.

Many people start home-based businesses as their only income, while others do it for extra income. Employees who are victims of “downsizing” or “right sizing” may be forced to create sources of income to support themselves and their families. Regardless of the reasons they are created, home-based businesses can:

- increase family or retirement income;
- let you work without leaving home so you can be more available to the family and reduce child or adult care costs;
- reduce commuting and work wardrobe costs;
- allow you to use special skills or pursue special interests to make a profit;
- and

- give you greater flexibility in your work schedules.

If you decide to begin a home-based business, you will be joining more than 25.4 million full- and part-time home-based business owners who generated revenues of more than \$401 billion in the U.S. in 1995. Home-based businesses are indeed **big** business.

Why do some home-based businesses fail and others succeed?

Most individuals hoping to begin a new business think of themselves as hard working, enthusiastic, responsible, energetic and resourceful. The difference between entrepreneurs who succeed and those who are less successful seems to be in how those traits are put into action. So, if you see yourself as responsible, but fail to make sound plans, see yourself as creative, but fail to draw together the resources needed to make your idea a reality, you will find success difficult to achieve.

Why do home-based businesses often fail within the first year of operation? Here are some key reasons.

- Limited resources available because of the business's small size.
- Inexperience of the business owner.
- Inadequate planning.
- Poor decision making.
- Difficulties in getting enough capital (money).
- Lack of careful financial management.
- Inability to manage growth and expansion.
- Extensive local and regional competition. Failure to recognize the value of a team approach in business start-up.
- Too many risks taken.

Your first important task as a rookie entrepreneur is to decide if you have what it takes to be successful in business. Few people have all the necessary charac-

teristics and skills needed to be successful business owners in the beginning. Most people work with at least one partner who will offset their weaknesses, or use resource people to perform tasks they do not like or do not have the skill to do.

What can you do to increase your chances of success?

Try not to mix household affairs with those of the business. Know when you are in the role of business owner and when you are in your family member role. Keep home and business expenses and activities separate. Maintain separate bank accounts and insurance policies for the business and the family. Have a written business plan that outlines and guides your business decisions. Plan carefully, guided by clearly stated goals for your business. Be committed to your business. Realize that working longer hours (especially at first) may be essential. Clearly target your marketing efforts, realizing that you may need to go beyond your geographical area.

Learn to build relationships with people in your community who can give you information and emotional support. If you use only printed information for resources, you won't have an advantage over your competition. Instead, develop personal contacts with "people in the know" who can help you find new opportunities.

Starting a home-based business takes more than an idea and desire. It takes:

- a desire to succeed that drives you to push the limits of your technical and analytical skills;
- a commitment to not only do things right, but to do all the right things;
- a strong desire to always be learning more efficient ways to accomplish all the tasks that you face as the manager of a dynamic enterprise;
- sacrifice, in that you must be willing to give up many activities and luxuries for the sake of keeping the business on a sound financial footing; and

- motivation to be a good planner when you would rather be doing the “fun” things such as producing and marketing your products or services.

What are the roots your home-based business needs?

A strong foundation is as critical to the long-term development, growth and success of your business as the roots are to a tree. You should consider what is necessary for your business to develop a good root system (self, family, community) that will support a strong trunk (business plan) and many branches (products, services, employees, management, marketing, financing, etc.). The branches of a healthy tree are strong and flourish only if the tree has strong roots to provide support and nourishment. A variety of resources in sufficient supply will be required to grow your business idea into a mature, thriving enterprise with a long life expectancy.

As you think about the resources available to you, decide how each one affects the kind of business you want to start, when and how you plan to start, and how rapidly you would like it to grow. Be objective as you evaluate your situation so that you will make the most informed decisions possible.

Key factors that determine whether your business will be rooted with a strong foundation or a weak foundation are family, space and facilities, time, friends and neighborhoods, experience, and community. But the most important factor is. . .

You

You are the most important element of your business foundation. After all, you generate the ideas and are the director and decision maker for your business. Success in a home-based business depends greatly on how well you understand yourself, your abilities and your limitations. Write down goals for yourself and your business. Make a list of your strengths that will help you reach your goals, and weaknesses that may hold you back. Personal traits alone won't make the business a success. Recognize your limitations. Look for ways to overcome

your weaknesses (by seeking help from resource people in the community) and maximize your potential.

Family

Since the business is located in the home, it affects what you and your family do. Ask yourself:

- What kind of home situation do you have?
- Will your family members be supportive of the home-based effort? Do they understand how the home environment may change?
- How well do you and your family members communicate?

Communication must be open and strong between spouses, children, and the home-based business manager. Family support is vital for the home-based business. Have you and your family discussed the thoughts each may have about your starting a business?

- Will your business actually take time away from the family?
- Will family members tolerate the business as it infringes on personal home space and lifestyle?
- Have you anticipated the inconveniences of having a business in the home?
- How will responsibilities such as care giving and house cleaning be affected?
- How will friendships (with neighbors and relatives) be affected?
- How will work and family responsibilities be managed so the business is seen by customers as a business?
- How will relatives view the business? Will they expect employment or payment for services they provide when needed to help with business or family matters?
- Will business activity interrupt family traditions, family schedules or family plans?
- How will you keep family and business expenses separated for matters such as utilities, telephone, furnish-

ings, home maintenance, and storage of supplies or products?

Remember, the decisions you make affect both the business and the family. Home-based businesses are definitely family businesses. A clear understanding of expectations within the family is necessary to create a strong root or foundation for your business.

Time

- What other demands are made of you that might threaten to pull you away from the home-based business? Time is a valuable commodity. Consider whether you will be able to accomplish what needs to be done in a timely fashion.

Change

There are many unknowns in operating a business. Some situations can be anticipated, while others may come completely by surprise.

- How flexible will you and your family be in dealing with the various demands of the business?
- How will you and your family deal with business expansion and its encroachment on family space and time?

Space/facilities

- What kind of facilities are in your home to support the business?
- Is there adequate space or will you have to spread the business out over many rooms?
- What type of insurance will you need to cover liability for the home business?
- Will the location of the business in your home affect your tax liability and deductions?

Friends and neighborhoods

- What type of relationship do you have with neighbors? These relationships may change when you begin operating a home-based business in your neighborhood. Will there be resistance to the idea?

- What changes in traffic will your business bring about that might affect your neighbors? Neighbors are unlikely to tolerate large, visible production and storage facilities, loud noise or excessive traffic in the area. Large signs are against regulations in most neighborhoods. Local ordinances should be checked thoroughly before a business is started.
- What type of zoning laws are in effect in your neighborhood, city or county? Would your business be allowed?

Experience

Your experience and level of education will affect your success. If you lack skills in certain areas, knowing where to go for information and help will lower the risk of business failure.

- What experience do you have from other work situations that will help you operate and manage the type of business you want to begin?
- Have you talked with other people who have home-based businesses?
- Are you skilled in producing a product or delivering a service?
- Are there other home-based or small businesses that provide services you will need, such as accounting, record keeping or printing?
- How could you gain experience in a small business environment before you actually start your own business? Consider volunteering or working part-time. Experience may be your best teacher.

Community resources

- What types of information services are available in your community to help with financial or legal advice?
- Are there community resources, such as the library, chamber of commerce, community college, Small Business Development Center, etc., that you can tap for information in order to create a strong home-based business structure with a future?

Business resources

Home-based businesses must be able to survive in the local business environment, and adapt to changes in the community and the market. Here are some questions to answer about the local business environment.

- How will your business affect the local economy? Will it compete with or complement other businesses?
- Is there a special “niche” in the market that your business can fill by providing a product or service no one else provides?
- Can you get supplies you will need locally or will you have to ship them from another city?
- Are Senior Core of Retired Executives (SCORE) volunteers or a Small Business Development Center available to help you develop your business plan and guide you in early business operation?
- Are there other businesses you could cooperate with to make bulk purchases of basic products you will need? What cooperative marketing opportunities exist?
- Do you have local services for accounting, legal work, banking, marketing, printing, shipping or computer access?
- Have other businesses in your area similar to the one you are planning recently changed ownership or closed? If so, why?
- Will your customers come from the local community, or will you need to travel to other locations or use direct mail, telephone, or computer services to market your business?
- Are there places in the community outside your home where your business could be located and still be profitable and manageable? If so, what would be the advantages and disadvantages of locating your business outside your home?

To be sure your business will survive in the larger business environment, answer the following questions.

- How much demand is there for your type of business now, and will the demand increase or decrease over the next 5 to 10 years? How will you deal with the constantly changing business world?
- Who will be your main competitors, locally and in nearby communities? Where do people go now for the type of product or service you will offer? What would draw them to your business instead?
- What policy changes, such as licensing, taxes or regulations, are expected that could affect the products, services or people that you use in the business? Costs and availability of utilities, communications networks, transportation systems, input supplies, and other specific support businesses are important considerations.
- If you are hiring people to work in your business, is training available and affordable for them?
- Is testing or certification required for the product you make? If so, will you have the resources to do this and know where it can be done?
- How are people with similar businesses operating in other communities? Have you talked with them? What can you learn from their experiences? How can you network with them?

How do you get started?

Answering such a variety of questions will help you do a thorough assessment of your chances for success. If you then decide to pursue your dream of starting a home-based business, it is time to begin the real work of planning.

Starting a business is like planting a tree. The landscape surrounding a tree may look right, but the real test comes in planning when and how to till, plant, water, fertilize and weed properly. A well thought out, written plan is as important to a home-based business as the roots are to a tree. Such a plan will help ensure that you have the money, resources, products, services and tools you need,

when you need them, so that your business runs smoothly.

The business plan

Planning and managing your home-based business requires that you anticipate both good times and bad, just as a tree will have periods of drought and abundant rain. The bad times may require hard work and creativity to keep the business healthy and strong. Successful conditions also can be challenging when they bring opportunities for rapid growth and expansion of the business.

One proven way to minimize the high risk of business failure and manage for success is to develop a complete, written business plan. Your business plan will bring together all the necessary information that will guide you in planning and managing your home-based business.

Your business plan should include a description of the business, your goals and objectives, the business's legal structure, and plans for marketing, finances, record keeping and management. The business plan outline below is a guide to help you gather, organize and write the information your plan should include.

Begin by writing down all of the goals and objectives you have for the business you want to start. These goals become the outline for your business plan. It is important to keep in mind that business plans change as time goes by. Plans should be updated periodically when business conditions change.

As the business owner, you must be keenly aware of all that goes on around you in order to keep the business heading in the right direction. You must make informed, and often quick, decisions to have a successful business. This requires

Sample Business Plan Outline

Executive Summary

- A. Description of business
- B. Strategic direction/goals
- C. Marketing plan
- D. Management
- E. Financial features
- F. Exit - how investors will get money back

1. Background and Purpose

- A. History
- B. Current conditions
- C. The concept

2. Objectives

- A. Overall
- B. Specific - sales, profitability, market share, product quality, innovation, efficiency, management, social concerns ...

3. Market Analysis

- A. Overall
- B. Specific market segments
- C. Competitive factors
- D. Other market influences - economic factors (inflation, recession), seasonal fluctuations, governmental influences, social factors, random unexpected disturbances (political instability, war, energy crisis)

4. Development and Production

- A. Production process
- B. Production requirements
- C. Contingency plans - positive and negative

5. Marketing

- A. Marketing orientation
- B. Marketing strategy
- C. Sales forecasts
- D. Contingency plans - positive and negative

6. Financial Plans

- A. Statements - balance sheets, accrual basis income statements, cash flow, etc.
- B. Analysis - comparative, ratios, etc.

7. Organization and Management

- A. Key personnel
- B. Other personnel
- C. Contingency plans - positive and negative

8. Ownership—form of business

9. Critical Risks and Potential Problems

- A. Time frame for starting the business, securing funds and carrying out planned activities

skill, experience and persistence. Some information will be readily available, while other data will take considerable searching. Most of the information will be generated by you, the business owner, as you analyze opportunities, learn about the marketplace, assess your financial position, and decide what you need to get the business up and running.

The business type

An important part of the formal planning process is deciding what type of business you would like to operate. The decision is easy if you have a hobby that you are turning into a business or if you are taking over a family business. However, if all you know is that you want to have your own business, take time to

Table 1. Ideas for home-based business services and products.

Business Type	Service	Product	Combination
Human resource-based			
Traditional home-related skills	Food preparation Product testing Alterations Party planning Shopping	Box lunches Specialty foods Clothing	Catering Assembled gift packages Bridal service
Vocational skills	Secretarial Repairs/refurbishing Electronic assembly Answering service Selling franchised products Monitoring service— weather, radio Pesticide application Landscaping Word processing	Reports/documents Furniture Novelty items Mailing lists	Custom publishing Custom cabinetry
Professional skills	Editing Videography Tutoring/teaching Market research Organizing tours, moves meetings Talent/skill search Appraisals Consulting Graphic design Software design Accounting Tax preparation	Written materials— speeches, books, academic papers Brochures Databases	Recording events— sound, video Research
Talents/self-taught	Music lessons Performance—music, dance entertainment Photography	Art work Creative writing Crafts Painting/murals	Customized painting/ decoration
Property-based			
Home, yard, acreage (requires space)	Room rental Boarding animals Child care Adult foster care Seasonal storage—RVs, boats Campsites	Herbs/vegetables/ fruits Registered dogs/cats	Bed and breakfast
Auto, other vehicle or major equipment	Messenger Delivery Security Tours		

gather as much information as possible on all the possible business types. Table 1 lists some products and services for home-based businesses. There are many, many others; the possibilities are limited only by your imagination. Whatever your idea, ask yourself these questions:

- Is your work a service or are you providing a product, or both?
- Do you want to perform all of your work at home or can some of your work be performed at another location?
- What services do people need that are not currently provided by an existing business?
- What products are in demand that are not currently provided by an existing business?
- If the products and services you want to provide are already available in the community, how could you develop a market outside the community?

Home-based businesses can be retail, wholesale, import/export, franchise, manufacturing or processing operations—or some combination of these. Which you select depends largely on your preferences, skills, background and financial resources.

Some activities and products are more regulated than others. Your business plan should indicate all the city, county and state ordinances and regulations that apply to you. At the least, you will need a license to legally operate your home-based business. The Texas Department of Commerce (TDOC) provides a guide to state business licenses and permits. Call them at (512) 936-0081 in Austin or (800) 888-0511 outside Austin. Information can also be obtained at the TDOC World Wide Web site: (<http://www.tdoc.state.tx.us/commerce/busdev/startup.htm>).

The business legal structure

Most home-based businesses are sole proprietorships (single owner) with some choosing to organize as a partnership, S corporation, regular corporation, or limited liability corporation. The legal entity you begin with may have to be changed

later should your business grow substantially or should your source of funding require a certain type. Table 2 describes organizational types and the advantages and disadvantages of each. For more information contact the Small Business Administration, Small Business Development Center, or an attorney.

Business goals and objectives

Once you've decided on the type of business you think will be right for you, you will need to outline your business objectives. These statements clarify why you want to be in business. Make sure both long-term and short-term objectives are specified. Think about what you hope to accomplish by owning and operating the business over the next 3 to 5 years and beyond. These objectives should be measurable, realistic, and specific enough to guide you in making decisions. An example of an objective might be, "By the end of the fifth year of operation, I expect my business to earn annually at least 10 percent above the amount I have invested in the business."

Your objectives are the targets at which you are aiming. Once they are specified in the plan, you have an idea of where you are headed and can select the best ways to get there. Without a business plan you have no idea how your business will operate, how you will handle problems, or when you need to change some part of the business. A written business plan is a benchmark of progress.

Cruising the marketplace

Just as if you had entered a new town and were driving around trying to learn your surroundings, you must become more familiar with the marketplace. The next step in the planning process is to determine whether there is a need for your product or service in a particular geographic region, and whether there are enough potential customers to support a business.

Finding out the characteristics of your market is called market research. Using personal interviews, telephone surveys and mailout questionnaires can be very expensive. Lower cost methods such as visiting with neighbors, trial sales and

Sole proprietorship	Owned and operated by one person	Advantages: <ul style="list-style-type: none"> ● simple to form ● least expensive ● few legal restrictions ● owner controlled Disadvantages: <ul style="list-style-type: none"> ● owner is personally liable for debt ● owner fully responsible for business' future
Partnership	Two or more people share ownership, management and liability	Advantages: <ul style="list-style-type: none"> ● easily formed ● shared responsibility ● generates creativity, skills and more business potential Disadvantages: <ul style="list-style-type: none"> ● all partners personally liable ● financing related to individual partners' assets ● need for legal agreement
Corporation	Separates legal ownership from the individual. The corporation assumes the right to own, buy, sell, borrow and legally sign contracts. Alternative: S-Corporation—acts with tax benefits of a partnership without partners being personally liable.	Advantages: <ul style="list-style-type: none"> ● ownership transferable ● liability rests with corporation, not individual ● corporation can delegate authority Disadvantages: <ul style="list-style-type: none"> ● extensive government regulations ● costly to form ● double taxation: corporate and individual

collecting information from less direct sources (such as the Small Business Administration, Chamber of Commerce or trade associations) can help you see the overall market potential, but may be less accurate. Project the sales you think are possible. Be realistic.

Delivering the goods

Now that you have an idea of what is needed in the marketplace, you must decide whether you can translate this opportunity into a successful business. Potential customers will spend their money with you if they see value in your product or service for the price they pay. As a business owner you must be concerned with having the production, financial and management resources to supply the products and services you offer. Lost customers, jobs and orders can decrease your profits. It is important to provide consistent, high quality products or services so customers will learn they can depend on your business.

Include in your business plan possible sources of your products, or the materials you will need to produce them. Also determine whether you have the necessary skills or need additional training to be able to accomplish your plan.

Good planning includes ways to handle unexpected opportunities such as an unexpected large order, a competitor going out of business, or an opportunity to increase your credit line. Other events could hurt your business. How would you handle a major machine malfunctioning with an impending order due, a family situation that affects how the home-based business functions, or a weather-related cancellation of a trade show at which you anticipated large sales?

Marketing the business

The key activity in any business plan is promotion. Use the results of your market research to promote and target your

business efforts to people who are most likely to buy your products and services.

Promotional efforts include choosing your business name. Choose a name that:

- identifies your business to the customer;
- is easily remembered;
- reflects your business philosophy;
- fits with your advertising themes;
- legally identifies your business as being different from similar businesses; and
- is easy to print and read on all correspondence, reports, proposals, invoices, business cards, and anything else dealing with your business.

Without marketing, your customer base will dry up in short order. Advertise in locations and media where your customers look for product information. Also look for “no cost” opportunities to tell the public about your business. There is no justification for starting a business unless you make customers aware of it and advertise the benefits of your product or service. Only then are sales finalized.

Tracking your finances

Accurate financial statements are the most important management tool you have. Monitoring your financial position and performance helps you see what works and where changes are needed. Take time to set up a system of financial record keeping that allows you to know how your business is doing. You may want to consult with or hire an accountant; the service will be well worth the cost. Complete financial records include financial statements, income statements, balance sheets, cash flows and quarterly tax reports. These are standardized ways to communicate your business’s economic picture to bankers, partners, family members, outside investors and other creditors.

You’ll also need a systematic method of tracking inventories, personnel, customers and other useful information about your business.

Managing human resources

Many home-based businesses will use only immediate family members to help with the business. This removes many of the problems associated with having employees and having to meet a payroll. However, expecting family members to work in your home-based business may result in other problems that are even harder to solve. It is important for everyone involved in the business to know who is in charge.

Making the decision: Is a home-based business for you?

A home-based business is just as legitimate as one with a storefront. Both types require a great deal of thought and planning. It is important that you use all of the resources available to you in establishing your business. Set goals, plan thoroughly, and anticipate problems. This will give your home-based business a much better chance of success.

Additional Information

The following resources will give you additional information and guidance.

Suggested reading

- Brabec, Barbara. 1994. Homemade Money. Cincinnati OH: Betterway Book.
- Edwards, P. & S. Working from home. New York, NY: G. P. Putnam’s Sons.
- Edwards, P. & S. 1994. Working from home. Everything you need to know about living and working under the same roof. New York: Putnam books.
- Hawken, P. 1987. Growing a business. New York: Simon & Schuster.
- Stone, K. E. 1995. Competing with the retail giants, How to survive in the new retail landscape. New York: John Wiley & Sons, Inc.
- Taylor, D. and J. S. Archer. 1994. Up against the Wal-marts, How your business can prosper in the shadow of the retail giants. New York: American Management Association.

Business resources on the World Wide Web

Bureau of Census, U.S. Department of Commerce

<http://www.census.gov/>

Business Information Resources

http://www.eotw.com/business_info.html

Dun & Bradstreet Information Services

<http://www.dbisna.com/>

Edward Lowe Small Business Network

<http://www.lowe.org/smbiznet/index.htm>

Entrepreneurial Edge Online

<http://edgeonline.com/>

Entrepreneurs on the Web

<http://www.eotw.com>

Established links to several business management resources

<http://leviathan.tamu.edu/smallbiz.html>

FedWorld Home Page - U.S. Government Info On-line

<http://www.fedworld.gov/>

FSC: Commercial Tools and Resources for Business

<http://www.finite-systems.com/fsc/webware/Menu12.html>

Government Information Sharing Project

<http://govinfo.kerr.orst.edu>

Helping Small and Disadvantaged Business Export Food and Agricultural Products

<http://ffas.usda.gov/ffas/fas-publications/fas-factsheets/small.html>

Home Business Review - Educating and Promoting HBB

<http://www.tab.com:80/Home.Business/>

Inc Favorites (Inc magazine)

<http://nmq.com:80/emgbiznc/cntprovs/products/incbiz/Favorits/>

Library of Congress

<http://lcweb.loc.gov/homepage/lchp.html>

National Association for the Self Employed

<http://www.zilker.net/business/bizpro/nase.html>

National SBDC Research Network Homepage

<http://www.smallbiz.sunycentral.edu/>

National Small Business United

<http://www.nsbu.org>

NetMarquee: Management guidance for executives, business owners and entrepreneurs

<http://nmq.com/>

SBA: Small Business Administration Home Page

<http://www.sbaonline.sba.gov/>

SBA Shareware: Library of Business Oriented Files and Programs

<http://www.sbaonline.sba.gov/shareware/>

Small Business Advancement National Center

<http://www.sbaer.uca.edu/>

Small Business Resources

<http://www.lm.com/~rs7717/smallbus.html>

Small Business Survival Committee

<http://www.sbcs.org>

The American Marketing Association

<http://www.ama.org/>

USDA Publications and Data through Cornell University

<http://usda.mannlib.cornell.edu/>

Yahoo - Business and Economy: Small Business Information

http://www.yahoo.com/Business/Small_Business_Information/

(World Wide Web addresses frequently change, and may have changed since this publication was printed. On-line information can be found with your Web browser's search engine.)

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Droms, W. G. 1990. Finance and Accounting for Nonfinancial Managers. Reading, Mass: Addison-Wesley Publishing Co.

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 6M 7-96, Revision