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Microbusinesses Find Huge Benefits in Outsourcing

By Jim Hopkins



SAN FRANCISCO Fed up with rising labor costs, a new generation of entrepreneurs is launching millions of tiny companies differing from business in the past: They don't want employees.

The trend, building since the late 1990s, hit a milestone this year when the number of these microbusinesses reached 20 million — one for every six private-sector workers, a new analysis of government data shows.

In place of paid employees, owners harness new technologies to outsource work, often linking up with other like-minded entrepreneurs to get jobs done in a virtual assembly line spanning the globe.

Last year, Lisa and Mark Solomon started The Billable Hour, a specialty wristwatch and greeting card maker and retailer, from their home near New York City. They rely on a far-flung network to produce their goods: A graphic artist in Utah, a watch designer outside New York City, a San Diego cartoonist, a website technician in Buffalo.

Like many microbusinesses, Billable Hour is a part-time venture for Lisa, 38, and Mark, 48, attorneys with two young children. Depending on holiday sales, they hope to turn their first profit this year. "We're both professionals, but it's nice to have another income stream," Lisa says.

For legions of other owners, tiny businesses are a full-time source of growing revenue. Near Nashville, Mary Ferrin expects to sell \$150,000 in party games this year, a 50% jump from 2005. She outsources work to other entrepreneurs in Greece and Canada.

Microbusinesses' receipts rose to \$887 billion in 2004, the most recent available; 7% annual growth puts it on track for \$1 trillion in sales this year.

The rise of microbusinesses comes as corporate giants shed workers and fight for revenue. "The big guy is going away," says marketer Seth Godin, author of this year's *Small is the New Big*.

Wal-Mart, the biggest private employer, with 1.3 million workers, is now struggling to jump-start sales; November revenue fell for the first time in a decade. Ford Motor, steamrolled by foreign competitors, is aiming for 60,000 hourly workers by 2008 vs. 100,000 at the end of 2005. Hewlett-Packard slashed 15,000 jobs, about 10% of its workforce, to bolster its stock.

Meanwhile, microbusinesses are surging. There were 19.5 million in 2004, up 27% from 1997, when the federal government began publishing annual data on non-employer firms. The number of firms with employees rose a far smaller 7.3% during the same period, to 5.9 million.

Non-employer firms are often home-based ventures with no paid employees and generally at least \$1,000 in annual revenue. In an analysis for USA TODAY, the Small Business Administration estimates the number of these firms reached the 20 million mark for the first time this year.

Technology Edge

New and cheaper technologies are flattening the business landscape, spurring entrepreneurs to launch companies in their spare time without employees. Most are in service industries such as retailing, accounting and public relations. The technologies include websites powered by free software, Internet phone services and powerful \$1,000 laptops.

The Solomons spent just \$5,100 on Billable Hour's website. The name reflects the novelty of their product: watches showing time in six-minute increments, which is how many attorneys bill hourly rates.

Lisa was already familiar with entrepreneurship. She's been a self-employed attorney for 10 years, doing research for law firms. Mark, an attorney for insurance giant Chubb, dreamed up the watch idea. The Solomons added to their business line clocks and humorous greetings cards, also aimed at attorneys.

Lisa, more adept at technology, turned to the Internet to find designers, manufacturers and others to get the goods. Among them: Stu Rees, 37, in San Diego. He's a self-employed attorney and cartoonist, creating illustrations for Billable Hour's cards.

Like the Solomons, Rees doesn't employ anyone. Instead, he's turned to other self-employed artists as far away as Argentina and India for cartoons when he has more work than he can handle. "I would rather have a slightly smaller business and not have the headaches of personnel," he says.

The Solomons are seizing a niche that wouldn't be profitable for traditional small businesses or, especially, big corporations, says Mark Zandi, chief economist at Moody's Economy.com. "You need these smaller companies to fill in the holes," Zandi says.

Billable Hour is small enough that Lisa can run it alone. But even if it grew, she'd resist hiring. She cites a litany of reasons, including workers' compensation insurance, health benefits, federal and state payroll taxes, and complying with workplace regulations.

Those are many of the same gripes mentioned by other micro-entrepreneurs, says Gene Fairbrother, a consultant to the National Association for the Self-Employed. The group

has about 250,000 members.

Employers of all sizes have a certain amount of overhead for legal advice, bookkeeping and other expenses to comply with federal employment regulations. The smallest employers pay more per worker than big companies, says economics professor Mark Crain of Lafayette College in Easton, Pa.

Those with fewer than 20 workers spend an average of \$2,224 a year per worker vs. \$1,621 for companies with 500 or more workers, Crain found in a study.

The Hollywood Model

Eliminating those costs, the new microbusinesses follow Hollywood's model. Film producers assemble teams of actors, writers, set designers, electricians and other craftspeople to create movies.

"They come together, do the work and then disperse," says Terri Lonier of Working Solo, which advises self-employed professionals and big companies working with them.

Microbusiness owners work together using new collaborative software to share and update text documents, spreadsheets, videos and other files on remote computers. Some of the software, such as Google's growing documents-management suite, is free.

In Houston two years ago, John Whiteside started Squarevox, a one-man business consultant in marketing, communications and strategy. Although he works from home without employees, Whiteside doesn't work alone. He joins four other self-employed workers in the same industry, bidding jointly for new business and to complete projects. The others are in Syracuse, N.Y., Alexandria, Va., and the Boston area.

Whiteside, 41, says his start-up costs for a computer, laser printer and fax machine were no more than \$4,000. He expects to earn as much this year as he was paid when he worked for his last employer.

Rock-bottom communication costs for phone calls, swapping e-mail and documents also make their virtual team viable, Whiteside says. That's a switch from the pre-Internet days of a decade ago. "Everything was phone, fax, face-to-face meetings," he says.

Whiteside and two of his quasi-partners hold conference calls every Monday morning to keep up with business such as a recent project to create a marketing campaign for business groups in the Syracuse area.

Go Where the Talent Is

As microbusinesses gain customers, their owners' resolve to avoid workers gets tested. Sometimes, they can only outsource so much. Near Nashville, games-maker Ferrin

recently hired a temporary worker to handle the crush of holiday orders at her Dinner and a Murder business. It sells eight party games she created and began selling in 2001 from her home.

Ferrin, 44, also pays her mother to do about six hours' bookkeeping some weeks, "just enough to keep me from going nuts."

Other than that, she outsources all work developing games in which party guests assume the roles of mobsters and other characters to solve a murder.

A freelance writer, Andy Boxall, outside Athens, develops characters. Boxall, 33, works from home without employees. "I use the Internet extensively for finding new markets," he says in an e-mail.

Ferrin says an artist "somewhere in Indiana" who she's never met creates game artwork. A freelance technician near Toronto helps fine-tune her website.

She found them by posting requests on online forums and surfing the Internet, expanding her pool of potential talent far beyond Tennessee. "Got to go where you can find the talent," Ferrin says.

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