

**SETTING UP AND OPERATING A
HOME BASED COMPUTER SERVICE BUSINESS
By Austin Pryor, SCORE Chapter #41, Norwalk, CT**

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THE MARKET

In general, the computer repair services and training market is so big (and growing) that it isn't an issue at this time if you are located in a reasonably sized town. But if you want a rough idea, I read recently that over the USA as a whole, something like 70% of all USA households now have at least one computer. And you can easily get how many households there are in area from your local library or just a bit of Internet research using one of the search engines such as www.yahoo.com or www.hotbot.com or www.askjeeves.com. In the last site you can phrase your question in ordinary language. The US Bureau of the Census has every conceivable statistic. I would pretty much eliminate households with incomes under \$40,000 as if they have a computer, they won't be able to afford much service.

It is important to know your local competition, but probably not their market share (there is plenty to go around). You want to know who the major players are and how much they charge. Look in the yellow pages of the phone book and then look in the classified section of the newspaper every day for at least a week because not everyone advertises every day. And many newspapers have technology days where computer services can put in little ads. Then phone them up and ask what they charge and what services they offer (they will think you are a potential customer).

One thing I am convinced of. Good computer service and training for homes and very small businesses (10 or fewer computers) is hard to get at a reasonable price. The big companies and chain computer stores have terrible service and around here charge \$145 per hour minimum. I, on the other hand, with no advertising at all and a charge of \$75 per hour get all the business I want simply through word-of-mouth from happy customers who like my friendly service, my not charging for short phone call help, willingness to come out on weekends and, in emergencies, even at night. And I could probably get \$90 per hour or more, especially for pure technical calls.

Recently I have changed to a two tiered pricing structure. \$60 for pure coaching and helping them plan and pick what they need in the way of computer equipment—\$75 for technical fixing (software or hardware). I don't mean to suggest that these are correct prices for your area—just examples and structuring ideas.

Another rule of thumb for pricing your services is to find out what plumbers and electricians charge per hour. I like to tell my clients that I charge about the same as plumbers and electricians. People then realize that my fees, for what is a very technical area, are incredibly reasonable.

There is a shortage in most communities of people who have the interpersonal skills and computer know-how to make effective house calls. Half the marketing battle is establishing rapport with people who are initially uncomfortable with computers and suspicious of those who provide repair services. Furthermore, the home-based person with almost no overhead can afford to offer services at a significantly lower rate than service people with store fronts. Further, in training one on one with clients, they value my patience and good humor. I make computers fun for people such as busy housewives and senior citizens trying to learn email and Quicken.

Based on what I know about computer sales, I think that is an area that should be avoided as the competition is too strong and the margins too thin. You just can't make any money at that compared to what you can make with repairs, consulting and training.

OPERATIONAL NOTES

Regarding wholesale distributors of parts, these are tough to find. You have two choices. Make up a list of the suppliers you think make the most sense and then contact them directly asking them what they would require of you to become a reseller of such parts. You can get most of this info via email and their web sites. But you may not need much in the way of parts. In my own business, all I usually need are RAM modules and hard drives. I use these sources, but the ads in the back of PC World or Mac World will give you many other ideas. Just try them out until you find the ones you like.

Great prices and free delivery for all kinds of RAM
www.crucial.com

For Macintosh parts:
 Mac Solutions
 11933 Wilshire Blvd.
 West Los Angeles, CA 90025
 1-800-873-3726
www.macsolutions.com

DT&T 1-800-622-7977 (www.dttservice.com) parts and RAM

These are Mac oriented, but many such vendors have PC divisions too.

For hard drives, one good source is:

Alliance Peripheral Systems
 now known as APS Technologies
 2900 S. 291 Highway - Lower H
 Independence, MO 64057
 800-862-6831

On the other hand, IBM's website has good prices and hard ATA/IDE hard drives that are incredibly fast--much faster than the specs indicate and much faster than drives currently being sold by APS.

You won't get much in the way of any discounts, but the prices are low enough so you can add a modest mark-up anyway (10 to 20%)

For power supplies and other miscellaneous parts, new or used, I use:

Sun Remarketing
800-821-3221

DT&T (also mentioned above)
800-622-7977

But you can easily develop your own list of favored suppliers by phoning the vendors listed in the classified section of the major computer magazines such as PC World or Mac World. There are many people offering new or used parts.

For repair software, you will need utilities like Norton Utilities, or First Aid for PC's (new ones come out now and then—subscribe to a computer magazine and review web sites frequently). For Mac's all one used to need is Norton Utilities. But Techtools Pro and Disk Warrior now supplement my Macintosh arsenal. I couldn't get along with out these tools. TechTools Pro is a very large suite of tests that evaluate all of the key hardware components beyond the hard drive. Sometimes you run into a problem that looks like one of the usual software glitches, but turns out to be a faulty RAM SIMM or DIMM. These problems drive me nuts and sometimes the only way I can fix chronic freezes is to trade out RAM modules and see if that helps.

Keep in mind that my specialty is Macs. I can do anything with them re fixing. But with PC's if there is something really wrong that I can't fix, then I refer my clients over to Microsoft certified repair people. If you are a PC expert and uncomfortable with Macs, then try to find a referral source for Mac repairs. But that's also why with PC's I recommend Dell or Gateway as their phone support and even on site support is excellent. They can talk me through most fixes with Windows based computers. They are also the reason why I have written the following re building computers.

Some people want to build computers for sale. I advise against this because it is such a competitive field and computers are coming down in price so fast, that it is very difficult to make any money off them. You are better off just fixing and training. The only exception might be if someone wants a highly customized computer with extras that are not generally available "off the shelf." Even then, you are unlikely to make as much money per hour of effort as you can with service and training. And there is the issue of providing free support and warranty service.

BUSINESS ORGANIZATION

Almost all small businesses including those run out of your home will be organized as a:

Sole Proprietorship

This is the most popular form of small business and, as the name implies, ownership is totally vested with one person. It is the easiest to establish since no legal formalities are necessary. The only business requirement may be a license from your local jurisdiction to allow you to conduct the type of business you are planning. For example, you may need a license to sell food to the

public. These are local issues, so contact your nearest SCORE Chapter for advice on this sort of issue (www.score.org; click on FIND SCORE; then click on Locate a Chapter; enter your zip code and you will get a choice of chapter addresses, phone numbers and even maps.).

You can use your regular SS# as a tax ID#. However, if you want to set up a Keogh or SEP retirement account, then you will need a separate tax # which you can get from the IRS by filling out and sending in IRS Form SS-4. But you can do that later when you are making enough money to consider putting money aside for a pension. Form SS-4 is available for downloading in Acrobat at www.irs.gov.

Sole Proprietorship Advantages:

- Easy and quick and usually the least expensive to establish. In fact, you can just "do it" with no real paper work to fill out at all.
- You have total ownership and control of the business.
- All the profits of the business belong to you, the owner.
- No additional Federal taxation on business profits (No double taxation).
- No periodic business reporting to the IRS or other government agency is required.
- Income tax filing is simply part of your annual personal tax return (Form 1040-Schedule C). Schedule C is great because it has so many deductions on it. And it is not difficult to fill out.

The home office deduction can be a bit tricky to calculate. Fortunately, the IRS has relaxed their rules on this deduction. Get IRS Publication 587. It has all the explanations for Schedule C and many other bits of useful information.

Sole Proprietorship Disadvantages:

- The owner is personally liable for all business debts and the liability is not limited to the value of the business. You are personally liable for any and all business debt you incur.
- It is generally more difficult to borrow money or obtain outside investment than with other types of legal structures.
- If the owner is incapacitated for any reason, the business is likely to fail.
- All management responsibility is with the owner which can be a heavy burden.

IMPORTANT NOTE

A "home business" is frequently a sole proprietorship which offers a number of unique advantages. However, just because you are conducting business from your home does not exempt you from possible legal or other liabilities. So you may want to consider business insurance. Contact several local independent insurance representatives that handle business lines to get a feel for this. Personally, I do not carry such insurance. That's because I am very careful to manage client's expectations and to "stop the meter" should I run into trouble.

If you get involved in supporting computer networks, then there is also the potential for liability in the event the network goes down and they blame you. In this case setting up an LLC form of organization may be more appropriate. You should consult your local SCORE chapter for advice on this as the LLC is pretty much different from state to state. Here is some info on LLC's.

LIMITED LIABILITY COMPANIES: THE 11 MOST FREQUENTLY ASKED QUESTIONS

1. What is the advantage of an LLC over a general corporation?

One of the primary reasons individuals form corporations is to protect their personal assets in case of a legal judgment against the company. Unfortunately, owners are taxed twice on their income: once at the corporate level and again at the personal level when dividends are paid. The LLC, on the other hand, offers both personal asset protection and the elimination of corporate-level taxes. In addition, the record-keeping requirements of a corporation are far greater than those of the limited liability company.

2. What is the advantage of the LLC over an S Corporation?

While the S corporation's special tax status eliminates double taxation, it lacks the flexibility of an LLC in allocating income to the owners. For example, the owner of 25% of an S corporation normally pays 25% of the taxes on reported income. On the other hand, LLC owners are free to divide income and tax liability among themselves within the constraints of IRS regulations for distribution of partnership income. Equal partners may change the allocations of profit or loss from year to year to benefit their individual tax needs. In addition, LLCs have no ownership restrictions. An S corporation limits the number of owners to just 35 and prohibits corporate and foreign ownership.

3. Why is the LLC Superior to a Joint Venture or General Partnership?

The personal assets of owners of joint ventures and other forms of general partnerships are totally exposed to lawsuits stemming from the actions of any one partner. All personal assets of the LLC partners are legally protected. Partnerships of every form and LLCs enjoy a great deal of flexibility compared to corporations when allocating their tax attributes.

4. Why is the LLC Superior to a Limited Partnership?

Limited partners are protected from business-related lawsuits that may place their personal assets at risk. However, this structure prevents them from actively participating in the management of the business. The non-limited partners' personal assets are exposed. LLCs are designed to protect all partners' personal assets while imposing no limit on their management activity.

5. Why are Foreign Entrepreneurs Attracted to LLCs Versus Other Business Structures?

Business entities similar to the limited liability company have been popular in European and Latin American countries for more than 100 years. LLCs often prove to be the most familiar and least imposing business structure for foreign entrepreneurs who wish to enter the American market. There is another clear attraction for foreign owners. If their LLC does not earn income within the U.S., and receives no income from U.S. business enterprises, these foreign owners are normally not subject to U.S. federal income tax.

6. How do I Form a Limited Liability Company?

You can form a limited liability company yourself by reading this book and obtaining the necessary forms from the secretary of state of the state in which you want to form the LLC. You may also choose to employ the services of an attorney or a professional service company to aid you. Professional service companies are low-cost alternatives that completely eliminate all the uncertainty and paperwork involved. One of the nation's largest service companies is:

Corporate Agents, Inc. (CAI)
P.O. Box 1281
1013 Centre Road
Wilmington, Delaware 19899
(800) 877-4224

In addition to helping LLC startups for just \$99, not including state fees and taxes, CAI can assist in the formation of LLCs or corporations in most foreign jurisdictions. However, LLC's are a new form of legal organization and vary from state to state. So you may want to use a local lawyer who promises that he KNOWS LLC's for the state and EXACTLY what is required. Here is Connecticut, the one time legal fees range from \$400 to \$600. And this is a very expensive state in general. So it will pay you to shop around.

NOTE:

Depending on the charter and underlying documents etc. the IRS can determine that the organization should be taxed as a regular corporation. Be certain to get really good legal advice on this form of organization.

7. What is the Extent of LLC Recordkeeping and Paperwork?

The limited liability company is usually only required to keep a copy of the Operating Agreement and a list of the LLC members. In most states, owners are not required to make their Operating Agreements public, and they can modify the agreement as needed.

8. Are There Special Restrictions for Selecting an LLC Name?

In most states, the name you choose must contain one of the following words: "Company," "Association," "Club," "Foundation," "Fund," "Institute," "Society," "Union," "Syndicate," "Limited," or "Trust." Abbreviations are permitted. In most cases, the name should contain the words "Limited Liability Company" or the abbreviation "L.L.C." Contact your state of formation for specific requirements.

9. Can I Convert my Corporation into an LLC?

In most states, you can convert your existing corporation to a limited liability company through a merger process. After the new LLC is formed, the merger documents are filed with the secretary of state's office. When filing the merger, the original corporation is listed as the non-surviving entity. After this is completed, you may wish to consult with an attorney or an accountant in order to arrange the most advantageous transfer of the assets to the LLC.

10. How Much Does it Cost to Form and Maintain an LLC?

To form a limited liability company, you normally only pay the required state filing fees. Your attorney may add an additional charge on top of the state fees. A possible middle ground is to use a professional service organization which markets its services to the general public, such as Corporate Agents, Inc.

11. What are My Annual Costs for Maintaining an LLC?

Most states levy an annual franchise tax, which ranges from as low as \$100 in Delaware to as high as \$800 in California. In addition, some states charge an annual filing fee.

This resource is (c) 1995 by The Oasis Press, and is excerpted from "The Essential Limited Liability Company Handbook".

AN EXCHANGE OF COMMENTS ON LLC'S BY SCORE CYBER COUNSELORS

I have a client that is trying to get some information on the allocation of profit and loss for a start-up limited liability company. He is trying to determine how others in his situation have typically divided the profits. The issue primarily concerns the fact that 2 members are putting up the labor and the management, while 2 others are putting up the equity capital (25% of the project's overall funding--the other 75% is a bank loan which all 4 members are personally guaranteeing).

I have tried to assure him that they can establish whatever they think is fair among themselves. However, he is wandering if there is anyone that has specific knowledge of allocation percentages for LLCs or if they can reference some material for him to research. Any answers??

- As I see it your answer is the correct one. I don't think there is any formula per se. Each member contributes and they must agree among themselves what the fair percentage would be for each partner
- I have always advised clients that the return should be proportional to the risk that is assumed. The hard part is to define the risk. The rest is easy.

FINANCIAL MANAGEMENT

First, get yourself Quicken software (Intuit Software). This is the greatest financial management tool imaginable and very easy to use. You can customize it to virtually any business.

You may or may not want to have a separate checking account and credit card. If your business gets large, then that can make accounting easier. But if it is just you operating the business, then so long as you maintain a separate Quicken register for your business, then it doesn't matter whether you co-mingle your business money into your personal checking account and credit cards.

Intuit also makes great tax software so that you can do your own taxes—TurboTax for both Windows and Macintosh computers. This is an easy program to use and can handle all but the most complex of tax returns.

PROMOTING AND MARKETING YOUR WORK

Here are some general ideas on promoting and advertising on a very low budget. One or more of these ideas may be useful to you.

1. Networking - spread the word via friends, relatives, customers. Join computer clubs.
(Consider giving an incentive/discount for bringing in customers)
2. Post colorful, eye-catching fliers on every bulletin board in town- apartments, condos, businesses that allow it, etc.
3. Have the newspaper "fold in" your flier. (Some will do it reasonably, and will even print the flier at reduced cost over conventional printers.)
4. Newspaper classified ads can be very effective and need not be run all the time. For example, some newspapers have technology editions and will have a separate section where small ads can be inserted on a weekly basis.

Direct mail has a terrible rate of return and is very expensive. The exception is for people you know and you want them to keep you in mind should their situation change.

Other low-cost advertising options include delivering flyers to homes in selected upbeat neighborhoods -- they can be inserted in doorknobs or mailbox grillwork.

Also business cards printed on refrigerator magnets. And the monthly publications of organizations such as the local computer society and the Chamber of Commerce sell ad space at much lower rates than city newspapers and have a selective audience.

From a top salesman, who called it "the rule of ten" - he swore that that's all he does to get clients.

1. Pass out 10 business cards a day - 50 a week, take the weekend off unless you didn't meet your quota, and keep it up. Pass a card out to anyone who will take it.
2. For every 100 business cards passed out, you will get a prospect (inquiry).
3. for every 10 prospects, you will get a client.
4. One out of every 10 clients will give you a referral.

This technique works well for consulting and many other service businesses. Develop a very select mailing list of people who know you or who have been clients/customers in the past. Send them a periodic letter with something interesting; perhaps a newspaper or magazine clipping; write a short, one page newsletter with little gems in it. The goal is to keep these potential customers thinking about you so that when they do need what you offer, they will think of you and not someone else. Include a response postcard with "more info on this topic if you want it."

I kept 30 to 50 people on my mailing list when I was actively pursuing clients and these "eggs would periodically hatch."

Regular blind direct mail, even the best, is very expensive and if you are lucky enough to get a 1% response rate, you are doing extremely well. On the other hand, Internet "spam" mailing has

worked well for some types of businesses just out of sheer volume. One web site to look at (I have no experience with it): <http://www.email-broadcast.com/>. And it is very, very cheap. I believe there are services that will even target it geographically for you. For a computer business that would be essential.

Small businesses can be a good market but focus on small businesses of 10 pc's or less. They need help and they can't afford the big service companies or even get their attention. On the other hand this makes your service calls very productive. Think about offering service contracts to these businesses in which they get, for example, \$1,200 worth of service hours for \$1,000 if paid in advance.

Low cost introductory training classes can be a good promotional tool if you can find a place where you can set up several computers. But I would suggest that you charge something—just a very small amount such as \$40 for a two hour session. This keeps out the "tire kickers" and means they are serious about computers. You can set up stations with two people to a computer. No need to network them. And be sure to let them know that if they want to continue computer lessons, the price will be higher.

Also let them know that individual one-on-one lessons in their homes is a service you provide for a higher fee per hour. And here again, you could sell them, for example, say six 90 minute lessons for a discounted rate over what you would charge for six lessons outside a package.

I have found that basic word processing, Internet/email, and Quicken are the things that attract people. Also, address labels (using a low cost or free address book program such as Palm Desktop) for holiday cards can be a big attraction. Some of my clients send out 200+ cards in December and are now going the label route rather than hand addressing. This saves them an enormous amount of work at a very busy time of year anyway, and that's what any computer is all about. But the teaching priority for the four topic areas is a totally individual matter and an important part of the initial home visit. Having a satisfied client means that their priorities come first.

Finally, a simple INTERNET home page can be a useful "brochure" to which you can refer people. Actually selling via the Internet can involve a significant up-front investment to get a good page(s) and especially to maintain with all of the Search Engines.

However, Bigstep.com is a new, official SCORE alliance. Bigstep has a very nice link to SCORE. It is particularly good for those clients that want to establish some sort of e-commerce presence without spending much money. They help you design your web site, arrange a credit card merchant account and at least a minimal link of your site with the major search engines. And it's pretty much FREE. So it is well worth checking out and trying.

<http://www.bigstep.com/service/commonquestions.jhtml>.