

# Self-employment: What to know to be your own boss

Dennis Vilorio | June 2014

- 1) What’s the best thing about being self-employed? Angella Luyk, owner of two businesses in Rochester, New York, doesn’t hesitate to answer. "No one can tell me what to do, because I’m the boss," she says. "I’m in charge of my own future."
- 2) Luyk is one of nearly 15 million workers identified as self-employed in April 2014, according to the [U.S. Bureau of Labor Statistics \(BLS\)](#). These workers accounted for about 10 percent of the overall workforce.
- 3) But Luyk cautions that working for yourself isn’t for everyone. "It can get tough and scary," she says, "because everything relies on you." Success takes preparation, determination, and time—and it’s not guaranteed.
- 4) This article can help you decide whether self-employment is for you. The first section describes some of the rewards and challenges of self-employment. The second section presents data to highlight occupations that have many self-employed workers. The third section discusses how to become self-employed. Resources for more information are listed at the end of the article.

## Is self-employment for you?

- 5) People choose to become self-employed for many reasons, including greater independence and flexibility. But they also consider the downsides, such as the long hours and lack of benefits.
- 6) As part of your decision-making process, you should weigh the pros and cons of starting a business, along with your own reasons for seeking self-employment. For example, hoping to make a lot of money quickly can lead you into trouble. But if you feel passionately about developing an idea, self-employment may be right for you.

## Rewards

- 7) For many self-employed workers, autonomy is the biggest reward. They are able to make their own decisions, such as what kind of work they do, whom they do it for, where and when they do it—and even how much to pay themselves.
- 8) Self-employed workers usually take on many different tasks, learning to do each as the need arises. For example, a self-employed [barber](#) needs to find a suitable location for opening a shop, attract clients, and price services, in addition to cutting hair.
- 9) Many workers find that self-employment allows them not only to expand their professional skills, but also to enrich themselves personally. "I learned a lot more about business and life than I ever expected," says Megan Lebon, a physician who owns a practice in Atlanta, Georgia.
- 10) Self-employment can bring other rewards, too. Some workers enjoy creating a new business and watching it grow. They feel good about working for something they believe in.



## Challenges

- 11) Self-employment is hard work, especially during the first few years. Workers may have difficulty finding clients, earning a steady income, securing business loans, and navigating laws. These challenges add up to financial risk and uncertainty.
- 12) And, with income frequently unpredictable, workers may try to handle all or most parts of the business themselves. "You end up working a lot more than you think, oftentimes way more than when you were working for someone else," says Vicki James, owner of a marketing business in Rochester, New York. This schedule can make balancing work and personal life difficult.
- 13) Another challenge with self-employment is lack of benefits. Public and private employers typically contribute to retirement, health, and other benefits, offering affordable options to their employees. But self-employed workers must find these benefits and pay for them entirely out of pocket. And there is no paid leave for vacation or illness: A day off work is a day without pay. These types of burdens may overstretch limited financial resources.

## A snapshot of self-employment

- 14) BLS projects the number of self-employed workers to grow 3.6 percent between 2012 and 2022, much slower than the average for all occupations. But job prospects vary by occupation. In considering career options, it's helpful to know which occupations are favorable for self-employment.



Defining and counting

15) BLS classifies self-employed workers as either incorporated or unincorporated. Incorporated workers, such as small-business owners, have established a legal corporation and typically employ others. Unincorporated workers, such as freelancers, have not established a corporation and often operate alone.

16) Most self-employed workers are unincorporated, according to BLS. In April 2014, there were nearly 9.3 million unincorporated workers—about twice the number of incorporated workers. The data in this article are for unincorporated self-employed workers only.

17) And, according to the [U.S. Census Bureau](#), most businesses in the country are also unincorporated nonemployers—that is, owned by one person and employing nobody else. Some self-employed workers, like Luyk, own more than one business. As a result, the number of nonemployer businesses exceeds the number of unincorporated workers.

18) Table 1 shows that there were almost 23 million nonemployer firms in 2012; many of these businesses were in professional, scientific, and technical services, such as accounting and advertising. However, because of their small size, unincorporated businesses accounted for only 4 percent of all sales and receipts nationwide.

Table 1: Nonemployer firms by sector, 2012

Sector	Firms	Receipts (in millions)
Other services (except public administration)(*)	3,522,878	88,544,766
Professional, scientific, and technical services	3,212,202	142,974,538
Real estate and rental and leasing	2,389,906	227,427,897
Construction	2,346,798	127,049,119
Administrative and support and waste management and remediation services	2,006,177	42,443,032
Health care and social assistance	1,943,028	59,887,058
Retail trade	1,905,147	82,494,176
Arts, entertainment, and recreation	1,236,539	30,281,203
Transportation and warehousing	1,059,040	69,902,217
Finance and insurance	720,598	52,045,924
Educational services	603,455	8,504,722
Wholesale trade	408,487	37,187,323
Manufacturing	344,658	16,164,062
Accommodation and food services	340,770	15,021,102
Information	327,795	11,784,901
Agriculture, forestry, fishing and hunting	240,054	10,613,759
Mining, quarrying, and oil and gas extraction	109,931	7,820,264
Utilities	18,452	786,823
Total, all sectors	22,735,915	1,030,932,886
Footnotes: (*) Comprises repair and maintenance; personal and laundry services; religious, grantmaking, civic, professional, and similar organizations; and private households. Source: U.S. Census Bureau, Nonemployer Statistics program		

Most self-employment

19) Throughout the United States, there are many occupations with high levels of self-employment. But high levels of employment don't necessarily mean high growth. For example, the occupation with the highest level of self-employment in 2012 was [farmers, ranchers, and other agricultural managers](#)—yet BLS projects this occupation to shrink almost 27 percent by 2022. (See table 2.)



Table 2: Selected occupations with high levels of self-employment, 2012

Occupation	Self-employment			Percent of self-employed in occupation, 2012
	2012	Projected 2022	Employment growth, projected 2012-22	
Farmers, ranchers, and other agricultural managers	680,500	499,100	-26.70%	73.10%
First-line supervisors of retail sales workers	390,800	333,100	-14.8	24.4
Childcare workers	374,100	447,400	19.6	28.5
Carpenters	325,400	373,300	14.7	36.1
Construction managers	275,000	297,300	8.1	56.7
Hairdressers, hairstylists, and cosmetologists	254,500	284,700	11.9	41.6
Landscaping and groundskeeping workers	253,300	285,700	12.8	22.5
Construction laborers	251,500	272,000	8.2	23.5
Maids and housekeeping cleaners	177,200	198,000	11.7	12.4
Real estate sales agents	176,300	192,600	9.2	51.5
Lawyers	165,700	179,200	8.1	21.8
Management analysts	153,600	198,900	29.5	21.4
First-line supervisors of non-retail sales workers	147,400	122,900	-16.6	37.4
Retail salespersons	140,500	118,200	-15.9	3.2
Property, real estate, and community association managers	132,700	147,300	11.0	44.7
Note: Data measures only workers for whom self-employment is their primary job. Source: U.S. Bureau of Labor Statistics, Employment Projections program				

Fastest growth

- 20) Between 2012 and 2022, BLS projects self-employment to grow in about half of all occupations. Table 3 lists some of the occupations projected to be the fastest growing. These occupations are expected to offer good employment opportunities relative to their size.
- 21) But fast-growing occupations don’t always have many workers—self-employed or otherwise. Some occupations, such as [radiologic technologists](#) and [marriage and family therapists](#), have low levels of employment and are projected to remain small despite fast growth.
- 22) Other occupations, including [personal care aides](#) and [management analysts](#), have high employment levels and are projected to grow fast. Occupations with this combination may offer strong employment opportunities.

Table 3: Selected occupations with fast growth, projected 2012-22, and at least 50,000 workers, 2012

Occupation	Self-employment			Percent of self-employed in occupation, 2012
	Employment growth, projected 2012-22	2012	Projected 2022	
Personal care aides	71.80%	70,400	120,900	5.90%
Management analysts	29.5	153,600	198,900	21.4
Painters, construction and maintenance	19.9	128,700	154,300	40.7
Childcare workers	19.6	374,100	447,400	28.5
Carpenters	14.7	325,400	373,300	36.1
Landscaping and groundskeeping workers	12.8	253,300	285,700	22.5
First-line supervisors of housekeeping and janitorial workers	12.8	70,900	79,900	28.4
First-line supervisors of landscaping, lawn service, and groundskeeping workers	12.7	106,500	120,000	51.4
Accountants and auditors	12.4	85,200	95,700	6.7
Janitors and cleaners, except maids and housekeeping cleaners	12.2	83,300	93,400	3.6
Note: Data measures only workers for whom self-employment is their primary job. Source: U.S. Bureau of Labor Statistics, Employment Projections program				

Highest concentration

23) Some occupations attract a lot of self-employed workers. As table 4 shows, many of the occupations with the highest concentration of self-employed workers are related to sales, agriculture, or creativity.

Table 4: Selected occupations with a high concentration of self-employment and at least 50,000 workers, 2012				
Occupation	Percent of self-employed in occupation, 2012	Self-employment		
		2012	Projected 2022	Employment growth, projected 2012-22
Door-to-door sales workers, news and street vendors, and related workers	91.90%	85,200	71,500	-16.00%
Farmers, ranchers, and other agricultural managers	73.1	680,500	499,100	-26.7
Writers and authors	64.4	83,200	84,300	1.4
Photographers	59.8	81,500	84,600	3.8
Construction managers	56.7	275,000	297,300	8.1
Real estate sales agents	51.5	176,300	192,600	9.2
First-line supervisors of landscaping, lawn service, and groundskeeping workers	51.4	106,500	120,000	12.7
Massage therapists	46.0	61,100	63,600	4.1
Property, real estate, and community association managers	44.7	132,700	147,300	11.0
Hairdressers, hairstylists, and cosmetologists	41.6	254,500	284,700	11.9
Note: Data measures only workers for whom self-employment is their primary job. Source: U.S. Bureau of Labor Statistics, Employment Projections program				

Get started

24) Even after you choose an occupation for starting a business, becoming self-employed isn't as easy as deciding to work for yourself. You need certain skills and a lot of preparation before you can focus on setting up and growing a business.

25) But if getting started seems daunting, remember that you don't have to do everything at once and that help is available. Focus on taking one step at a time.

Skills and knowledge

26) One of the most important requirements for self-employment, business experts say, is having the technical skills and knowledge you need to do the work you want to do. For example, a graphic design freelancer needs to know color theory and how to use design software. It's a bad idea to start a business in something you don't understand well.

27) Other technical skills, such as bookkeeping and marketing, are helpful for operating a business. You can learn these skills in a class, at school, with the help of a mentor, or on your own. Higher education, although not a prerequisite for success, is often useful.

28) Some occupations have specific entry requirements, regardless of whether workers are self-employed. Physicians, for example, must have a bachelor's degree and complete a medical degree program, residency, and licensure requirements. And real estate agents need to become licensed in their state.

29) Experts suggest that, in addition to having technical skills, you focus on improving "soft" skills, such as time management and people skills. And, regardless of what you do, having a passion for the work is key.

30) **Time management.** Self-employed workers often have multiple responsibilities and keep long hours. Being able to manage time efficiently—for example, through multitasking and scheduling—is crucial. These skills help you determine how much time you need to complete tasks and whether you can take on additional work.

31) **People skills.** Good people skills, such as communication and customer service, help you attract and retain both employees and clients—especially in the beginning. "Early on, you're the chief salesperson," says Dennis Wright, a small-business mentor in Santa Ana, California. "You have to sell people on your abilities and the value of your product or service."

32) **Passion.** Experts say that a passion for what you do can give you the belief, motivation, and commitment you need to overcome the challenges that self-employment may present. "You must like and be committed to what you're doing," Wright says, "or you're likely to give up when you hit bumps in the road."



## Preparation

33) No matter how skilled and knowledgeable you are about the product or service you want to sell, you still need to prepare to ensure success in self-employment. Experts recommend that before you invest any money, you take some time to figure out what motivates you to become self-employed, do your research, and ask for help as you plan your business.

34) ***Understand why.*** Experts say that self-employed workers often feel discouraged, especially when just getting started. Understanding your motivations for becoming self-employed can help sustain you in times of struggle. "The reasons why are the catalyst that will push you forward," says James. "They will help you overcome the moments of doubt."

35) The reasons for becoming self-employed differ for everyone. Consider what your reasons are, and make note of them. Then, refer to them when you face challenges, to remind yourself of why you pursued self-employment.

36) ***Research.*** Researching your potential business is a way of evaluating whether your idea is marketable. Through research, you can also learn more about your potential customers, competitors, and collaborators. Experts suggest examining the prospective market for your product or service so that you can answer essential questions, such as the following:

- Who and where is the customer?
- How can your potential customers benefit from the product or service you are offering?
- Who are your competitors?
- What will set you apart from your competition?

37) Professional journals, focus groups, surveys, business clubs, seminars, and current business owners are among the sources that can provide answers to these questions. You may even find reports written by people who have done similar research.

38) But not every business idea is a winner. Experts suggest moving on when your research shows that an idea won't work. Your next idea might be the right one.

39) And be careful not to let research stop you from actually getting started. "I thought I first needed to know everything about running a business," James says. "Find the courage to make mistakes, and learn from them as you go."

40) ***Ask for help.*** Many of the principles of business are the same, so people who have already had success with self-employment are often good sources of information to those who are considering it. They may share tips and mistakes, experts say, or make valuable suggestions you hadn't considered. "Learn from people smarter and more experienced than you," says Luyk.

41) Another possible advantage in asking for help is finding a mentor: someone who offers guidance, encouragement, advice, and emotional support throughout the life of your business. You may meet a potential mentor informally or through a business organization.

## Setting up shop

42) After you've determined that your business idea is viable, it's finally time to set up shop, right? Not quite; you still have work to do. For starters, you need to write a business plan, ensure that you meet all legal and tax requirements, and prepare to limit your legal and financial liability. These steps also apply if you decide to freelance, even if you get started quickly out of your own home.

43) The process of setting up a business can be confusing and difficult. You'll need to complete a lot of paperwork to ensure that you're complying with different laws and regulations, for example. Experts recommend consulting an accountant and a lawyer for help, and they say that this investment in your future business is money well spent. "Be upfront about what you want and what you can afford," says Luyk. "These professionals will save you money in the end."

44) Another difficulty is a lack of money early on. Experts suggest that, before you get started, you should save up enough money to last a couple of years so that you avoid financial pitfalls.

45) ***Write a business plan.*** A business plan describes what service you'll provide or product you'll make, along with how and when you'll do it. "If you don't set goals, you won't achieve them," says business mentor Jack Bernard. "You'll just chase your tail." Use your research to set goals for the business within specific timeframes. Your business plan should explain in detail every part of your business, including the following:

- Your business values and vision for the future
- Your business's strengths, weaknesses, opportunities, and threats
- Financial projections
- The experience and achievements of key staff.

46) Business plans are important when you seek funding, which may include loans and grants. Most reputable creditors require applicants to have a business plan, a solid credit score, and a criminal background check before agreeing to lend or invest money in a business startup.

47) There are plenty of free resources available to help you write your plan. For example, you can find step-by-step guides and templates online or at your local library. And some business organizations offer individualized business counseling.

48) **Meet legal requirements.** To legally operate a business, you need a business license, as well as permits from the city and county, or both, in which the business is located. Local governments have many different requirements, but common ones include health and zoning permits.

49) You also need to meet Internal Revenue Service requirements. These include registering for an employer identification number, reporting wages and taxes withheld, and verifying employees' eligibility to work in the United States.

50) Other federal requirements may apply, depending on your business product or service. For example, a business that sells produce throughout the country needs a permit from the U.S. Department of Agriculture to ensure that the food is safe.

51) **Limit liability.** The way you structure your business affects your legal and financial responsibilities. For example, a sole proprietor is someone who owns a business and is accountable for all of its assets, obligations, and so on. And sole proprietors take a great risk by assuming all responsibility for their business; lenders can take control of personal assets of a sole proprietor who fails to repay a business loan.

52) Some business structures are designed to limit personal liability. The most common are a limited liability company (LLC) and an S corporation. Both of these arrangements protect personal assets by risking only what is invested in the business. Generally speaking, an LLC is easier to set up and manage, but an S Corporation allows for the sale of business stock to investors.

## Growing the business

53) After you've completed the necessary steps for self-employment, you'll need to focus on growing the business. Networking, staying competitive, making adjustments, and working through challenges will increase your chances of success.

54) **Network.** Experts say that networking is one of the best ways for self-employed people to spend their time. Among other benefits it provides, networking offers opportunities for self-employed workers to reach potential clients, meet business mentors, and test ideas to gauge interest. "You have to make yourself visible to your market," Lebon says. "People can only do business with you if they can find you first."

55) People usually network at business events, clubs, and meetings. Volunteering with a professional organization or serving on a community board also can be useful. And networking doesn't have to be formal. "Sometimes I just have coffee with people and share ideas, without worrying about business," says Ryan Schwartz, a freelance communications specialist in Portland, Oregon.

56) Some self-employed workers also use traditional marketing tools, such as creating a website or advertising in a local paper, to attract clients. But experts caution against relying too heavily on marketing, which often is expensive and yields mixed results. "There is no better form of advertising than word of mouth," Wright says. "Give your customers a positive experience, and they'll come back with a friend."

57) **Stay competitive.** Competition is a part of being in business. To stay competitive with other businesses that are like yours, you have to stand out in areas such as price, quality, and service. "If you can't define what makes you better," says Bernard, "your customers certainly won't know, and they will take their business elsewhere."

58) Updating your research will help keep you informed about competition in your market. After starting her cleaning business, for example, Luyk asked potential clients what they liked and disliked about their existing cleaning service. She used their feedback to improve her business.

59) When trying to set yourself apart from other small businesses, don't compete on price, say experts. Large businesses often offer lower prices because they have some advantages, such as the ability to buy in bulk at reduced cost, that small businesses do not. Lowering prices also reduces profit, which makes it harder to stay in business. "There's always someone willing to undercut your prices," says James. "Be better in other ways."

60) **Make adjustments.** As your business evolves, it may outgrow your original vision. Keep up with developments by making adjustments as necessary. For example, you may have planned to run your business from home for several years, but brisk sales might allow you to rent office space sooner than expected.

61) Experts often recommend adding workers to your payroll as one of the first tweaks you make after your business is established. "Hire people to help you as soon as you can afford them," says Luyk. "Then you can spend your time working on your business—not in the business."

62) It's important to hire employees who have experience and skills that you don't have. For example, opening an eatery to showcase your culinary skills can be risky if you have never run a restaurant. Employing a manager will offset your lack of management experience and let you focus on your strengths, such as cooking or designing the menu.

- 63) **Persevere.** Working for yourself is not easy. The business might take longer than you expect to turn a profit, for example, or you might have trouble making rent or paying your employees.
- 64) As most self-employed workers will tell you, it takes lots of preparation, determination, and time to achieve success in a new business. "This is a marathon," Lebon says. "Temper your expectations, take things one step a time, and don't give up."
- 65) Remember, experts say, you don't have a chance for success unless you take the first step. "People are so afraid to fail that they become paralyzed," says Luyk. "But you can learn a lot from failure. And if you don't try, you'll always wonder what could have been."

**For more information**

- 66) The [Occupational Outlook Handbook](#) has detailed profiles for hundreds of occupations, including those highlighted in this article. These profiles include information about job duties, employment, wages, qualifications, and job outlook. However, the wage data are for wage and salary workers only—not for the self-employed.
- 67) The U.S. Small Business Administration (SBA) has many resources for people looking to start a business. These resources include articles, video tutorials, networking events, and small-business loans. To find an office near you, visit [www.sba.gov](http://www.sba.gov) or contact [answerdesk@sba.gov](mailto:answerdesk@sba.gov).
- 68) Another source of self-employment information is SCORE. This nonprofit organization offers free information and services, including workshops, individualized mentoring, networking events, and articles about a variety of business topics. Some articles are also available in Spanish. Call toll free, 1 (800) 634-0245, or visit [www.score.org](http://www.score.org).
- 69) Freelancers can find some important services through the Freelancers Union. The union's free membership provides access to health, dental, life, disability, and liability insurance; a 401(k) retirement plan; and corporate discounts. It also hosts a client scoreboard and contract creator tool. To contact the union, call toll free, 1 (800) 856-9981, or visit [www.freelancersunion.org](http://www.freelancersunion.org).
- 70) For tax help, contact SBA or SCORE—or visit the Internal Revenue Service's [online tax center](#).

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