



The Most Profitable Home-Based Businesses

[Maureen Farrell](#), 10.14.08

When art major Melissa Schmechel graduated from [Smith College](#) in 2004, she chose to cut her teeth at two small shops in [San Francisco](#). But she also had grander entrepreneurial designs.

"I saw small studios and letter-press printers make it work on their own," says Schmechel. "I felt like there was a big enough market out there."

Skills honed, the entrepreneurial 26-year-old launched her own graphic design shop, Darling Design, out of her apartment last year. She figures that an office lease would have cost an extra \$1,000 per month. Sure, the home office can get a bit crowded--Schmechel shares the cramped three-bedroom rental with two roommates--but she's happy she did it. "I couldn't have started the business without doing it in my house," she says.

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Schmechel charges \$50 an hour to spruce up brochures, business cards, catalogs, case studies and occasionally Web sites. Her tools of the trade include a computer and basic printer. (For high-end printing, she heads to Kinko's.) Additional overhead: a mere \$10 per month for a Web site hosting service. Initial marketing amounted to posting an ad on Craigslist. Darling Design's first-year *profits*: about \$50,000, she says.

Who needs a nasty commute when you can make a decent buck but a few feet from your kitchen? Over half of all U.S. businesses are now based out of an owner's home, according to the [U.S. Census Bureau](#). With the economy shedding jobs, the ranks of the self-employed may well keep swelling. Plenty more entrepreneurs may look to eliminate rent and fuel costs to pinch pennies.

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With the help of Sageworks, a Raleigh, N.C.-based private-company data provider, Forbes.com has assembled a list of the 10 most profitable businesses--on a pretax basis--that could be run out of a home. The data were drawn from eight years worth of financial statements (nearly an entire business cycle) for tens of thousands of privately held U.S. companies with annual revenues under \$1 million and bucketed by Internal Revenue Service classifications. Average pretax profits ranged from 8% to 14%.

We included only industries for which Sageworks had data from at least 35 companies, and we eliminated categories too broad to be meaningful. One big caveat: The data have an inherent positive survivorship bias, as some companies captured in earlier years may have failed along the way.

Facilitators--from brokerages to consultancies-- nabbed five of the 10 spots; creators, such as specialty design shops, earned three; and repair outfits rounded out the rest. To be sure, not all will fare equally (or well) in the economic downturn.

Case in point: securities and commodities brokers, who stand atop the list with an average pretax margin of 14%. While confidence in the markets is shaken and competition from **E*Trade** (nasdaq: [ETF](#) - [news](#) - [people](#)) and **Charles Schwab** (nasdaq: [SCHW](#) - [news](#) - [people](#)) is stiff, trusted brokers able to develop a book of business by giving financial advice (not simply executing trades) can still do well. All it takes is a computer, a speedy Internet hookup and some trading software from the likes of **Automatic Data Processing** (nyse: [ADP](#) - [news](#) - [people](#)). Typical commissions: 2% to 3% of the value of each trade.

To get started, first you'll need approval from the Financial Industry Regulatory Authority. Required paperwork includes a business plan, a trial balance sheet and monthly projections of income and expenses. Registration fee: about \$5,000, depending on the types of securities you deal with. If you haven't already bagged your broker's license, get ready to pass a series of exams, including the six-hour Series 7 Exam and perhaps the Series 63 or 66. One caveat: You can only take these exams after working for several months at a registered firm--and all of your employees must pass the same tests.

Consulting is good work, if you can get it. Consultants give guidance to companies looking for help with everything from marketing to environmental remediation--and for that they clock an average 10% operating margin. Many consultants can easily work from home when they're not with clients on site, and most charge on a per-project basis rather than by the hour. Two big challenges: marketing and pricing the service. For more on the first, check out "[Twelve Innovative Marketing Techniques](#)"; for more on pricing, try "[How To Figure Out Your Daily Rate](#)."

If you'd rather create than facilitate, learn how to code. Software is a very scalable business--simply write a program once and sell lots of copies. But it's a hits business, too. Consider that the most expensive applications for the **Apple** (nasdaq: [AAPL](#) - [news](#) - [people](#)) iPhone typically sell for around \$10--of which the programmer might get 70%--but most are free.

Techies can hedge their bets by doing some trouble-shooting work, too. On the service side, "the margins can be high because you're not competing with global operators," says Avron Barr, principal at Aldo Ventures, a software technology consulting firm in Aptos, Calif. Taken together, the "software publishing" bucket--which the IRS takes to mean both coders and help-desk types--boasts an average 14% pretax margin.

The nasty economy could put some coin in cobblers' coffers, as consumers look to fix up furniture, appliances and leather goods rather than shell out for the new stuff. According to Sageworks, the average pretax margin of firms under the "Personal and Household Goods Repair and Maintenance" classification is 10%.

Maintenance work from the comfort of your garage or basement is challenging on two fronts: overall set-up (equipment, ventilation) and finding clients. Take shoe repair. Ben Roush, a cobbler in Omaha, Neb., says that used finishing machines (with the proper buffering and sanding devices) go for \$10,000; stitchers, \$1200; and hydraulic presses for adding glue, \$300. Some repair work requires more electrical power, too: 220 volts versus the typical 110 volt capacity in most houses.

One warning about working from home: The walls may start closing in. "I'm looking to move into a studio space for part of the week," says Schmechel. "It was really great at first to work from home, but each day, I find it harder and harder psychologically to do it." For an unvarnished look at home entrepreneurship, check out "[The Highs And Horrors Of Home-Based Businesses](#)."

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