Self-Employment and Baby Boomers: Ten Tips for Your Clients

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The movement toward growth that characterized American industry for much of this century has now changed to a trend of consolidation. Consolidation typically includes layoffs, reductions in force, and restructuring. Such downsizing has caused baby boomers holding executive, managerial and professional administrative positions to consider self-employment opportunities. This article discusses how career counselors can assist these clients in evaluating and making the move from corporate America to self-employment.

The movement toward growth that characterized American industry for much of this century has now changed to one of consolidation. Consolidation typically means layoffs, reductions in force, retrenchment, restructuring—and unemployment (Burke, 1992). As Champy (1995) noted, “The human jetsam of the last five years adds up to 1.4 million executives, managers, and administrative professionals, as against 782,000 from 1981 to 1986” (p. 19). This trend is commonly referred to as downsizing in the business and academic literature, although some individuals freely substitute the more optimistic term rightsizing. Downsizing encompasses a whole range of activities, from personnel layoffs and hiring freezes to consolidations and mergers of organizational units, all designed to reduce expenses by reducing the size of an organization’s workforce (Kozlowski, Chao, Smith, & Hedlund, 1993).

Downsizing, especially by major corporations, has become so widespread that it has been a featured topic in such popular
magazines as *Time, Harpers, Newsweek, Smithsonian,* and *Working Mother.* Job loss is expected to remain a major social problem throughout the rest of the century, as economic retrenchment and corporate restructuring continue (Haugen & Meisenheimer, 1991). We are well into a paradigm shift regarding the relationships of people to organizations: All workers are temps. Even with a return to profitability, organizations will be increasingly unwilling to make a commitment to take care of an employee over a 40-year career, and it is unwise for individuals to put all their social and psychological eggs into the organizational basket. Because labor represents about 60% of the cost of doing business, employees (especially older, more highly paid ones) will continue to be a tempting target when organizations seek to cut expenses in response to increasing levels of domestic and global competition. The area of business is not the only place where downsizing is taking place. Government and educational institutions are facing these economic realities as well (Noer, 1993).

Downsizing results in many employees forsaking jobs in industry, government, and education sectors and looking at self-employment opportunities. A high percentage of baby boomers (i.e., persons born between 1946 and 1964) are now in middle management and professional white-collar positions. With the downsizing of organizations frequently targeting these positions, baby boomers are incurring high job loss. Studies of unemployed white-collar employees have revealed that the impact of job loss is considerable, even without long-term or chronic unemployment (Latack & Dozier, 1986).

In response to these changes, increasing numbers of individuals are leaving the corporate world embittered and disillusioned because they have given what they consider their best years to the organization and believe that the company has not reciprocated. A significant number leave their organizations with a considerable sum of money. Five-figure severance packages are not unusual.

For example, Lee Hecht Harrison (Harrison, 1995), a New York City benefit consulting firm, found that many organizations provide 2 weeks of severance pay for each year worked. With such a practice, a 10-year employee would receive 20 weeks or approximately 5 months of compensation. Even at relatively low salaries, such employees could easily receive a five-figure severance package. The private sector is not alone in providing large severance packages. According to a report in the *Los Angeles Times* (Shuster, 1997) the Los Angeles Department of Water and Power laid off 2000 employees who received 5 years of service credit added to their retirement program, or 2 weeks salary for each year of service with a minimum of $25,000 and a maximum of $50,000.
Entrepreneurs have pursued this available capital by developing self-employment and franchising opportunities for those who have been laid off from their jobs. Many of these ads suggest that all it takes is about $25,000 and reasonably good credit for individuals to be their own bosses. Often these ads state that new entrepreneurs can take advantage of all tax loopholes favoring small business, build a financial empire, and achieve financial security for their retirement years.

Some people become successful as a result of these ventures, but they are the minority (Aamodt, 1996). Others are more cautious and seek advice about self-employment and franchising opportunities. What can career counselors do for baby boomers who are considering the self-employment option? The following recommendations are appropriate for both the naive and the more sophisticated 40- to 50-year-old baby boomers.

INTERVIEW PEOPLE ALREADY IN THE CONTEMPLATED BUSINESS

Have clients identify individuals or businesses in their locale or, if necessary, other nearby cities. Suggest to clients that they call on these establishments to observe day-to-day activities, interview owners as to what they like or do not like, typical difficulties encountered, financial rewards, required resources, and so forth.

WORK IN A BUSINESS BEFORE BUYING

Often, a career counselor will administer various career interest and aptitude inventories to assist an individual to identify occupational preferences. This can be particularly helpful in the early stages of career counseling when broad options are being explored. As choices become more narrowly focused, it may be very helpful to advise clients to work in the business or a similar enterprise, perhaps even on a part-time basis. This affords insights about the industry in general and the business in particular. If, for example, a client is considering purchasing or franchising a fast food restaurant or a printing business, then recommend that he or she first work in one to get a feel for this type of business and to determine what it is really about on a day-to-day basis. It is not unreasonable for someone to spend at least 3 months learning the business from the bottom—a perspective many of the baby boomers have not had for some time, if ever. This can be a humbling experience, but one that can be very beneficial. The insights obtained from such firsthand knowledge cannot be provided in a counseling session.
INVOKE SPOUSE (OR SIGNIFICANT OTHER) IN THE COUNSELING

Starting a new business or purchasing an existing business is in many cases a family affair. It has been compared to having a child. Conception is the fun part. The work begins afterward and requires a great deal of time and effort, like the early stages of raising a child. If a client is married, having a supportive spouse who understands this level of commitment will help immensely when times get tough. A new business venture requires significant effort to balance career and family. Involve the spouse in the counseling process if feasible. Possibly even have the spouse consider working part-time in a similar business to get a realistic preview of what lies ahead.

FRANCHISE OR BE INDEPENDENT

A key question that your client may need assistance in resolving is whether to purchase a franchise or to go independent. Although the industry has never claimed that franchise ownership is an absolutely sure thing, many franchisers—Mail Boxes Etc., for instance—assert that 95% of their new franchises are still in business after 5 years. According to research sponsored by the International Franchise Association (IFA), nearly 97% of all franchise units opened nationwide over the past 5 years are still in operation. The franchise, we are told, is a pretty safe strategy for investing one's money. Aspiring owners who choose to become franchisees expect that certain advantages will improve their chances of survival during the turbulent early years of their businesses. The advantages include the franchiser's offer of managerial training, site selection assistance, and other business advice. And franchises often come with a recognized brand name and product line, which new owners expect will give them a head start against the independents in attracting customers.

Countering these claims is research by Bates (1995) showing that among small businesses started nationwide in 1986 and 1987, franchises generated average pretax profits of minus $4,501 in 1987. Independent startups, by contrast, had average profits of plus $15,511. By late 1991, 38% of the franchises and 32% of the independents had gone out of business. In other words, young businesses started without the benefit of a parent franchiser generated higher profits and had lower failure rates.

When new owners buy ongoing businesses, the success rate for independent companies is higher than that of franchises as well. When Bates (1995) looked at purchasers of ongoing franchises, he
found that only 52% of the owners in 1987 were still operating the
same franchise in late 1991, 32% had shut down, and 15% were still
operating, but under different ownership. Among the new indepen-
dent owners who bought ongoing businesses in the same period,
68% were still operated by the same owner in late 1991, 18% had
closed down, and the balance had new owners. Whether new owners
started a business or purchased an operating business, the average
risk was greater that they would close if they purchased a franchise.

Whom is one to believe? The IFA study or the research of Bates?
The IFA study cited earlier, which reported a franchise 5-year sur-
vival rate of nearly 97%, was conducted by the accounting firm of
Arthur Andersen and Company. It surveyed 2,100 *franchisers*; fewer
than 20% responded. Bates's (1995) investigation relied on *franchise-
sees* to report information about their businesses. The U.S. Bureau
of the Census compiled the data, which were based on surveys of
12,778 small businesses—both independents and franchises—whose
owners created or bought their companies in 1986 or 1987. The
response rate exceeded 72%. It is clear that the more conservative
reports of franchisee success are based on a larger, more represen-
tative database and present the better information source for coun-
selors and their clients.

**ATTEND SMALL BUSINESS PROGRAMS**

Encourage your clients to attend programs offered by local colleges,
small business resource centers, chambers of commerce, the Small
Business Administration (SBA), and SCORE (Service Corps of Re-
tired Executives). SCORE programs of a half or an entire day are
inexpensive (often $25 to $50), are often offered by local chambers
of commerce or local offices of the SBA, and are presented by retired
executives or entrepreneurs with a wealth of business knowledge
and experience. Topics frequently addressed at SCORE seminars
include raising capital, sales, marketing and advertising, business
insurance and legal issues, accounting, taxes, computers, record
keeping, and differences between cash flow and profit.

At a SCORE seminar attended by one of us, several people left
early after being overwhelmed by information on government regu-
lations, licenses, and insurance and tax considerations involved in
owning a business. Self-employment is much more involved than
most people realize. It is better to learn this when investments of
time, money, and emotions are minimal. The SBA may be able to
assist clients in researching specific industries or topics, or help
them develop business plans that are required by most lending in-
stitutions.
INVESTIGATE RELEVANCY OF COLLEGE COURSES IN ADVANCE

Colleges and universities offer business courses, but clients should be advised to investigate additional practical, interactive classes, perhaps through continuing education departments or private schools. Traditional business courses like management or marketing may not provide the practical wisdom actually needed to start a business. For example, a management course covering such topics as models of work motivation, organization development, job satisfaction, or theories of leadership may be interesting for an MBA student but has less short-term utility for starting a business. Clients should investigate short courses on entrepreneurship at local colleges and the plethora of books on the subject at the library or bookstores.

Encourage clients to contact instructors in advance to determine if course content will provide knowledge that can be applied promptly and also what the actual business experience of teachers is. Although it is not necessary that an instructor have business experience to be a good teacher, there is something to be said for the practical knowledge only gained through the experience.

IMMUNIZE CLIENTS AGAINST NAYSAYERS

Your clients will probably encounter many people trying to discourage them from pursuing self-employment. Advise clients to listen to them and learn, but not to become discouraged. Frequently, your clients will be told by family, friends, and acquaintances that their ideas will never work, are not feasible, are impractical, have been done before, or that others have tried it and failed. This may or may not be true, but clients’ decisions should be based on their own evaluations and not the disheartening words of others. Many people talked of Fulton’s Folly with the steamboat, the Wright brothers’ foolish fascination with flight, and of the absurdity of the Xerox process. Despite the risk-taking entrepreneurial spirit that propelled the United States into economic world leadership, few people are actually risk takers. Clients may need assistance in honestly evaluating their willingness to take risks. They may need to be instructed as to the difference between a gamble and well-researched, calculated risk taking. They may also need guidance to understand exactly what they are putting at risk and whether they can live with the consequences (i.e., financial and emotional well-being) should their decisions not work out as planned.
Experience indicates that most people seeking career counseling believe that "the grass is greener on the other side." This is especially salient for those contemplating self-employment. People think about how wonderful it would be to set their own hours, be their own boss, take vacations when they like, have more time off, be free of the bureaucracy and paperwork, and do things their way. Clients are less likely to think about the self-discipline required when self-employed, the stress of negative or unpredictable cash flow, the frustrations produced by unreliable suppliers or vendors, the demands of customers, the long hours involved with taxes, payroll, record keeping, forms, and paperwork. Then there is the challenge of finding, hiring, and managing employees along with the many personnel problems presented. Also, small business owners cannot simply take off whenever they wish because the business must be taken care of in the owner's absence. Like all client counseling, honest client self-evaluation is the cornerstone, and traditional inquiries about clients' interests, strengths, weaknesses, and so forth are still appropriate when interest in self-employment emerges.

In addition to the self-appraisal needs discussed above, other specific areas of concern come into play. How well clients manage their personal finances (e.g., balancing a checkbook, having a reasonable amount of money in savings or other liquid assets, developing and living within a budget, having a controlled amount of debt) may be an excellent indicator of the propensity to successfully manage business finances. Do clients have sufficient business sense to understand the concept of break-even analysis so that they know how many pizzas or widgets must be sold each day just to cover expenses and keep the doors open? Do clients understand the most basic marketing concepts? How do they feel about selling?

Sales and marketing are key components of all businesses and basic to survival. Many people believe that if they build a better mousetrap the world will beat a path to their door. Such a reactive approach is generally wishful thinking. The reality is that one must continually sell, network, and market oneself and one's products or services. For many, this is difficult, threatening, and distasteful.

Successful selling requires a certain kind of personality. The rejection inherent in most sales situations calls for an optimistic individual who can withstand the negative aspects of marketing (Seligman, 1991; Seligman & Schulman, 1986) and for an individual who is able to make things happen as opposed to waiting for them to
happen (Bateman & Crant, 1993; Crant, 1995). Clients must give serious and honest consideration to their attitudes about sales and their willingness to engage in sales-related behaviors such as prospecting for new accounts, advertising, direct mail marketing, telephoning to obtain appointments with purchasing agents. In addition, clients should be advised to do a thorough, in-depth analysis of their personal financial status so that an initially poor cash flow does not cause panic. Depending on the type of business one is entering, a cash cushion of a few months to a year or more may be necessary. It is always appropriate to refer clients to bankers, CPAs, and attorneys for better understanding of financial and related legal considerations.

**CALIBER OF EMPLOYEES**

People in responsible organizational positions are accustomed to working with colleagues who are of a similar educational and socioeconomic background, and who have work values and ideals similar to their own. Many individuals who start their own businesses find themselves managing people very different from themselves, particularly if they are working in retail. As Goldstein (1993) expressed, retail seems to be the industry of last resort for the uneducated and underemployed. Job and educational requirements for many of these positions are minimal. Hiring anyone with minimum qualifications is not uncommon when trying to fill a minimum wage position. For baby boomers who were individual contributors and did not necessarily have supervisory responsibility in their previous positions, owning their own business may be their first occasion to hire and manage others. Managing people is always a challenge, and more so when they differ significantly in their values and work ethics. Owners frequently lament that their business would be great if they just did not have to have employees.

The potential workforce is something your clients should be aware of, especially if they are considering labor intensive businesses with many entry-level positions. Indications are that demand for service workers will remain high given the growth of this sector of the economy. Projections suggest that the workforce, however, will grow more slowly in the coming decades. New entrants between ages 16 and 24 will decrease substantially. In addition, the proportion of minorities and the undereducated in the workforce will increase dramatically (Cascio & Zammuto, 1987). Your clients may have to be able to provide on-the-job training to integrate unskilled youth into the workforce, while also working with job incumbents and others who may not have traditional workforce experience (Goldstein & Gilliam, 1990).
PROFESSIONAL RESOURCES IN PLACE

Many of your clients consider starting their own businesses in order to escape the bureaucracy inherent in corporate life. The need for freedom and the impatience with formal hierarchical authority is probably the most distinctive single feature of the baby boom group (Hall & Richter, 1990). Many of these individuals want what they believe will be a simpler existence with their own business. Unfortunately, the world of work has become more complicated and requires the services of different professionals to deal with these increased complexities. Your clients will need to develop good working relationships with attorneys, accountants, bankers, and insurance agents, and in some cases computer, advertising, and marketing specialists. Frequent business problems and questions often require experts available for consultation on short notice. And certainly, proper advice in advance of starting a new business may prevent many problems.

SUMMARY

Assisting clients in honest self-assessment and the evaluation of their options is a basic component of all counseling encounters. Any job or career change is challenging, but the adjustments that persons moving from the corporate world to self-employment will encounter require career counselors to explore some very specific issues with their clients.

Ten ways for counselors to better assist clients who are contemplating self-employment were discussed. Some suggestions involved helping clients obtain better information about self-employment in general, as well as information regarding their specific product or service business of interest. Other suggestions included helping clients better understand themselves in light of the proposed self-employment situation. Finally, counselors were encouraged to help clients become more aware of unexpected issues related to self-employment, while providing ideas as to where and how to go about resolving such issues. When applied together, these 10 tips should facilitate clients making the best vocational decisions possible when considering self-employment opportunities.

REFERENCES