

BUSINESS OPERATIONS AND PROFESSIONAL RESPONSIBILITIES MODULE
TREC Course #39924

Chapter 4
Business Plan

Business Model



OBJECTIVE: At the completion of this chapter, the Inspector candidate will:

- 1. Understand the basics of setting up a home inspection business.**

CREATE A BUSINESS PLAN

A clear plan is essential for success as an entrepreneur. It will help you map out the specifics of your business and discover some unknowns. A business plan is a written document that helps you define the goals of your inspection business, how you intend to reach them, and how long it will take. While you might think a business plan's purpose is to attract investors, it's actually an exercise in being realistic with yourself about what you want to achieve and how you'll do it.

A good business plan includes an executive summary, overview of your services and pricing, market analysis with competitive research, and marketing and sales strategy. Walking through these sections forces you to think about your business model and your strategy for competing with similar businesses

A few important topics to consider are:

What are the costs involved in opening a home inspection business?

Obtaining training and [certification](#) is one of the initial costs, and obtaining a business license is another. Home Inspection insurance is also a crucial startup cost, since customers will be advised to hire inspectors who carry it for the protection of both parties. Other startup costs include a dependable vehicle and some basic office and inspection equipment. Essential office equipment includes a computer capable of running [home inspection software](#), telephone, fax, color copier, and a quality digital camera. You will also need a desk, chairs, and shelving as well as report binders and business cards. Basic inspection tools include ladders (\$200-\$500) and testing equipment such as gas and moisture detectors, circuit tester and a voltage "sniffer", and an infrared thermometer. You'll also need some basic tools such as

screwdrivers and pliers. Depending on whether your equipment is new or used, startup costs can range from \$10,000 to \$30,000.

What are the ongoing expenses for a home inspection business?

Ongoing expenses for a home inspection business include:

- Maintaining a business license and professional liability insurance
- Office supplies
- Vehicle and equipment maintenance
- Continuing education

Who is the target market?

Preferred customers are homebuyers, real estate agents, and mortgage lenders.

How does a home inspection business make money?

A home inspection business makes money by charging clients for their time, experience and expertise in discovering potentially costly damage as well as any safety hazards in homes for sale, thereby saving homebuyers money.

How much can you charge customers?

The [cost of a home inspection](#) depends on the size and complexity of the structure or structures to be inspected. Fees range from \$200 to \$470, with an average of approximately \$325. A separate termite inspection typically costs \$300, while an inspection for the presence of radon gas averages \$750. The more training and equipment your home inspection business has, the more earning opportunities it will have also.

How much profit can a home inspection business make?

Annual [income](#) for home inspectors, depending upon education and experience, ranges between \$26,000 and \$66,000, with an average of \$45,000. Unlike other types of businesses, people own their homes for an average of eight years, which means that any repeat business is unlikely to come from clients, though it may come through recommendations from real estate agents or mortgage lenders.

How can you make your business more profitable?

One way to make your business more profitable is by advertising how much money your services are saving your clients. Home inspections are routinely used as a contingency in purchase offers, which means that your services can result in your clients being able to back out of a contract with no financial penalty. A home inspection is a money- saving investment. By acquiring vital information about the condition of a home, your clients can save thousands of dollars by making a counter-offer that takes needed repairs into consideration.

CHOOSE YOUR LEGAL BUSINESS STRUCTURE AND A NAME

What will you name your business?

Before you can register your business with the state or apply for licenses and permits, you'll need to choose your [legal business structure](#).

Your legal business structure will impact operations, taxes, and even your personal liability. U.S. companies have several options for a business structure, each with its own benefits and risks. A few common structures are:

- **Sole proprietorship.** If you are the only person in your business, or your inspectors will operate as contractors and not employees, this is a simple structure to form. But sole proprietorships aren't considered separate business entities, so your business assets and liabilities aren't separate from your personal assets and liabilities.
- **Partnership.** If you want to start a home inspection company with a partner, you could consider a limited partnership or a limited liability partnership. With a limited partnership, one partner would have unlimited liability and other partners would have limited liability. In a limited liability partnership, all partners have limited liability and won't be held responsible for the actions of other partners.
- **Limited liability company (LLC).** An LLC is a sort of hybrid of a partnership and a corporation. LLCs will protect you from personal liability, and your personal assets won't be at risk if your business faces bankruptcy or a lawsuit. You'll also avoid paying corporate tax rates, but you'll be considered self-employed and will need to pay self-employment taxes.
- **Corporation.** A corporation, also called a C corp, is considered completely separate from its owners. Corporations provide the strongest protections from personal liability, but they cost more to form and require more extensive record keeping.

Consult with an attorney and accountant to help you choose the best business structure.

OBTAIN NECESSARY TRAINING AND LICENSING

After you have a solid business plan and a legal structure in place, it's time to obtain the necessary training and licensing you'll need to operate your new business. Each state determines whether home inspectors need to be licensed and how much training is required to earn and maintain that license.

The [American Society of Home Inspectors](#) (ASHI) has a comprehensive listing of state regulations, as well as training programs to help you meet requirements. For instance, to get your [associate home inspection license](#) in Massachusetts, you need to have a high school diploma, train in the field under the direct supervision of a licensed home inspector, and pass the National Home Inspector Examination. A few states, [like Colorado](#), don't regulate home inspectors. You don't need a license or certifications to operate in the state.

If you plan to offer your services in more than one state, be sure that you meet each state's requirements

OPEN A BUSINESS BANK ACCOUNT & CREDIT CARD

Using dedicated business banking and credit accounts is essential for personal asset protection.

When your personal and business accounts are mixed, your personal assets (your home, car, and other valuables) are at risk in the event your business is sued. In business law, this is referred to as [piercing your corporate veil](#).

Additionally, learning [how to build business credit](#) can help you get [credit cards](#) and other financing in your business's name (instead of yours), better interest rates, higher lines of credit, and more.

Open a business bank account

Besides being a requirement when applying for business loans, opening a business bank account:

- Separates your personal assets from your company's assets, which is necessary for personal asset protection.
- Makes accounting and tax filing easier.

Get a business credit card

Getting a [business credit card](#) helps you:

- Separate personal and business expenses by putting your business' expenses all in one place.
- Build your company's credit history, which can be useful to raise money later on.

PURCHASE LIABILITY AND ERRORS AND OMISSIONS INSURANCE

Home inspectors ensure the safety of a property before a family moves in, and that comes with a lot of responsibility. Dan Bowers says the reason many home inspection businesses fail is because they [didn't get liability insurance](#) early on. He said inspectors "get started on a shoe-string and don't buy insurance, then six months in they miss a foundation issue, bad roof, etc. and have a \$10,000 debt they need to pay off." This can put them out of business overnight.

The [International Association of Certified Home Inspectors](#) (InterNACHI) recommends both general liability and errors and omissions insurance. Don't forget to check your state's home inspection business regulations on insurance.

Some [states, like Alabama](#), require licensed home inspectors to have liability insurance and errors and omissions coverage.

Just as with licenses and permits, your business needs insurance in order to operate safely and lawfully. [Business Insurance](#) protects your company's financial wellbeing in the event of a covered loss.