

Becoming An Independent Consultant

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You've been working for a large company or consulting firm for years, you're restless, and thoughts of going out on your own fill your mind. This dream has come true for many in the past and is happening even frequently these days. But many who try either fail or are disappointed. How best to do it, what can you expect, how to avoid potential pitfalls? All these questions and more are the focus of this article, written by a Certified Management Consultant (CMC) (retired) who has done it.

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Making The Decision

You find yourself dreaming of working for yourself. You're tired of bosses, structure, rigid hours, commuting etc. Management consulting sounds like a good way to make this dream come true. Yet there are many things to consider that, properly investigated, may make you change your mind. Conversely, your research may increase your resolve to go out on your own.

A first fundamental decision is to be very introspective and decide whether you can really tolerate being on your own with the sharp decrease in the collegiality that is a normal part of every large firm. To succeed on your own you will need to:

- Substitute phone contact, email and social media for the direct relationships in an office
- Develop even more self discipline and management of your time and projects
- Learn more about the administration and financial management that you may have taken for granted in the large firm
- Have patience in closing new clients—and the financial resources to be able to afford such patience
- Have a sharply focused marketing strategy based on carefully considered positioning of your practice to differentiate yourself in an increasingly crowded consulting market place.
- Maintain the scrupulous ethics and honesty that are the hallmark of any successful consultant—and to pay even more attention to the perception of ethical behavior.

These are just a few of the topics you will have to address if you are to succeed on your own. It takes time to build up a practice unless you are fortunate to be in a position to ethically bring old clients with you. You should be mentally prepared to go as much as six months without a client and should have sufficient resources to handle this without discomfort. This can be "white knuckle" time, but patience and persistence will usually win the day if you have positioned yourself and your new practice effectively.

Positioning Your Practice

Competitive differentiation is the most important key to success. There are many consultants and consulting firms with more emerging all the time. The good news is that consultants may be in even greater demand as companies continue to downsize and outsource. Keep in mind too that consulting is really providing or facilitating new information. That means that you can make consulting a value-added part of almost any service business.

Positioning is a marketing term. It involves developing a strategy that clearly explains what you will do to get customers to buy from you at the expense of competitors.

Al Ries and Jack Trout, well known marketing experts,¹ describe positioning as:

- What you do to the prospect's mind to condition how he/she thinks about your consulting services.

¹ Positioning: The Battle For Your Mind, Al Ries & Jack Trout, McGraw Hill, 1986

- What you do to “get heard.”
- How you cope with the mental position that a larger, more established competitor occupies.
- How to cope with information overload (and anxiety) among your target prospects.
- How to be consistent – to hang in there year after year if your positioning seems effective.
- How to manipulate what’s already in the mind – to retie connections that already exist.

Positioning is the process of developing a marketing "message" so that your total offering is clear to your customers and is effectively differentiated from those of your competitors. Start by asking yourself questions like these:

- How do I want my consulting services perceived by which parts of the market place?
- What specific benefits do I want to highlight?
- What themes should I stress in my marketing communications and events?

The positioning statement is a checklist against which all communications are created and evaluated. Developing your core positioning strategy is a creative and dynamic process, calling for constant evaluation and revision.

Your Positioning Strategy

To develop a positioning strategy start by identifying your unique experiences and skills – your competitive advantages. What have you done that has unusual value to potential clients – and which you can communicate effectively? You should strive to select advantages that give you an unusual position of competence – hopefully one that might be perceived as not easily or affordably available elsewhere.

When you are done with your initial efforts, be sure to test them out on friendly potential clients. Test and retest your messages evolving them as you proceed. **Note:** if you are not satisfied with your positioning efforts, and cannot get clients to react favorably, then you might want to reconsider your decision to go out on your own until you and your potential clients are satisfied. You want to be absolutely sure you are working on the right things.

In developing your positioning, you may want to limit your practice to certain types and/or sizes of clients. Some consultants focus on specific industries, some on small companies, and some on special geographic areas.

Another differentiation strategy is to go in the opposite direction. Provide a commodity service on an outsourced basis to clients who have downsized or are considering farming out part or all of a basic support service. This can be especially effective if your consulting experience is more limited and you have had a substantial corporate career in one or more vital support services. In this case your differentiation strategy may offer convenience, flexibility and cost control to a few steady clients.

Where Will You Locate

Most independent consultants work effectively out of their homes. To do this you will want a dedicated room for privacy and tax purposes. You will be spending a lot of time there, so be comfortable. A pleasant workspace can make a big difference in your staying power—especially at first.

If you feel you must have an outside office, then investigate an office condo or shared space kind of arrangement. Ask your lawyer or small business friend if there is a spare office you can rent. This may also offer you the choice of sharing office support services inexpensively. Avoid renting a conventional office. This will be a big cash drain on your funds.

Setting Up Your Office

You will need a desk, comfortable desk chair, bookcases or shelves and probably twice as many file cabinets as you can imagine you will ever need. Lateral files are the roomiest and most space efficient. Large office discount chains are excellent sources for such furnishings at reasonable prices. There are also outlets for used furniture.

Modern computing and telecommunications technology are what make the home office possible. While you don’t need bells and whistles, I have learned the hard way that there are certain types of equipment where it doesn’t pay to stint.

Telephones Get a quality phone with speed dialing and either a built-in answering machine or separate unit. Brands like AT&T, Panasonic and Sony are excellent and very reliable. AT&T makes excellent all digital answering machines that are both reliable and flexible. Cell phones are a big part of life these days. However, a hardwired landline remains a good thing to have—and not just with portable hand sets. If the electricity goes off, then your phones are out.

Copying and Printing A wide range of copiers and printer are suitable for home office use. I recommend Canon because they are extremely reliable. All critical parts are replaced when the toner cartridge is replaced. And many models have several steps of image reduction and expansion. Some serve as both a copier and a printer, scanner and fax—even in color. They are usually part of “all-in-ones” making it tough to choose. Get reviews as the quality and cost per page varies widely. Laser printers are far more cost effective than ink jet models.

Fax Machine Many people get by without a fax because of email. But if you feel you do need one read reviews online. The most popular brands are by Hewlett Packard, Canon or Brother. One can also fax through one's computer. A scanner can be useful. While the "all in ones" use to be unreliable, some like the Brother are quite good.

The Computer Obviously, your computer is the nerve center of your office. If you are very experienced with Windows based computers, then stick with that. Dell, Lenovo or HP are reasonably priced and may have good technical support.

If you need a new computer and want to make the easy selection then consider Apple computers. Apple computers seem to be the choice for those tired of problems with Windows. You can be up and running with them almost immediately and, once you learn one software program, others are much easier thanks to Apple's standard user interface guidelines for software developers. They also make desk-top publishing and graphics easier—a real boon for the independent consultant. Almost any standard document from an Apple computer can be read by a PC (or vice versa).

The Apple iMacs are excellent values. They are all made with Intel processors and can run Windows just as well as a Windows-only computer. Whichever model you buy get it with at least 4gb of RAM, preferably 8gb. RAM is cheap and you can install it yourself. OWC.com is a reliable and low cost source. Regardless of which computer you buy, be prepared to have it seem "old fashioned" within a few years. In general it won't actually be outmoded so be very sure you really need the latest and greatest.

Plan on spending around \$1,200-\$1,400 including the monitor and printer. Brother makes great printers. I have the B&W laser only. Who needs expensive color? The iMac comes with the monitor built in. Some prefer the portability of laptops. For at-home use many add a larger monitor to better able to see, Needs and independent monitor and mouse, but these are inexpensive. The laptop serves as the "main frame". Many add an iPad to their equipment. A smart cell phone with a data plan can keep you in touch with email and increasingly almost every thing imaginable—really tough to keep up with the amazing proliferation of technology. A high-end cell phone such as the iPhone as well as the iPad can offer many of the same functions as a laptop. Such equipment and their apps are evolving constantly so subscribe to magazines or online feeds to keep you up to date.

You will also want back-up equipment to protect your computer files. This is CRUCIAL to do. The most common choice is an external hard drive (about \$100). This way you can keep your back up files in a separate place. A low cost back up software such as Carbon Copy Cloner makes automatic back up simple. Some recommend burning an occasional DVD for truly critical files and keeping it in a safe deposit box. Others buy a media-safe fireproof storage box and keep it in the basement. Finally, some use flash drives (I have a 32gb flash drive – astounding capacity. Saw one advertised for 128gb for maybe \$35. Then there is inexpensive internet based back up services such as Dropbox. These are Cloud-based and back up automatically. You can access these files from any remote computer including a laptop if you have one. You can be half way around the world and still access your Cloud storage.

Whatever you do, always back up daily after you have created any important document. Rest assured that it is not IF you lose data from a disk crash, but WHEN! I back up at the end of every day and usually after every document has been completed – or even after every sentence.

Finally, for each desktop computer consider buying an uninterruptible power supply (UPS). If you don't, then you surely will the very first time you lose an important document because of a sudden power outage, however momentary. UPS devices cost as little as \$80 and give you 10 to 20 minutes to save what you are working on and go through an orderly shutdown of the computer. They are also outstanding surge protectors.

Software Get Microsoft Office. This package is priced at around \$130 for the Student and Teacher Edition which is more than adequate and is readily available by mail order. Go to Amazon to see if you can get the latest version via a DVD. Then you aren't stuck with lost key codes. MS Office contains MS Word (word processing), Excel (spread sheet) and PowerPoint (presentations). You will also want Quicken (\$60) for your business accounting. If MS Office is a financial stretch at first then download [LibreOffice](#) It is getting good reviews. FREE. It can open or produce MS Office document. It is based on open source code so is constantly being improved.

There are many computer utilities that are nearly essential – none of them very expensive. Get the best anti virus software you can find. AVG and Sophos are free and highly recommended choices. Many computer operating systems have a Firewall built in. Be sure it's on. Updates are usually automatic. If you own a Mac, then get Diskwarrior or Techtools Pro. These inexpensive apps are great for fixing things that can go wrong with your disks and hard drive. Run every few months as preventative maintenance. I am not aware of comparable tools for Windows computers.

So You Find You're Lonely

A drawback to being an independent consultant is the absence of colleagues in the next office. But there are substitutes. Here are some suggestions:

- Schedule informal lunches several times a week

- Join a health club—and use it regularly
- Plan an errand or library visit for each day to get out of the office
- Schedule business development phone calls for a certain time each day
- Join a service club such as Rotary or Lions

Most important, develop a network of independent consulting colleagues that you can trust and talk with. The local chapter of The Institute of Management Consultants is one obvious source. There are also other networking groups of people that share your interests and needs. However you do it, this is one of the more important things you should be doing, not only for the collegiality, but also to have a source of people you can subcontract work to—or who can subcontract to you—when business is heavy or when the nature of the engagement demands more than one person. New clients often emerge from networking.

Developing Associates

Building relationships with other independent consultants can be hard. Consultants tend to be jealous of client relationships. You have to work hard at being subordinate to them in their clients and they, in turn, have to be able to behave in a like manner with your clients. If both parties err in the conservative direction, sooner or later, you will develop a number of independent associates with whom you can work together comfortably. This is as much a matter of personal chemistry as it is ethics and being conspicuously fair with each other.

Contractual Relationships With Associates

You do not ordinarily need a lawyer as these are mostly simple letters of understanding as to what your mutual obligations are, subject to modification for specific engagements.

You can compensate each other in one of two ways. One is to simply agree on a per diem or per hour rate. Then for each project agree via a detailed task plan how many hours or days each will get.

The second way is to focus less on the hours and more on how to split the total engagement fees based on roles with the client. An associate of mine has worked out a general system in which there is a commission of 10% for selling the engagement, another 10% for managing the client and then dividing the remaining fees in proportion to the estimated hours each is to work on the project. If there is proprietary technology used in the engagement, its owner may also get a percent off the top. With an agreement in place, you stop counting hours and focus on delighting the client. You may also want a simple confidentiality agreement between the parties. This is especially important if one party has proprietary technology.

If you are doing the invoicing, you should pay your associates their share immediately upon receipt of funds.

Managing The Finances

You are well advised to maintain meticulous financial records. Otherwise you may face a constant stream of IRS penalties. Such record keeping need not be onerous. A computer software package, Quicken, is inexpensive, easy to use and remarkably complete. It is available in either Apple or Windows versions and no independent consultant should be without it. Hiring a bookkeeper or accountant to maintain records won't save you much time and just cost you money.

Estimating taxes can be a headache. The timing of a consultant's income is erratic and unpredictable. You must not only pay the IRS at least 90% of your owed taxes, but such payment has to be timely relative to when you earn the income. A spreadsheet template to track expected income and expenses can be very useful. Or you can simply take last year's taxes, divide by four and pay that on the quarterly schedule. This is known as the "Safe Harbor" rule.

When your income becomes substantial, you will want to consider the retirement funding plans for the self-employed. In some plans you can put aside up to 25% of your income with a very generous maximum amount. While the SEP's (IRA's) are well known and are suitable for most, if you have years when your net income significantly exceeds \$100,000, then another plan may be worth setting up, a Defined Benefit Pension Plan. It is especially useful if you anticipate retirement in ten years or less. Under these plans, you can shelter from current taxes as much as 40% to 50% of your business income. A new retirement vehicle is a SEP IRA. Check with a company like Fidelity or Vanguard for info on such plans. Retirement savings plans change frequently.

To realize those tax savings via customized pension plans, you have to put large amounts of money into your pension plan. This may present a cash flow challenge. And expect around \$1,200 in set-up fees plus from \$500 to \$900 annually in administrative and actuarial fees (all tax deductible). Fidelity Investments offer good defined benefit plans and a wealth of investment choices for your retirement funds at lower cost than the customized plans. Most large cities also have pension service companies that can do the work for you with a greater variety of customized plans.

Be careful of the relationship with your alliance associates. If you are their sole source of earned income, their status as independent contractors may come into question with the IRS and you may become responsible for such things as withholding and FICA. If sub-contractor status is justifiable a 1099 tax statement is easy to generate and saves you a lot of cost and hassle.

You will need to obtain from the IRS a tax identification number different from your Social Security number. This tax ID # should be tied to the name of your consulting firm. Then put that number on all invoices to clients. Be sure to have a

separate checking account and even get a separate credit card for your business expenses. You can get the Tax ID from www.irs.com and downloading Form SS-4. You can even get it almost instantly online.

There are many other tax issues for the independent consultant which are beyond the scope of this article. A good working relationship with a talented tax accountant can be invaluable.

Setting Your Fees (See page 8 for more information on this topic)

It may be tempting to start out with low fees in order to speed up client acquisition. But this can be counterproductive. Ironically, larger client companies tend not to take the low priced consultant seriously or to value their actual or potential contributions as much.

Consulting fees range from a low of \$1,000 per day (such as for computer system consulting) to \$5,000 per day. It depends on the nature of your consulting practice, what competition charges, and the size and nature of the prospective client organizations. If you are targeting very specific market segments, and these are dominated by small companies or non-profits, you may have to be at the lower end of the fee range. They won't be used to consulting fees and so will have no real benchmarks to judge the fairness of fees.

However, in general your base per diem rate should be around 10% to 15% less than those fees charged by the very large established competitive consulting firms for similar work. They may have more credibility but your lower costs for equal perceived value let you "win".

Try to avoid quoting a specific per diem rate. Estimate as accurately as you can in advance—then quote a fixed price for the project. If you are specifically asked for a per diem rate, then always quote the same, high per diem rate.

However, if you feel the project cost is too high for the client at your normal rates, you can quote a total fee for the project based on fewer days than you actually anticipate spending. The risk in doing this is that you may inadvertently lock yourself into the discounted rate on similar jobs for the same or similar clients. Assess the situation very carefully in advance to be sure you are prepared to accept such discounts on an on-going basis should circumstances dictate.

An advantage of being an independent consultant is that you can also over deliver in the interests of client delight. My colleagues and I do the best job we can in estimating an engagement, often including an extra margin for value added when appropriate. Then when the engagement starts, we stop counting hours and focus on delivering our best work.

BUSINESS ORGANIZATION

One of the most asked questions by the prospective management consultant is "Should I Incorporate?" Your decision will be based primarily on the nature of your practice and your liability exposure. However, many independent consultants will organize themselves 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.

You can use your regular SS# as a tax ID#. However, if you want to set up a 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.

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.
- You have total ownership and control of the business.
- All the profits of the business belong to you.
- 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 explanations for Schedule C and much other 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.

Limited Liability Corporation (LLC)

This type of corporation blends the tax advantages of a partnership and the limited liability advantages of a corporation. Owners of an LLC are referred to as "members." As you might expect, it also has some limitations but is definitely worth considering. Ask about the LLC when you contact your appropriate state office for incorporation information as suggested earlier in the chapter.

LLC Advantages:

- Limited personal liability for the owners (like a corporation and unlike a partnership).
- No complicated Federal tax forms (like a partnership).
- Business losses may be deducted on your personal tax return (like an S-corporation).

LLC Disadvantages:

- Legal assistance may be required to set up. The paperwork is state-specific and can be complex.
- No "continuity of life" as in a regular corporation. The LLC dissolves if one of the owners dies or otherwise leaves. However, other formal agreements between the owners can overcome this.
- Some states require that an LLC have more than one member.

NOTE: regardless of any liability possibilities, having LLC after your "company name" is a BIG marketing advantage. You can be "Joe Smith and Associates LLC". Appear big and established without have any actual employees.

How Does One Set Up a Limited Liability Corp?

You can form a limited liability company yourself by 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. However, LLC's may vary from state to state. So use a local lawyer who promises that he KNOWS LLC's for the state and EXACTLY what is required. The one time legal fees range from \$600 to \$800.

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. There is also an annual fee which is usually quite reasonable. Depends on the state.

If there is the faintest doubt in your mind, consult a lawyer and/or your accountant. It will be money well spent.

Other Legal, Insurance and Contractual Issues

Regardless of the type of legal organization, every consultant should have a reasonable level of commercial insurance regardless of his practice—the usual professional and personal liability plus the need to insure your office equipment and records against loss. Policies are readily available for as little as \$500 annually. While you may have put your home office equipment under your homeowners policy, even the minimum commercial policy gives you better office equipment coverage at no additional charge.

Depending on the nature of your practice, you may also need "errors and omissions" insurance as part of the total policy. These types of policies are more expensive.

Consider carefully the purchase of disability insurance. This can be even more important than life insurance and may be something you have taken for granted working for a large employer. But if you are even temporarily disabled, you may experience significant financial hardship. It is human nature to think of yourself as "bullet proof" or that such disasters won't happen. Don't fall into that trap. A good disability policy offering around \$5,000 tax free dollars a month after a 90 day waiting period used to cost around \$3,000 per year for someone in their mid 50's. Massachusetts Mutual Life Insurance Company used to have has excellent polices at very competitive rates. But investigate other companies too.

With client proposals, do the same careful job as required by the large consulting firms. A clear list of deliverables and the basis of fees and invoicing is a must. You will also want to protect your proprietary technology in the proposal and put a copyright mark © on all of your written consulting tools, training materials and forms.

Marketing Plan

Systematic marketing efforts are a must. Devote at least 25% of your time to marketing and networking even during engagements. Successful techniques include:

- Personal letters in which you regularly send a clipping or book review to a list of 20 to 30 prospects on a regular basis. Many people send emails instead of hard copy letters. But be careful not to create email overload. In emails you can insert links to articles of potential interest to your clients and prospects. Try to collect email addresses at every opportunity. You can organize these email contacts into logical groups for specialized topics.
- Personal contacts and referrals from satisfied clients at the end of each successful engagement. Many consultants make it a practice to ask for a testimonial letter from the happy client. Some even draft the letter for the client to send back.
- Speeches, if you can arrange them, are invaluable. But you have to be good. Fortunately, with adequate preparation and practice, most consultants can be effective.

- Seminars and workshops, either public or company specific can be even more effective than speeches. Many companies look for educational and awareness-building seminars on timely topics for their managers.
- As appropriate to your practice area write articles which you can use as mailing pieces or make downloadable from your website. You can even attach them to emails.
- If you have the material a newsletter can be a good marketing tool whether it be delivered by email or the post office.
- Marketing brochures may be useful, but can also be a waste of money. They are difficult to get right and always seem to be evolving. You may want to print logo and address on a presentation folder and then use two color, high quality blank paper to run off a small number of inserts from your own computer. This is inexpensive, attractive and gives you the flexibility of tailoring your communications to the individual client.
- Having a website is essential and often takes the place of brochures. They are not expensive and, done right, can be very effective. It can be used for direct e-mail and to give your prospects access to all your information and brochures. A blog with useful current information can invite returns to your site. Website designers vary greatly in price and skill. You can start out using one of the low cost providers with 100's of templates. www.godaddy.com seems to be getting better and better. They will do the whole job at very affordable rates. Also take a look at iPower.com. They too are growing and they have great technical support. However, one way or another, you have to promote your site so people will know it exists. Social media such as Facebook and LinkedIn are necessities.

There are many ways to establish an e-Commerce presence without spending much money and more resources for this are becoming available at a rapid rate.

- There are also numerous other networking organizations specific to the nature of your consulting or service business.

Selling Skills

All consultants must become effective at selling. It helps to think of the selling situation as having five stages:

1. **Open**—in which you explain very briefly why you are there:
"I want to get to understand a bit about your situation to see if my consulting services might make any sense for you."
2. **Investigate**—during which you discover needs and match your service to those needs. You ask a series of questions to determine whether or not what you have to offer really does make sense for them and, if so, in what configuration and under what circumstances. The more of this investigation you can do in advance, the better. The discussion will be more productive and the prospect will recognize that you have made an effort to understand them and their situation. Another way of expressing this is that you are not selling the client, you are making him feel understood.

Here is some more structure for this process of investigation:

Situation: Finding out basic facts about the existing situation and establishing an overall context. This is ideally done through prior research so as not to bore the buyer to tears because they get very little value out of it.

Problem: Asking about the problems, difficulties, and challenges the buyer is experiencing with the present situation. People buy only when they have needs and needs almost always start with a dissatisfaction with the status quo. Follow-up questions identify, clarify, and expand the buyer's implicit needs.

Implication: Understanding the consequences and impacts of the situation, thereby transforming implicit needs expressed as problems into explicit needs. They build the significance and seriousness of the problem so that it is large enough to justify action.

Need-Payoff: Checking and assessing the value and usefulness of a solution in a positive and constructive way. They develop the buyer's desire for a solution and move the discussion toward action and commitment.

If you think that asking questions in this manner is simple, think again. It is enormously difficult to have the confidence and patience to step through these without getting ahead of yourself. It requires tremendous planning, preparation, and practice. And most importantly patience.

3. **Demonstrate Capability**—in which you discuss with the prospect why what you are offering fits in with your understanding of their needs and situation. This should be a dialogue in which you constantly assess with more questions as to whether there is understanding and agreement.
4. **Prove Your Case**—in which you offer information that builds credibility about your claims. Examples: testimonials, success stories or referrals from other satisfied customers. Assuming you have the okay from your other happy client, perhaps give them their phone and related contact information.

5. **Obtain Commitment**—in which you actually ask for the order—often in a way that is disarming and low risk to the prospect. Examples:

“Suppose I put on a short seminar next week so that you can see how it might actually work for you.”

“Suppose I make arrangements for you to talk with a current user.”

“Suppose I draft up a proposal for you so that you can talk about this possible project with your colleagues.”

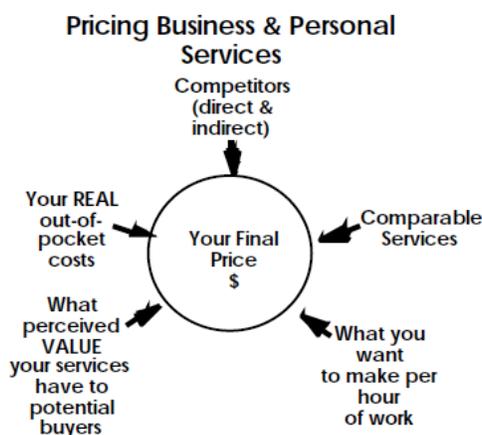
Note: Do not kid yourself that permission to leave a brochure, business card or website link behind is any sort of commitment.

Remember—you are selling what may represent a significant (risky) commitment for the prospect and a big ticket sale for you. So don't expect to complete all five steps in one sales call. Good consulting relationships take time to build. A good job on Steps 1 and 2 are reasonable success milestones for the first visit. Steps 3 and 4 may be completed in pieces, often in writing, email, phone calls and via proposals and submissions of further information.

You may also cycle back repeatedly through Steps 2, 3 and 4 as both you and the prospect learn more about and become more comfortable with each other. It's an iterative process. Mutual trust and perception of real value is the ultimate goal in any business relationship.

Pricing Consulting Services

Here are some comments on the pricing of consulting services. From my observation of other service businesses, they could also apply. My general advice is to take multiple approaches to determining pricing. Bottom up in which one analyzes their costs and desired income (profit), and market down pricing in which one analyzes what the market seems to be paying for comparable services. Finally, if the service is somewhat unusual, analyze the "value" of the service. By value I mean both psychic value and financial value. Depending on the market segments to be targeted, one must also take into consideration what prospects can afford to pay. Here's a model that may be helpful:



Some Caveats in Pricing Consulting Services

- Always avoid quoting an hourly/daily rate if you possibly can. Quote by the project.
- Remember—project tasks almost always take longer than you estimate.
- If you must quote a rate, then make it high—and be consistent! Or say: "My rates vary from \$2,500 to \$3,500 per day depending on the nature of the engagement."
- Try to avoid obvious discounting of rates—discount by estimating less time than you know it will take. Take control of pricing by adjusting your time estimates for off-site client work.
- But be very attentive to managing expectations. (write a very precise proposal with detailed deliverables)
- Once you have quoted a project cost, count hours only for your own info, and give it your "all"—but be sure you learn for next time. (Especially appropriate for sole practitioners).
- There are times when you can, and should do, "Value Billing" (premium rates). Examples:
 - Where you are providing great info in one or two days.
 - Where the client gets fantastic financial return.

Plausible Pricing by Market Segment & Type of Consulting (Assumes Senior Person)

Type of Consulting	Large Company \$/Hour Range	Small Company or Non Profit \$/Hour Range
Computer Support	\$125 - \$150	\$100 - \$150

Information Technology	\$200-\$500	\$135-\$250
“Commodity” Training & Facilitation	\$90-150	\$80-\$125
Proprietary Training	\$200-\$400	\$150-\$250
New Product	\$200-\$500	\$175-\$300
Strategy	\$200-\$500	\$175-\$300
Outsourced Function	<i>Cost to Company +</i>	<i>Cost to Company +</i>
Organization	\$300-\$500	\$175-\$300
Advice	\$300-\$500	\$175-\$300
HR & Benefits	\$200-\$400	\$100-\$150

Consulting and Service Proposals—General Guide & Outline

Overview

A proposal is a demonstration to the prospective client that you understand their needs, that you have a sound approach to meeting their needs and that you have the skills to deliver. It is also a selling document in that you should assume it will be read by people unfamiliar with the project.

Finally, it is a legal document and contract that conveys exactly the scope of what you will deliver and the amount and basis of the fees to be charged. In cases of dispute, the proposal, signed by both parties, is the primary reference and authority.

General Outline Most proposals can fit into this general outline of topics:

Heading	Issues To Address
Situation & Need	A playback of your understanding of what their general problem and needs are and what the nature of the project is from your point of view. This can also be viewed as the Executive Summary.
Approach	A detailed description of your approach to solving the problem and meeting their needs. Often includes a step-by-step task plan.
Client Role & Support	An explanation of what support you will need from the client in the way of temporary office space, equipment, liaison staff, etc.
Expected Benefits	A description of what they can expect in the way of results and benefits.
Deliverables	A summary of the specific number of days, documents and events you will deliver in the client’s behalf. Often contains an estimated schedule. This is a very important section as it may be needed legally in the event the client seeks to get you to do things beyond the scope of the proposal without paying you for those extras.
Qualifications & Staffing	The specific qualifications of your organization and that of the specific consultants you will put on the project. Also includes the roles to be played by the project consultants. Might include short resumes for each player.
Proprietary Rights	If proprietary material and technology is involved, this section should define exactly what the client’s rights are and are not relative to those materials and technologies.
Fees & Expenses	A detailed explanation of what you are going to charge; when they can expect invoices; expense policy; change of project scope policy (if client asks for expansion or contraction of project)
Signatures	Your signature and title and that of a person with the authority from the client. Should be dated.
Appendices	Any support material, promotional or otherwise. Can include a detailed task plan and Gant Chart or other project flow guide.

Because proposals can go through several iterations, it is a good idea to embed a date code into the footer of the document so that you always know which version is being discussed. Proposals do not have to be long and they can contain substantial “boilerplate” from previous proposals. In fact the shorter the better so long as all the bases are covered. Sometimes it is good to review the draft proposal FACE to FACE with the client. They know the stakeholders and indirect influencers far better than you can. This also gives them a partial sense of “ownership.”