

THE CONSULTING BUSINESS

1. INTRODUCTION

- Consultants offer particular skills and know-how to others who will pay them to provide advice, assistance, and/or solutions. Some business owners don't want to do certain tasks, others find some tasks not cost-effective to do in-house, and still others simply lack the knowledge to solve particular types of problems. These situations are where a competent consultant fits into the picture. A consultant can aid a client by providing such services as: research, marketing surveys, planning, evaluation of a method in use or being considered, training employees, helping in meeting deadlines, and finding specialists or executive employees.
- Consultants should not be doing management work like supervising employees.
- Some consultants make a good living, but it is not for everyone. Considerations such as: education, technical skills, personality, creativity, written/oral communication skills, the art of listening, ability to analyze and focus on results, and problem-solving apply to everyone.

2. CHOOSING A PARTICULAR FIELD TO ENTER (FULL-TIME OR PART-TIME)

There is likely to be a field to match the qualifications you intend to offer a client (e.g., systems design, engineering construction, electronics, advertising, sales, and marketing). If you are a specialist, you will zero in on a particular subject; if you are a generalist, you may be able to help top management make better decisions, structure and motivate their organizations, select better people, or facilitating the strategic planning process.

3. LOCATION

The following need to be considered when determining the location for your business;

- Where is your target market?
- Are there enough potential clients locally, or will you have to travel extensively?
- Will you go for national, regional, or local market penetration?
- What demographics in these areas are pro or con for you?
- What is the current economic climate?
- How strong is the competition?
- Will you work from home, from a leased or owned private office, in a leased/rented fully-equipped and serviced shared "convenience" office complex? You could also use the customer's place of business.
- Keep in mind that rental/leased office space can be a very significant fixed overhead cost.

4. LEGAL STRUCTURE

Types of business structures are:

Sole Proprietorship
"C" Corporation

Limited Liability Company
"S" Corporation

Limited Liability Partnership

Choose the structure which is the best fit for your particular business and personal situations. Refer to [SCORE Brief # 2.00](#) for the specifics of each.

5. BUSINESS PLAN

No matter how simple or complex your consulting business may be, you will be shortchanging yourself if you do not have a written business plan. Besides being used to attract capital and to borrow money, your business plan is living document used to manage and control your business. It will be your road map which defines what you want to do, where you want to go, and how you are going to get there.

You should reduce to this writing just the key sections: your marketing strategy, your special qualifications, operating procedures, startup costs, borrowing needs, cash flow projections, expenses, and fee structures. By doing this you will get a clearer picture of how you can succeed, or, perhaps it will reflect so many disturbing iffy questions that you will be convinced you really are not ready or able to launch your own business - at this time, or, perhaps, ever.

Sample business plans are available in books on consulting and other business books at the public library or at book stores. Refer to SCORE Briefs #[3.00](#), [3.01](#), [3.02](#), and [3.10](#) for more information.

6. DEVELOPING CUSTOMERS AND YOUR MARKETING STRATEGY

- You may be the greatest consultant ever to come down the pike but, unless potential users of your talents know about you, obviously you aren't going anyplace. Effective marketing is essential to informing others of your services.
- How you promote/merchandise yourself is the key to getting suitable contracts.
- You may have the expertise to offer, but do you possess the personal qualities and the right sales approach to actually sell a potential client on the idea that you are the one to hire?

Consider: Do you already have, or are you good at developing relationships? Do you have self-confidence? Can you assemble clear, meaningful presentations/proposals? Can you work under stress, meet deadlines, counter opposition, and do you know how to listen? If you lack these critical characteristics, then you probably will have trouble getting off the ground.

Also, take into account that consulting rarely is consistent. Even good marketing takes time for you to become known and trusted. There may be many dry spells of no income and delayed pay, so it is essential to be able to cope by creating reserves so that you will have funds to tide you over the slow periods.

- If you make the decision to go into consulting on your own just because you have a single big contract (possibly a job your old employer gave you to come back for a while to help him over a hump), and you think that you can rely on that alone to justify a full-time business, you probably are not on solid footing. Plan for and seek a substantial customer base before and after startup. Of course, you might ease into the transition with one job as a trial balloon on a part-time basis to discover how things might shape up, but your business plan should reflect a broader scope.

At the beginning, you will need contacts who know what you have to offer and are willing to use your services, or recommend you to others. Try networking with former employers and former business contacts. Consider advertising and publicity (e. g., brochures, flyers, letters, lecturing, volunteering), as well as the state of the art of communicating with your market, e.g., – social media, Linked In, and Twitter, to attract attention. Identify a key person in your network that has great connections and offer your services to them (i.e. attend/lead a meeting, provide an analysis, recommend how to handle a problem, etc.). Demonstrate what you can do and they may be able to point you to potential business.

- No matter what approach you use, you will have to win clients by selling the idea that you can supply something of value which sets you apart from the competition.

7. ESTABLISHING YOUR FEE SYSTEM

A. Consideration should be given to these points:

1. What are your criteria for financial success to accommodate your lifestyle? Will your consulting income (involving salary, profit, overhead) satisfy your needs?
2. What are the current marketplace standards in your chosen target areas (e.g., competitor pricing, influence of economic factors, the types of clients you will be serving, and what they are willing to pay you)?
3. How many billable hours can you expect? One rule-of-thumb is that your gross business income needs to be three times the salary you want to draw out for yourself.

B. Fee arrangements options are:

1. Hourly/daily rate (which should include salary + overhead + profit %).
2. Fixed price or job/ project.
3. Retainer for specific services.
4. Performance (with measurable results).
5. Equity (services offered for ownership in client business).
6. Providing client with administrative/ management services via a contract.

Note: The above arrangements may be varied according to each contract or circumstance. For example, which is the better way to charge, by the hour or by the job? It would depend upon the situation from a profit standpoint:

- If your client is likely to have to make a number of changes in the project's specifications in the midst of your work, charge by the hour.
- If the client balks at going to an hourly rate for some serious reason, charge by the job.
- If you can determine ahead of time how long it will take to complete the job, charge by the job.
- Determine what your competition is doing.

C. Payment schedules:

You will have to set and negotiate a schedule for invoicing for services and payment of invoices, You will need to determine how to keep track of invoiced accounts and how to collect from delinquent payers, including sometimes having to resort to using a collection agencies or the courts.

8. PREPARING PROPOSALS/ CONTRACTS

A contract or letter of agreement will be needed. Assure that you and the client understand and mutually agree to what they want you to do (your deliverables) and what you expect to do product-wise and time-wise for the established fee.

9. YOUR PERFORMANCE AND REPORTS

Client satisfaction is the name of the game! Some considerations are: work quality, timely completion, cost, communication, flexibility, dependability, effectiveness/clarity/content of reports, and cooperation, all of which are involved in completing a contract which fills your clients' needs and expectation. Staying in touch with key client contact(s) on a regular basis through progress reporting meetings (no surprises at the end) is a must.

10. SUPPLIES/ EQUIPMENT

The type and size of your consulting practice and where you operate will determine largely your supply/equipment needs and expenses. Obtain only the supplies necessary for the tasks at hand, and shop around for minimum prices. For furnishings / equipment, consider leasing vs. buying, and check for items available on Craig's List. If a client project requires purchase of specific equipment consider including the purchase of this equipment in your proposal.

11. USE OF OUTSIDE SERVICES

To avoid as much overhead as possible, there are outside companies/individuals available for a fee to handle almost any kind of administrative services you can't do or don't want to do yourself. Examples: typing, secretarial, phone answering, making brochures, advertising/promotion, legal, accounting, bookkeeping, temporary help for rush jobs.

12. ATTORNEY / ACCOUNTANT ASSISTANCE

Use a lawyer to keep things legal. Use an accountant to guide and assist in tending to the record keeping you will need for taxes and for operating profitably. This may amount to quite a bit of overhead, but it may be the best overhead you'll ever have!

13. TAXES / LICENSES / PERMITS

You must comply with all federal, state, and local requirements that may apply to your business. Contact those agencies in your area which are responsible for their enforcement. Don't try to ignore compliance, it will only get you in trouble! As a consultant you will be responsible for all personal and business taxes, and all the required forms for filings and paying your own retirement, medical insurance and Social Security and Medicare taxes.

14. INSURANCE

Depending on where you are located and what kind of operation you have, you should take the means to protect yourself and your business with appropriate coverage. Consider insurance for such as: theft, fire, auto, personal, liability, employees, workmen's compensation, and security. If not incorporated, consider "errors and omissions" insurance.

15. TIME MANAGEMENT

Your efficient use of time is most important. Keep a time log. For every hour of paid consulting work, you may be devoting perhaps five unpaid hours to marketing, sales calls, proposal preparation, administrative/ management matters, logistics, etc., so assess carefully your priorities and needs. Be wary of "spinning your wheels." It's so easy to fall into that trap if you fail to keep track of how you are using your time.

16. PATENT/ TRADEMARKS/ COPYRIGHTS

If these are involved in your work, consider seeking professional advice from an attorney or company specializing in those fields. There are do-it-yourself books on the market, but the processing procedure can become very complicated and risky for the average person to try.

17. ETHICAL STANDARDS

Considerations in running an ethical consulting business include: confidentiality, conflict of interest, insider information, gathering and deposition of information, using your time and efforts to give your client the very best results you can, and honest and appropriate billing.

18. ADDITIONAL INCOME- PROVIDING SERVICES

Some spin-offs from your consulting work which may produce worthwhile income are: holding seminars, writing articles/books, newsletters, and sales of supplies pertaining to your field.

19. REFERENCE MATERIAL SUGGESTIONS

Books on starting and operating a consultant business available in the Public Library of Cincinnati and Hamilton County system include, but not limited to:

How to Start and Run a Successful Consultant Business - Gregory /Fabian Kosher 658.46 K61

How to Start and Run a Successful Independent Consulting Business - Douglas Hoyt 658.400681 qh869

The Consultant's Quick Start Guide - Elaine Beech 658.46 B586

The Consultant's Tool Kit - Mel Silverman 658.46 C758

Streetwise Independent Consulting - David Kindler/Bob Adams 658.46 K56

If you would like to request a Cincinnati SCORE counselor, please [click here](#).

Disclaimer

The information contained in these briefs is for general information only. While we endeavor to keep the information up to date and correct, we make no representations or warranties of any kind, express or implied, about the completeness, accuracy, reliability, suitability or availability with respect to the information, products, services, or related graphics contained in the briefs. Through these briefs you may be able to link to other websites which are not under the control of SCORE therefore the inclusion of any links does not necessarily imply a recommendation or endorse the views expressed within them. Any reference from SCORE to a specific commercial product, process or service **does not constitute or imply an endorsement** by SCORE or SBA or SCORE Chapter 34 or the United States Government of the product, process, or service or its producer or provider.