

DUSTIN PURYEAR

consulting for fun and profit



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1. Many people are also confused by the difference between a contractor and a consultant. A contractor almost always works on assignment through a placement firm and is assigned a specific task in a larger project, such as programming the interface to a new program or maybe installing Linux servers in a database roll-out project. Consultants often work at a higher level (e.g., designing a new network architecture and then implementing it), but not always. Admittedly, the line between consulting and contracting tends to blur at times.

THERE HAS BEEN A LOT OF TALK

recently in various USENIX/SAGE venues on how to become an independent consultant. (Well, let's be honest: when hasn't there been a lot of talk on this topic?) Most of the questions are concerned not only with the business side of consulting (e.g., taxes, whether to incorporate, insurance for the self-employed), but also with the nuts and bolts of how to make it as an independent consultant.

So, to help prepare you, I'll cover what I've learned in my years as an independent consultant. Of course, it's reasonable to wonder how I'm qualified to offer advice on this topic. My only credentials are that, well, I'm successful. Outside of that, feel free to take my advice with a grain of salt.

Keep in mind, though, that this is serious business. There is a lot of money to be made in offering expertise to those in need, but there is also a lot of heartache and headache for those who don't properly prepare themselves, their families, and their bank accounts for the adjustment. Take notes, keep your chin up, and welcome to the world of consulting.

Consulting Defined, Kind Of

You'll notice that I often say "independent consultant" rather than simply saying "consultant." So what is the difference between the two?¹

Generally speaking, a consultant works with a consulting firm. These firms are commonly structured in one of two ways. First, the firm is structured around several or more partners, where each partner usually has equal footing within the company. Second, a firm may be more hierarchical in nature, where partners are at the top of the pyramid, and the lower ranks are filled with many relatively low-paid worker bees who are billed out as "consultants." There are many people who happily work in both types of environments because they enjoy the project-to-project lifestyle of a consultant but crave the stability of working within a firm.

Independent consultants are different. They work for themselves. An independent consultant must organize his or her own business entity, find clients, decide how accounting should be done, speak directly with lawyers on business and contract issues, and, by and large, be anything and everything that is needed.

Of the two types of consulting, independent consulting offers the greatest amount of stress and the greatest reward. You can go very far if you are bright, technically capable, and have good business sense. Or you can go bust.

Moonlighting

If you make the decision to take the leap into consulting, you need to time it properly. In my opinion, the best way to start is with moonlighting. To “moonlight” means that you work on outside projects after your day job. That is, you have consulting clients, but you still have a part-time or full-time job with an employer. This is an excellent way to learn the business. You have the stability of being employed while learning the ins and outs of consulting, such as billing, client relationships, and time management.

Moonlighting is no panacea, however. First, many employers have strict rules against it. This is especially true if your employer is a consulting firm. Naturally, they don’t want their employees competing with them for clients. So be sure to read your employment agreement. Second, many clients don’t want a consultant who is moonlighting, and this is understandable. When you moonlight you are telling the client, “My first priority is my real job. I’ll work with you when I have time.” But if you can swing it, by all means moonlight for at least a year or more before taking the dive.

Another benefit of moonlighting is that it develops a client base for you to use after you quit your day job. In most cases, if you don’t have a well-funded bank account from the start, you are going to fail if you start your business without clients. It takes years to build a stable, well-paying client list, so don’t expect to become an overnight success.

Organizing Your Business

Whether moonlighting or going full-time, it’s important that you consider how you want to organize your business. However, keep in mind this point: the business of being in business is making money, not organizing or running your business. Make a few key decisions early on, implement them, and get on with building your client list and billing out hours.

With that said, let’s talk about an important decision: business type. Your state of residence is going to define the various business types available to you, and you must pick the one that has the most advantages for you. Generally, the types available are the sole proprietorship, partnership (which we won’t discuss), corporation, and LLC.

The “default” business type is the sole proprietorship. In the U.S., it’s very easy to create a business. You say, “I’m in business,” you get an occupational license, and then, basically, you automatically become a sole-proprietor. The advantages of being a sole proprietor are that taxes are relatively easy to prepare, and there is very little paperwork to maintain. The disadvantages are that you may be missing out on some tax advantages of other business types and you maintain full liability.

Corporations are more complex than sole proprietorships but have some advantages. The main advantage is a transfer of liability from you to the corporation. The main disadvantage is more complicated tax filings, much more onerous requirements for record-keeping, and an overall increase in the complexity of how you handle your business.

A Limited Liability Company (LLC) is often an excellent compromise between a sole proprietorship and a corporation. An LLC that is structured as a “pass-

through” is basically a sole-proprietorship with limited liability. The taxes tend to be the same, and there is very little additional paperwork. A more advanced form of the LLC mimics a corporation, including the fact that you become an employee of the LLC. A major advantage of this type of LLC is that you can write off what is known as “self-employment tax.” With a sole proprietorship and a “pass-through” LLC, you have to pay the full 15% Social Security tax, instead of an employee’s 7.5% contribution. In the second form of an LLC, you still pay the full 15%, but the LLC gets to write off its portion of the social security payment, lowering overall tax liability. Quite often this write-off can justify the additional bookkeeping required for the second form of the LLC.

I suggest that you begin your business as a “pass-through” LLC. After your business has become successful, and you have a large enough income (\$80,000 or more is a good rough guess), convert it to the second form of an LLC. Naturally, you’ll want to discuss this with both a lawyer and a CPA.

Speaking of lawyers and CPAs . . .

You Aren’t That Smart

I’m amazed by consultants who spend hours and hours working on their accounting and trying to figure out contracts, when they should be spending their time working on billable hours. The math is simple: for every hour that you spend working on your business, you lose one hour of billable time. Add to that the fact that you are less productive than a specialist (just as your clients aren’t as productive doing the services that you offer, otherwise they wouldn’t need you), and you have a no-win situation.

What I’ve found that works—and this seems to be the pattern of many successful consultants that I know—is to maintain your own day-to-day bookkeeping (e.g., putting receipts into your accounting system), but to leave major work to the professionals. This includes quarterly and year-end taxes and all legal work. Do not try to write your own contracts. Let a lawyer do it for you. It’s not cheap, but then again neither is your time.

You Aren’t That Rich

Billing is critical to your success. Or, to be more accurate, cash flow. Every consultant, especially when they first start, has cash flow problems. And normally it has nothing to do with how much work you have. It’s a problem in billing. The Golden Rule of billing is to bill early and to bill often.

By billing early, I mean that you should not wait until a project is complete to send a bill. Let the client know that you will be billing either monthly (or perhaps bi-weekly—this is the idea of “billing often”) or on a percentage-completed basis. If nothing else, if you wait until the project is complete, the client has no incentive to pay you on time.

As already mentioned, every consultant falls into the trap of not billing properly. Time and again I have let my billable hours stack up until I finally get around to sending invoices. And after sending invoices, those billable hours are merely converted into Accounts Receivable (A/R), which is to say “virtual money.” Sure, clients owe me money, but that doesn’t pay the lease on my office. After a few years you develop a sixth sense for which clients will pay late, how far you can let your accounts fall, and other billing-related issues. But the best bet is to take no risk: bill regularly and monitor your cash flow. Remember, it doesn’t matter what you have in your bank account today, it’s what you will have in 30, 60, and 90 days that matters.

Be Good, Do Good

Being an independent consultant is entirely and without question a reputation-based occupation. I am entirely referral-based. You will be too, if you are good. Prove to your clients that you are the best person for the job, and they will recommend you no end. That's just how it works.

Now, this isn't to say that you won't have failed projects. This happens regardless of whether you are a consultant, a project sponsor, or even a normal employee. The difference between a good consultant and a bad consultant is that a good consultant knows how to pick up the pieces, how to properly communicate what happened, and, hopefully, how to maintain the client's trust.

Also, keep in mind that other consultants are watching you. While being an independent consultant means that you work by yourself, it doesn't mean you live in a self-contained microcosm. Consultants working for your clients will notice the work that you do and how you communicate with them and with the client. If you earn the respect of other consultants, they will refer work to you. If you earn their ire, then they will (rightfully) warn potential clients about you.

Network, Network, Network

Keeping in mind that other consultants are watching you, also keep an eye out for other consultants. Small consulting companies almost never compete with one another. We help each other out. It's kind of weird and cool at the same time. I can't tell you how many projects I've worked on that were brought to me by another consultant. You need to establish expertise and a good relationship for this to really kick in. For example, I haven't worked with many people in USENIX/SAGE and sage-members@sage.org, but I know who is out there and we say hi off-list every now and then. One day I'll see a project and forward it to someone. One day someone may do the same for me. That's the business.

This brings us to the larger issue of networking. Networking is absolutely crucial to a consultant. It's how you develop a lot of new business. Having a Web site won't do it, and neither will a billboard or, heaven forbid, the yellow pages. Your success depends almost exclusively on handshakes and the respect of your peers and clients. So, be sure to meet fellow consultants and prospects at events such as user group meetings, technical mailing lists, and conferences, as well as at client sites. Smile, have a business card ready, be prepared to describe your business in only a few seconds, and follow up with new contacts with an email or letter a few days afterwards. (Of course, don't badger people, either.)

Identify Your Expertise

Become an expert in one or two areas. In other words, don't try to be a jack-of-all-trades. The reason is simple: being an expert means that you can charge premium rates. Being a jack-of-all-trades works at first, and chances are that you won't have much of a choice when you first start your business, but being a jack-of-all-trades will keep your billing rate low. So, try to specialize.

On the other hand, even I still do jack-of-all-trades work at times, if for no other reason than that it leads to more specialized projects with clients. There is no right or wrong way to figure this out. Over time you will develop a feel for the exact kind of work at which you excel and for which you get paid the most. As you identify these areas, start to hone those skills and present yourself to clients as a specialist in that area.

Obviously, you should never oversell yourself. If you are not an expert in a given area, don't claim to be one. The client will eventually find out the truth. That's a

given. If you don't present yourself as an expert and the client still takes you on as a consultant, consider that an opportunity to increase your skills in that area and to prove to the client that they made the right choice. (Alternatively, refer the work to an associate who is an expert, and so establish a relationship that may lead to referrals for you later on.)

On a side note, once you become expert and are well established, begin charging premium rates in your area. If you bill average rates, then, by golly, you must be an average consultant.

Identify Your Clients

At first you are going to take whatever clients you can. No matter what you say, every consultant does this. After a year or two, though, you are going to learn that some clients are just not good for you or for them. Over time you will let certain clients go (consultants can "fire" clients if the relationship is bad enough, but you should focus on recommending consultants with whom those clients will, you feel, have a successful working relationship). But the better solution is to learn how to avoid clients who aren't right for you. It's hard to say "thanks, but no thanks" at first, but over time you will learn that it's the right course of action in many situations.

Learn from every relationship. Even when you have a great relationship with a client, there will be bumps in the road. Learn from these situations.

Learn How to Communicate

Finally, learn how to communicate with people. All too often, technically adept people have shortcomings when it comes to communicating effectively with nontechnical clients. But a lot of the work that you get will be commissioned by upper management, and these people do not tend to be technically savvy. If you can't describe your solution to them, then don't expect to get the project.

Furthermore, it's important to be an effective communicator throughout a project. A little-known career-saver is being able to convey why a project is having problems or delayed, and to work out a solution with the client. Do not try to hide important information from a client. They will find out eventually.

As a consultant, you must be a better communicator than a typical employee or even a contractor usually is. It's your job to describe both problems and solutions. Additionally, documentation is going to be very important to how clients view your work.

To improve your communication skills, try to write for industry journals (e.g., *login*), present at local user groups, and speak at conferences. This will not only improve how you share concepts, but it will also increase your exposure as a consultant. Remember, you need to establish yourself as an expert.

Conclusion

I hope these tips will prove useful to you. This article addressed a wide range of issues that affect independent consultants, but, as always, there is more information out there. Be sure to find these other resources and learn what you can, because running your own business, while fun and exciting, comes with its own set of headaches. In the end, however, most people find those headaches well worth it.

And, finally, smile. Life is short. Don't get too caught up in work.