



Unit 1

How to Start a Consulting Business

Learning Outcomes

By the end of this unit the learner will be able to:

- Define the term “consultants” and explain their role in today’s business world

Unit 1

How to Start a Consulting Business

Defining the Terms

You may have heard several different terms used for people who work for themselves. Here is a brief list of the most common terms and their definitions.

Entrepreneur

A person who owns and operates their own business.

Consultant

A person who provides expert advice professionally.

Freelancer

A person who completes specific projects on a per-assignment basis, typically for a number of companies at once.

Contractor

A person who completes technical work on a per-assignment basis, typically for one company at a time.

Do You Have What It Takes?

Consultants usually have the following qualities:

- Good business sense and common sense
- Curiosity about the world around them
- Desire to help others
- Confident
- Persuasive
- Optimistic yet realistic
- Passionate about what they do
- Strong knowledge in the areas that they work in
- Professional, positive image
- Committed to lifelong learning

In addition, the following skill sets are often used in consulting:

- Communication (listening, speaking, and writing)
- Negotiation

- Resiliency
- Change management
- Time management and personal productivity
- Problem solving and decision making
- Basic financial management

Identify one of these items that you would like to work on

Business Building Blocks

Who Are You?

Identifying the Possibilities

In order to be successful as a consultant, you need to have a clear focus on your area of business. Think about what areas of expertise you have and how you could leverage that into a consulting practice. You may be able to combine several different areas, which can help you stand out from the crowd.

Doing Your Research

Now it's time to find out what the market needs. If, for example, you have 20 years of experience in a particular technology, but no one is buying that technology anymore, there probably isn't much point in pursuing a consulting business in that field.

Use industry journals, the Internet, and your network to find out what areas of interest are growing. Keep an eye out for new and evolving niche markets that are underserved.

If you find a niche market where you have most, but not all, of the expertise required, don't immediately discard the idea. Part of being a consultant is committing to learning. You can focus on the aspects that you do know and learn the parts that are new to you as you build your business.

The Three Elements

Now that you've done some thinking and some research, you can develop a clear focus for your consulting business. Your focus should contain three elements.

Service

What type of service will you be offering? Describing the service as a verb can help, such as:

- Analyzing
- Coaching
- Improving
- Publishing
- Designing

Segment

What industry and sub-industry will you focus on? Some examples:

- Healthcare executives
- Network security technology firms
- Mining companies
- Consumer banks

Site

What geographic location will you be focusing on? You may want to start in a small area that you know has demand for your service. Or, perhaps you will be providing services online, so a wider geographic area might be an appropriate focus.

Bringing It All Together

Once you have identified these three elements, you can bring it all together to create a narrow focus for your consulting business. Here are a few examples.

- Offering process improvement analysis and design for technology-focused manufacturing companies in the Northeastern United States
- Providing leadership coaching to mining executives in Latin America
- Analyzing traffic and predicting growth for medium-sized cities in central Europe

Taking it Further

Once you've developed your focus, there are a few additional things that you can do to refine it further. First, try to create a unique approach for your services. If you know of other consultants that offer A, B, and C separately, perhaps you can offer a service that offers all of those things combined (and maybe even add a bit of D!).

This is also the time to identify how you will offer your services. We've listed a few options below, but remember that you might offer your services in a different way, or in a way that combines the ideas listed here.

Technical Services

The consultant provides specific technical expertise for the client. Some examples might include:

- Optimizing a database system
- Programming traffic lights to optimize flow
- Setting up a network

Training Services

The consultant provides education to the client. This can take the form of workshops, coaching, on-the-job support, etc.

Specialized Services

The consultant provides specialized expertise and advice to the client. Some examples might include:

- Process improvement
- Data analysis
- Problem identification and solving
- Marketing analysis

Project Management

The consultant completes a broad range of tasks for the client that are delivered as a package. For example, a project might include implementing a new call-taking system. Specific deliverables might include:

- Needs analysis and identifying options for the new system
- Providing support and direction for the executive team when choosing a system
- Overseeing implementation of the system
- Providing training and follow-up for employees
- Reporting back to the executive team on the changes made

Pre-Assignment Review

Use information from the previous sub-session to develop a clear focus for the areas that you chose in your pre-assignment.

Area One: _____

Service:

Segment:

Site:

Final Focus:

Area Two: _____

Service:

Segment:

Site:

Final Focus:

Area Three: _____
Service:

Segment:

Site:

Final Focus:

Crunching the Numbers

Developing Financial Budgets and Projections

Introduction

The next step is to develop a budget and income targets. You should be able to be self-supporting within a year. Some consultants start their businesses on evenings and weekends, at least during the setup period when they are not generating income. Consider what works best for you.

Fill out these worksheets on the following pages to help develop the skills you need to create your own consultancy.

Estimating Personal Expenses

The first task is to estimate what you need to make in order to meet your monthly personal expenses. We've included a basic worksheet below. Feel free to modify it to suit your needs.

Category	Amount
Mortgage/Rent	
Groceries	
Utilities (power, gas, water, etc.)	
Telephone and Internet	
Entertainment	
Clothing	
Transportation	
Savings (retirement and personal)	
Insurance (health, home, auto, etc.)	
Total	

Projecting Business Expenses

Now, it's time to estimate your monthly business expenses. Do your research to get the most accurate numbers possible. It may also be useful to track actual vs. expected costs and update your projections after you've been in business for a few months.

Category	Amount
Rent for office space	
Utilities (power, gas, water, etc.)	
Telephone and Internet	
Travel costs	
Client costs (meals, etc.)	
Marketing	
Office supplies	
Transportation	
Professional costs (dues, licenses, subscriptions, etc.)	
Insurance	
Total	

Setting Income Targets

Now that you know what your personal requirements are and how much your business will cost to run, you can estimate how much money you need to make.

Category	Amount
Monthly personal expenses	
Monthly business expenses	

Business re-investment amount per month	
Minimum Monthly Income Sub-Total	
Taxes to Save (estimate 50% of amount above)	
Minimum Monthly Income Final Total	

Setting Your Base Hourly Rate

Now that you know what you need to make on a monthly basis, you can set your target hourly rate. First, identify how many days per month you are planning to work. Then, identify your billable hours per day. Finally, divide your minimum monthly income by that number.

Calculating Billable Hours



Calculating Hourly Rate



Setting Goals

Once you've established the minimum amount that you need to charge clients and the minimum income that you need to generate on a monthly basis, you should also set some goals for your business. For example, perhaps in six months you'd like to increase your base fee by 10%. Or, perhaps this year you'd like to make \$100,000, while next year you'd like to make \$150,000. What do you need to do to make that happen?

Setting up a Fee Structure

Types of Fee Structures

Once you have your hourly rate, you can set up your fee structure. Most consultants prefer to charge based on the project or by day instead of a flat hourly rate. However, it will depend on your business model and the service that you are providing.

Even if you choose to bill by project, your hourly rate can help you determine the project's cost. Simply break the project down into tasks, determine how long each task will take, and multiply those hours by your hourly rate. This can also help the client (and you) modify the project's scope if your estimate exceeds their budget.

We advise against having a flat fee for particular tasks (such as \$100 for proofreading or \$200 to set up e-mail accounts) unless you have a very good reason for doing so. Pricing this way often means that either you or the client isn't getting value for their money. Instead, try to develop appropriate, concrete estimates for each project that you do.

Other Fees to Consider

When developing estimates for clients, ensure that you take any other possible costs into account, such as:

- Travel expenses
- Legal fees
- Licensing and insurance (if required on a per-client basis)
- Special equipment, software, etc.
- Royalty or copyright fees
- Additional specialists needed

Creating Rate Sheets

It may be helpful for you to set up a rate sheet outlining your basic rates and terms of service.

Rate Sheet – Smith Consulting Inc.

Billing Rates

Billing Period	Number of Hours Included	Cost to Client
Hourly	N/A	\$100
Half-Day	4 hours	\$400

Daily	8 hours	\$800
Weekly	40 hours	\$3,750

Travel Expenses

- All transportation costs will be paid by the client.
- A minimum \$50 per day, per consultant fee for incidentals will be applied to all travel requests.

Minimum Retainer

- A minimum of two hours must be billed for the hourly rate.
- On-site visits will be billed at a daily rate.

Payment Terms

- Clients will be invoiced on a monthly basis.
- Payment is required within 30 days of the invoice date.

Flexibility is Key

Regardless of how you structure your fees, it is important to be flexible. You may want to consider reducing your fee structure if:

- The project will enhance your business in some other way (reputation, goodwill, education, etc.)
- The project is a lead-in to more work
- Economical or market factors change
- The project is easy and you have some free time

Conversely, you may want to consider increasing your fee structure if:

- Demand for your service increases (for example, hotel room prices go up during prime travel times)
- Your service is extremely specialized
- You belong to a guild or union that dictates rate changes
- You have obtained credentials, education, and/or experience that merits an increase
- Economical or market factors change

Further Reading: