

So You Want to be a Consultant? 12 Steps to Success

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ABSTRACT:

Many people have considered going into business for themselves as an independent consultant, but have held themselves back because they did not have a clear vision for how to get started. Perhaps they did not know how to define their technical offering. Maybe they feared the business and marketing aspects of being a consultant. They may not know how to get started. Worse yet, they may have already started with unrealistic goals or a poor plan and ended up in trouble. This is a how-to-do-it seminar for the beginner consultant, with a step-by-step process to launch a new consulting business. It explains what to do and what to watch out for. Valuable lessons and insights from real experience will be revealed. This is a guide for practitioners who are ready to try their hand in the consulting business.

BIO:

Vince Socci is a proven engineering leader in embedded systems, sensor and signal processing, controls, power management, communications and diagnostic systems. He has over twenty years of experience in various industries, including aerospace, automotive, defense systems, medical, industrial controls, and simulation. He managed several major development and production programs and has implemented business and technology strategies for many new ventures. Mr. Socci holds an MBA in technology management, and MS and BS degrees in electrical engineering. As Chief Engineer for On Target Technology Development, Socci is responsible for mission-critical embedded systems development. He is an active leader of IEEE and is a candidate for IEEE Region 1 Director-Elect for 2012-2013.



Four key components of a successful consulting business



Technical Skills

Business Management

Marketing and Sales

Project Management

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When you operate a consulting business, you must serve many roles. There are four important faces of your consulting business.

Technical skills are your service offering. This is what your customers are paying you to do. Are you an engineering consultant? Technician? Web designer? Publicity consultant? Whatever it is that you are offering, you have to have top-notch technical skills in that area.

But technical skills are not enough. You need to have some business acumen. For instance, I don't care how strong you are at programming; if you fail to manage your business, you will not succeed at software consulting.

You also need to have some sales savvy. Consulting is not like the Field of Dreams. You can't just hang a sign on your door and expect them to come to you. You will need to market and sell your services. Every consultant is also a salesman.

Finally, once you sign the deal, you will need to manage your consulting project. That means scope, schedule, budget, quality and deliverables. Unlike a typical employment, if you miss the deadline, you might not get another week to work on it. Even if you do, you won't get another paycheck for that week.

If you lack any one of these, your consulting business will not stand. However, you do not have to be the expert on all of these. You can supplement your own skill set with other resources. You need each of these capabilities to succeed; but you can either **be** it, **build** it or **buy** it. Develop them yourself or find somebody with these skills to help.



12-Step Program to Becoming a Consultant

- Step 1: Have a good reason to start
- Step 2: Profile yourself and your offering **Technical Skills**
- Step 3: Develop and maintain superior, specialized skills
- Step 4: Realistically define your finances
- Step 5: Commit to a Go / No-Go strategy
- Step 6: Organize your business **Business Management**
- Step 7: Establish an accounting structure
- Step 8: Gather your tools
- Step 9: Build your resource network
- Step 10: Launch marketing campaign **Marketing and Sales**
- Step 11: Create project management collateral
- Step 12: Gain experience **Project Management**



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This seminar will focus on my recommended 12-step program to launch your consulting business. Here is a quick outline of the 12 steps. I'll go over them again in more detail. First, make sure you have a good reason to start. Many people start for the wrong reasons and fail.

Next, define your technical role. You must profile yourself and your offering. What is your value offering? What do you have that people will pay for?

Prepare yourself by developing and maintaining superior, specialized skills. That's why people hire consultants.

Now that you have a technical base, work on your business. Realistically define your finances.

Decide whether it makes business sense.: Commit to a Go / No-Go strategy.

When you commit to go forward, jump in with both feet. Organize your business. Develop the structure you need to operate your business.

Next, establish an accounting structure. You need to track your revenue and expenses.

Now you are ready to start spending money to build resources. Gather your tools and equipment needed to do your job.

As you move into the marketing and sales phase of the launch, one of your greatest tools will be your access to other people. Build your resource network

Then launch marketing campaign. Advertise and get the word out.

While you are working on finding business, create project management collateral. Develop templates for contracts, project plans, schedules, project tracking tools, subcontractor agreements, etc.

Now you are ready to accept your first consulting job. Don't expect to be selective when you first start. The main goal is to gain experience.

If you can survive these 12-steps, you are on your way.



Step 1: Have a good reason to start

- Make the big bucks?
- I am better at what I do than anyone else?
- Be my own boss?
- Variety of projects?
- Control my own destiny?
- Travel the world?
- Job security?
- Better support my family?



Before you jump in, make sure you are doing it for the right reasons. Is your heart in it? Are you willing to work hard?

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There are several misconceptions when it comes to starting a consulting business. You need to have realistic expectations and a practical rationale to start. If you are going to jump into consulting, you should do it with both eyes open.

Have you always thought that consultants make the big bucks? In some cases they do. In many cases, they do not. Remember, consultants only make money when they are on “billable time”? That’s work that a customer is willing to pay for? That might be only a fraction of the time the consultant is working.

If you are better at what you do than anyone else, that is a great reason to get into consulting. You will be in demand and should have a strong workload – at least until someone else becomes better than you.

Being your own boss can be a good motive. But remember, when your boss is a jerk and your workers aren’t pulling their weight, you have nobody to complain to except yourself.

A consultant can work on a variety of projects for a variety of people. The variety can be fun, but you will spend a lot of time learning new things.

As an independent consultant, you will control your own destiny more than if you worked in the corporate world. If you trust yourself as the pilot of your career, this is a great perk of consulting.

Consultants will have to go to where the work is. That often means a lot of travel. The novelty of traveling the world will wear off before the requirement does.

I often tell people that I never had more job security than I did when I started my own business. I knew for sure that I was never going to fire myself. However, remember that you are in control of your workload. There will be good times and bad, so plan accordingly.

Your family will be your #1 customer. If they are not happy, you won’t be happy. Make sure you have the support of your family before you dive in. As a consultant, you may be able to spend more time with them (when you are home and not so busy) but there will be times where you will be away from them. You will certainly have more family/work flexibility and may become a stronger financial foundation for them.

There are positives and negatives to each of these.



Step 2: Profile yourself and your offering

- Profile yourself
 - What am I good at? What skills are valuable?
 - What are my strengths and weaknesses?
 - Skill supply vs. demand – Is my skill offering marketable?
 - How can I develop/maintain my technical skills?
 - Do I need help with technical skills, business management, marketing/sales, project management?
- Profile your offering
 - What will they buy from me?
 - What services will I offer?
 - What services will I NOT offer?
 - Who are my target customers?
 - What is my niche?



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Can I build on my strengths and compensate for my weaknesses?

Is my skill commercially viable? You may be able to build towers out of toothpicks, but if nobody is willing to pay for it, you can't make a living at it.

Determine what makes you different, special, and valuable to your target customer.

My dream is to own a piano bar. However, I realize that launching that business is a large investment with a large risk. I have no background in restaurants, and I can't even play the piano very well. The business model doesn't look strong for me. So this would not be a strong profile for me. My engineering consulting business is a lower risk.

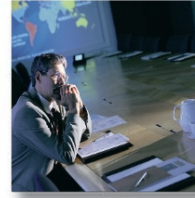
Outline what you are good at. Define the value you add to your potential customers. How are you going to offer that value (hourly rates, fixed-fee services, products, etc.)?

Begin writing your business plan at this step. Add the elements of each of the subsequent steps as you go through them.



Step 3: Develop and maintain superior, specialized skills

- Do you have all the skills necessary to support your offering?
- Technical skills become obsolete quickly. You need to stay fresh.
- Today's hot skill may be cold tomorrow
- Forecast the skills needed tomorrow
- Are you the highest quality? The cheapest? The fastest?
 - You must be the best in at least one of these.
 - Why would someone hire you over the others?
- Continuously prepare and develop your skills.



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Customers hire you because you are specialized and superior. If you aren't, they can pay a lot less for a brain on a stick from any staffing agency. You need to be better than them. Find your expert skill and develop it.

Make sure you have the whole package. Selling a solution is often better than selling a piece of the solution. They want you to solve their problem. You may get turned down if you cannot offer them that value.

For example, one of my engineering offerings is to provide system-level models of electromechanical systems. My customers expect me to have the full capabilities to do that from scratch (well, actually from their performance requirements). I need to make sure I have the comprehensive and current skills to do that to the latest industry standards.



Step 4: Realistically define your finances ANALYZE

- What are your startup costs?
 - Chart all income and expenses
 - Don't forget to include your paycheck
- Model your cash flow – When do you break even?
 - “I'll gladly pay you Tuesday for a hamburger today”
(but you might have to wait until Friday)
 - The work you do today may not be paid for 3 months
 - What percentage of your hours are “billable”
- Expect the unexpected
 - There are costs you know, and costs you don't
 - Some income you'll get, and some you won't
 - (sounds like a country song)

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Finances are such an important concern we will spend some extra time on it.
You must analyze your finances and then act on that assessment.



Step 4: Realistically define your finances ACT

- Build a cash reserve
 - Minimum: 6 month
 - Practical goal: 1 year
- Be realistic
 - You may have to work 3 hours to get billed for 1
 - Create a management reserve
 - Balance between optimistic and pessimistic estimates
- Good money management
 - Reduce debt
 - Save for a rainy day
 - Prudent spending
 - Study and respond to changing market

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Cash flow will be critical element of a successful consulting business

Many people will say that you need to keep a 6 month reserve. I actually recommend a one-year reserve.

Projects will come and go. The unexpected will happen. You may need to have enough cash to operate for longer than you plan between paychecks.

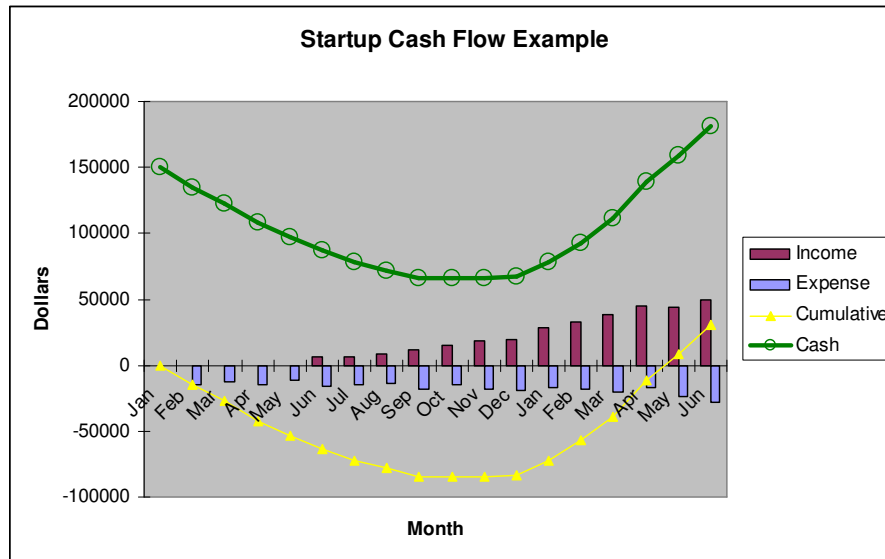
By having a larger cash reserve, you can continue to make good financial decisions even when your income drops.

Prudent financial management is critical. You will need to accommodate the ebbs and flows of your income. Carry minimal debt and significant savings so that you are prepared to make good investment strategies.

Here's a little reality byte: Often it is the time that business is slowest when you will need to make the greatest investments. The market may be changing or your product offerings may need to adapt.



Cash Flow Model



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This is a realistic cash flow model for a new consulting business.

Note several characteristics:

- 1) The business started with a cash reserve of \$150k.
- 2) Steady, billable work was available within a month or two. That is not always true – it may take longer.
- 3) The consultant started paying himself (out of reserves) the second month. After all, he wasn't working for a steady paycheck anymore.
- 4) The billable work that started within a month or two was not paid until several months later. Income will lag your expenses due to the payment cycle.
- 5) The consultant went about \$80k in the hole before he started to recover.
- 6) He became profitable (on a per month basis) within a year. It took him well over a year to break even.
- 7) When the business was finally up and running, the cash flow trend was positive and the business was profitable.

This little bathtub curve is often called “Death Valley” because businesses can die if they cannot make it through. Plan for that bathtub curve in your financial assessments. Make sure you are prepared to go through it.



Step 5: Commit to a Go / No-Go Strategy

- What criteria must be met for you to start your venture?
 - Cash reserve, breakeven point
 - Family support
 - A contract in your pocket?
- What is your exit strategy?
 - How much are you willing to lose before you call it quits?
 - What is your backup plan?
- What if it goes really well?
 - Where will you get more resources?
 - Will you limit your projects or build your business?
- WRITE IT DOWN and remind yourself of your commitment.



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Define your strategy and be willing to commit to your Go or No-Go based on the objective results – even if the answer is not the one you wanted.



Step 6: Organize your Business

- Choose an appropriate name
 - John Doe Esq.
 - Supergenius Inc.
 - Sally's Software Testing, LLC
- Use the right structure:
 - Inc, LLC, LLP, DBA
 - 1099
- Register and create the tax structure
- Discuss with a business lawyer
- If you are starting while you are currently employed, disclose to your employer in writing
- Integrity matters. Mind your business ethics!



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Be careful of trademarks with your name. You can use your personal name or create a name that identifies your service. There are many horror stories of business names, so don't try to be too funny.

Pick a structure that meets your tax, reporting and financial needs.

Be sure to have good legal advice when structuring your business.

Be aware of your restrictions.

If you are currently employed, disclose your intentions to your employer. You don't have to wait for permission, but you have to make them aware. Put it in writing because when you are successful, your former employer may get ruthless and try to take your business from you – even if you told them about your plans.

Don't try to take shortcuts. Business ethics and integrity are paramount.



Step 7: Establish an Accounting Structure

- Split your personal and business life
 - Separate bank accounts, checking, credit cards
 - Do not mix expenses
 - Accounting for your finances and business assets
- Consult with a tax advisor to create a tax plan
- Develop your accounting platform
 - Hire a bookkeeper or do it yourself
 - Hand ledger
 - Quickbooks
- Maintain tax records
- Understand deductibles
 - Miles are
 - Some meals aren't



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You must keep your business and personal finances separate. This is an IRS guideline (and a red flag if you do not). Plus, it is just smart management. Many businesses lost their personal nest egg trying to keep a failing business alive.

The better you keep your business accounting structure, the better you can manage your business money.

You don't need "big business accounting" for your small business. My advice is that it is better to have a structure of 10 accounts that you will manage than a structure of 100 accounts that you are not going to manage.

When I started my business, I followed the text book advice and created a big, complex accounting structure. I got lost in it. It was difficult and time-consuming to manage. I worked with a bookkeeper to simplify the structure and now I can get some real business information into and out of it.



Step 8: Gather Your Tools

- Laptop – most likely your most important tool
- Cell phone – Do you need data services?
- Software
- Special tools (e.g. modeling software, CAD, test equipment, industry standard tools)
- Reference materials
- Do you really need an office?
- Acquire less expensive resources until the cash flow gets stronger
- A good word-processor does not make you a good writer



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Your Laptop is most likely your most important tool if you are in a technical field. Don't skimp on it.

If you intend to be on the road a lot, you'll need a cell phone. You may also want data services if you need to access email without a wi-fi.

Software – If you are in a technical field, you will want to take a hard look at software. Recognize the difference between needs and wants, because it can be expensive.

Special tools (e.g. modeling software, CAD, test equipment, industry standard tools) If your customer expects you to have it, make sure you have a good business case. Your tools expertise could be a differentiator for you.

Reference materials – The Internet is a wonderful source for reference materials, but make sure you have them on hand at the ready.

Do you really need an office? If you don't have anyone visiting you, then probably not. But if you have employees, or client visits, or you need lab space, an office could be a good investment. It is expensive, so you need to decide if your business needs it.

You might acquire less expensive resources until the cash flow gets stronger. You need to make sure your cash flow can support your tools.

A good word-processor does not make you a good writer. My wife often teases me about my book collection. I subconsciously believe that if I buy a book, I automatically know the stuff in it. Likewise, if I buy a software package, I become an instant expert and can start selling products with it. Good tools do not make you a good user. You need to develop the expertise to use the tools.



Step 9: Build your Resource Network

- Consultants need a professional network
- Build your network and become part of the networks of others. Give and take will be valuable to everyone.
- You don't have to maintain skills, equipment, facilities, etc. if you have access to others.
- You will need support for your non-core activities
 - Accountant, Lawyer, Payroll
 - Complementing service providers
 - Tech writer, Assistants
- Stay actively connected to your contacts
- Your network is a bloodline of your business



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You are only as good as your network. Your network defines your reach in terms of skills, manpower, access to equipment and tools and capabilities.

As a consultant, you may get projects where you need skills to supplement your own. Make sure those complementing skills are in your network and readily accessible.



Step 10: Launch Marketing Campaign

- Build a website and business email addresses
- Technical collateral
 - Business cards
 - Brochures
 - Portfolio
 - Examples / success stories
 - Postcards
- Get the word out – to your friends, family, professional network, industry community
- Join professional networks: IEEE, PMI, Rotary Club, Chamber of Commerce, etc.
- Go out and talk with people!



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Your technical collateral will be your primary marketing resources. Technical collateral can be inexpensive, but make sure it looks professional.

Consultants need to become socialites and associate themselves with people who can become their clients or can connect them to people who can become their clients. You have to get out there and shake hands and kiss babies like a politician. Meet your potential customers. Have a good elevator speech.

Even if you meet people who don't seem like possible clients, talk with them and build a relationship with them. There may come a time in the future where they will help you make a business link.



Step 11: Create Project Management Collateral

- Even if you do not have a real project yet, create a project plan for the kind of project you want to do
 - Work breakdown structure
 - Bill of materials
 - Schedule
 - Budget
 - Deliverables
- Templates for:
 - Partnership / agreement
 - Contract for services
 - Terms and condition
 - Project specifications
 - Project tracking tools
 - Invoices
 - Reports
- Having this material ahead of time will make capturing new business much easier.



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You may think this sounds crazy, but you should run a “fake project” on your own time when you start your business. This is a valuable exercise to do as you are waiting for your initial contracts to come through. If you do this, you will create some valuable templates that can save you (and your customers) time and money on your initial projects.

Suppose you are an engineering consultant. While you are trying to win your first projects, run your own example project. Imagine a project you would like to work on. What would your ideal project look like? Write a proposal to yourself for that work. Build a top-level block diagram of the service or product offering. Develop a work breakdown structure. Define a project plan. Try to win the project from yourself. Sound silly? Well, if you can't write a project proposal that wins business from yourself, who will you win business from?

Now give yourself the job and execute that fake project. Write out a contract. Define all your T's and C's. Write your project specification and deliverable requirements. Build a measurable project plan. Invoice yourself. Report progress to yourself. You may need to research templates and make several drafts of these project documents. Isn't it better to spend time doing that on your own sample project than doing it while your customer is waiting for results?

Your potential customers are going to ask you for that information at the start of the project, and they are going to want an immediate answer. You want to be able to talk smartly about these project management resources in these early customer discussions. This exercise sounds crazy until you go through it, create the collateral, and you are ready to work with customers right out of the gate.



Step 12: Gain Experience

- First project
 - Start where you can
 - You don't need a HUGE project to get started
 - But be ready if the first project IS big
 - Your first customers are your best references
- Be professional in your negotiations and contract management
- Get a signed contract before committing yourself. Don't give away your time hoping to reel in the big prize.
- A School of Hard Knocks degree is more valuable than a Ph.D.
- Do an exceptional job in your first few projects to build your business
- Take care of your customers. A customer in your books is worth more than a hundred on your marketing list.



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There is no such thing as a bad first project. It's just that some are more educational or expensive than others.

You may need to make some unplanned accommodations to get your first projects. Perhaps your first client offers you a very small project or work that is not in your specific area of expertise. If you can do it, do it and do it well. Make that customer happy. She may be your first referral – which can be used to win the next project.

Be aware of an increasing negative trend in the consulting business. Many unfair businesses are trying to milk a consultant's brain through multi-phase proposals without ever getting them under contract. Be careful of how many unbillable hours you spend to earn a few billable hours. Sharpen up your business negotiation skills so you don't fall victim to unfair practices.



It's Worth It!

- Hard work, financial risks, reaching out of your comfort zone, business hassles, technical problems, schedule conflicts, contract issues, legal battles, cash flow concerns, finding work, finishing jobs, getting paid, urgent travel, late nights, unpaid efforts
- Why would anyone want to be a consultant?
- Because the personal rewards are well worth the troubles!



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Much of the stories you heard have been negative. So why would we take on the risks to become a consultant? The rewards are wonderful!

I focused on the risks and issues because I want you to be aware of them. It is easy to get into this business with optimistic dreams and impractical expectations. Hopefully, this discussion has helped you get some strong footing, a clearer view of the path ahead and the resources for a strong climb ahead.



If you have any further questions...



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