

So you think you want to be a consultant?

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Are you really sure?


- Consulting, at its heart, is running an independent business
- Are you cut out to be in business for yourself?
- Is your family on board with this decision?
- Can you manage your time effectively, without direct supervision?
- Can you afford to do this?
 - What if you have little or no income for an extended period of time, could you live with that?



Now is the time for some introspection

- Step #1 – Take a week's vacation
 - go to the beach, or go fishing, someplace quiet and secluded
 - don't plan a touristy, sightseeing vacation
 - take your spouse, leave the kids behind
 - take a notepad, a calculator, summaries of your income and expenses for the last five years, and your current financial status (cash, investments, illiquid assets, etc.)



- Step #2 – Think & talk about yourself
 - what are you good at?
 - what have you enjoyed doing in your career?
 - what have you not liked about past jobs?
 - how do you feel about seeking and interviewing for jobs for the rest of your career?
 - are you good with numbers? Can you deal with taxes, contracts, reports, paperwork?
 - are you a self-starter? Can you supervise yourself? Do you know what to do when a new project lands in your lap?
 - *Does your spouse agree with your self assessment? Or does he/she see you differently??*
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- Step #3 – decide what kind of consultant, realistically, you are likely to be. Are you:
 - a contract employee, filling the role and desk of any other geologist at the company, except you'll work on a temporary basis?
 - a technical expert in some specialty or geographic area, likely to be hired for key skills that clients do not possess or can't get enough of?
 - A member of a team that can take on entire projects, just like a client company would assign to an internal project group?



- Step #4 – Work the numbers
 - How long can you last without your job?
 - What will be your financial obligations for the next few years, while you get established?
 - Do you have kids to put through college?
 - Is your house paid for?
 - Will you need to care for aging parents?
 - Are you in good health?
 - Figure out what you need to earn, and how much you need to charge for your time.




The basic types of consultancies

- The Experts
 - this is the romantic notion of a consultant
 - someone with particular knowledge, skills, or expertise that is in short supply and high demand
 - Work on high level business process issues
 - demand and get high rates, but often at low billing efficiency
 - Hired Guns are a subset of the Expert
 - someone who can deliver bad news to staff and management without career repercussions
 - negotiate or settle internal disputes
 - Think of the “consultants” in *Office Space*....



- The Project Team
 - multi-person consultancies, almost always with broad skillsets, able to take on entire projects
 - Usually include one or more Experts
 - full service shops, come complete with offices, software, hardware, & support staff
 - self managed
 - usually clarify the problem and the objectives for the client, instead of being told exactly what to do
 - often JV or subcontract with other consultants
 - this is my business model



- The Contract Employee
 - the most familiar model
 - a form of peak shaving or load leveling for companies, allowing them to staff up for periods of high demand without taking on the liability of FT employees
 - get paid a higher hourly rate than employees, but without benefits
 - last to get hired, first to get fired
 - it's the closest to what you have done before (probably)
 - the IRS hates this model, they want everyone to be an employee
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OK, I'm gonna do it.....

- So how much should I charge?
 - Well, what kind of consultant do you expect to be?
 - Where will you work, from your home, from an office, in the clients offices?
 - Who provides the tools of your trade (e.g. software), you or the client?
 - Who sets the terms of an engagement, you or the client?



An Example: The Contract Employee

- Joe Geologist has been making \$150,000/yr working for Notsuchabigoilco.
 - Joe wants to maintain his lifestyle, but work on a contract basis for different companies
 - Joe received company paid health insurance, a 401K plan, 4 weeks paid vacation and 10 paid holidays per year, paid parking and other minor benefits
 - Joe hopes to work in client offices with their “stuff” and isn’t interested in investing in the business per se



- Problem #1

- you might not get to set your own rate
- prevailing rates in the area you live and work will probably be firmly established, and that is what the market will be willing to pay regardless of what you think is right!
- Ask around, find out what others with a similar model are getting
- It might turn out you cannot meet your old salary and benefits on the outside, especially if you had significant seniority and were highly compensated



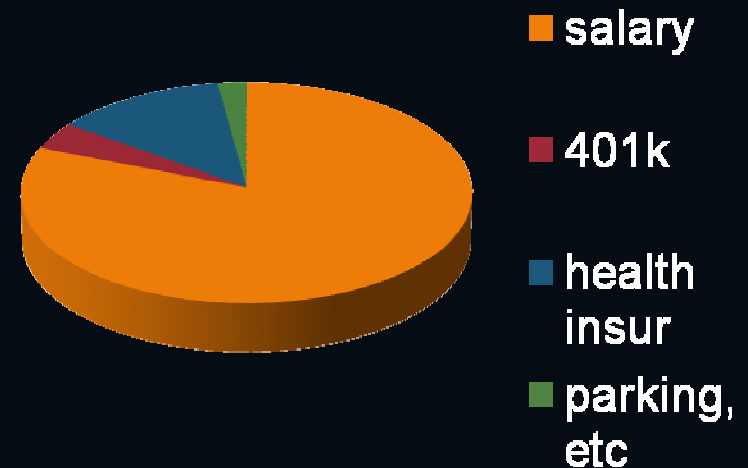
- Problem #2
 - this is the worst possible time to be looking for contract employee work
 - companies let the contractors go in down times, and keep their employees for last
 - that's why it is a form of peak shaving or load leveling!
 - if you can't find a regular job currently, you are only marginally more likely to be able to find contract employment



How to compute your day rate

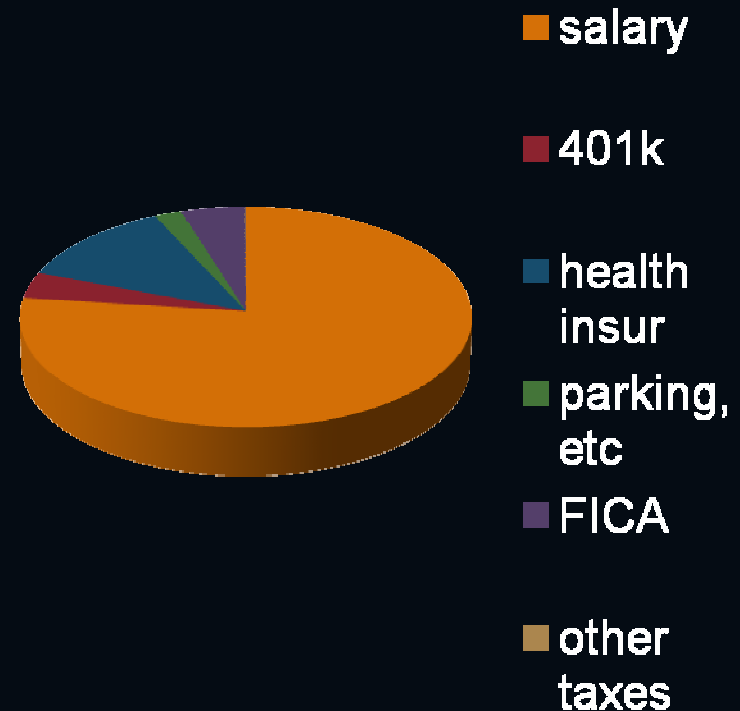
income & benefits

- First Joe computes his total annual salary plus benefits
- \$150,000 salary
- \$35,000 benefits
- \$185,000 total



- Next, add in the self-employment taxes that were formerly paid by his employer
 - FICA
 - State/City/County
 - Licenses and business permits
 - Property taxes, etc.
- Total = \$195,000

income & benefits



- Joe figures he won't have any overhead, so all he has to do is divide by 365 to get a day rate and divide that by 8 for an hourly rate
$$\$195,000/365 = \$ 535/\text{day} = \$67/\text{hr}$$
- Wow, so why have all those consultants been charging us \$100-200/hr?
- Joe thinks: *"I'm gonna be rich!....."*



Joe's first mistake as a consultant.....

- Error #1- Joe can't work 365 days/yr
 - at least, not if he wants to live very long.....
 - what about weekends? (52 x 2 = 104 days)
 - what about holidays? (another 10 days)
 - & what about that paid vacation? (20 days)
- $365 - 134 = 231$ working days/yr
 - $\$195,000 / 231 = \$ 844/\text{day} = \$105/\text{hr}$
- Hmm, maybe this isn't quite so easy.



And will you really work all the time?

- Error #2 – Joe won't bill 100% of the available work days
 - No down time between jobs? No AAPG meeting? No sick days? No time off to work on the business?
 - If you run 80% efficient, you'll only get 185 billable days. Round down to 180.....
$$\$195,000/180 = \$ 1083/\text{day} = \$135/\text{hr}$$
- If Joe only makes 65-70% billing efficiency, say if he splits his time between two companies, he's up to \$1300/day

- Do you still think those consultants working at your last company were overpaid?



And then there are indirect costs (or overhead)

- Office space
- Office and computer supplies
- Non-reimbursable travel expenses
- Dues & subscriptions
- Geological data, maps
- Log library memberships
- Advertising
- Telephones, internet
- Software licenses
- Computers, plotters, printers
- Accounting and legal fees, including tax preparation
- Insurance
- Printing and copying
- Support staff (receptionist, geotechs, drafting, etc.)
- Depreciation



- Generally speaking, bill out any cost you can reasonably attach directly to a project
 - Everything left over is overhead!
 - Overhead has to be incorporated into your rates
- Getting started, use third party services as much as possible (Kinko's, bookkeepers, contract geotechs, etc.)
- Overhead is highly variable and depends on how you run your business
 - It can be as low as 20% for a small, very conservative shop
 - To >>50% of direct and indirect labor for a large shop with nice space and expensive software



- Typical overhead charges are 70 to 100% of direct labor (salaries) and indirect labor (everything on Joe's first worksheets) for big companies or universities
- These include "management" loads and everything else that goes with a major institution
- That \$1100/day rate jumps to \$2000 to \$3000 with billing efficiency and overhead included
 - but these consultants bring everything to the table with them needed to do the job




- Do you still think that consulting firm that took on a major project for your last company was overpaid?



- And if you are really serious about the business, you have to add in profit to grow the business into the future.
- But at the end of the day, its market driven and rates may be constrained by competition and other factors. Don't expect to always be able to dictate prices.
- Be fair, be reasonable, be willing to explain how you came up with your day rate.
- *But be willing to walk away from a job if the client is not similarly fair and reasonable.*



Summary

- You'll be an independent business person.
 - You are responsible for all the legal and other trappings of running a small business.
 - You have to make a payroll, cover expenses, issue invoices, track your time.
 - You have to market yourself and your services, often to strangers.
 - You have to supervise yourself, stay on track, know what to do next.
 - And in the end, you have to deliver value to your clients.
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Questions??



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