



# 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
- ✓ Identify consulting opportunities
- ✓ Starting an Online Business

## 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.) |  |
|                                      |  |
|                                      |  |
|                                      |  |
|                                      |  |
| <b>Total</b>                         |  |

**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.

| <b>Category</b>  | <b>Amount</b> |
|--|---------------|
| 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    |  |
|              |  |
|              |  |
|              |  |
|              |  |
| <b>Total</b> |  |

### 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             |        |
| <b>Minimum Monthly Income Sub-Total</b>             |        |
| <b>Taxes to Save (estimate 50% of amount above)</b> |        |
| <b>Minimum Monthly Income Final Total</b>           |        |

### 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

## Starting an Online Business

### A Brief History

Over the past several decades, the consumer shopping experience has slowly shifted from bricks-and-mortar style shopping to the Internet. Some stores, like Amazon and Dell, are completely virtual. As well, traditional stores like Walmart and Costco have added online shopping to their business strategy to stay competitive. Online sales are estimated to reach 1.4 trillion dollars per year in 2015, with an average growth of about 19% per year. (Source: <http://www.invesp.com/ecommerce.jpeg>)

Businesses are also using technology to enhance the customer experience, such as by adding QR codes to product tags so that customers can view more information on their smartphone right in the store. Some stores also offer apps that allow consumers to pay with their mobile device, or push information to the user's smartphone depending on where they are in the store.

Although you may think of giant retailers when you think of online businesses, there are a large number of niche and specialty businesses on the Internet as well. The increasing affordability and accessibility of the Internet means that just about anyone can start their own successful online business. For some people, it's a way to make a little bit of extra money. For others, their online venture may eventually

replace their full-time job, sometimes generating even more income than they were making by working for someone else.

### Benefits of Online Businesses

Online businesses offer plenty of benefits to entrepreneurs. In general, online businesses have a low start-up cost and a low risk. Online businesses also offer more flexibility in terms of time commitment; many entrepreneurs run their online business during evenings and weekends.

The nature of the Internet also offers online business owners more flexibility. For example, let's say that you're a freelance artist and have just purchased your first brick-and-mortar storefront. You design a logo, put up signs, and create expensive artwork to show visitors what you can do. A month after launching, you realize that your logo is hard to read, your samples are too high-end, and the area of town that you're in is hard to reach. Fixing all of these problems is going to be expensive and might mean the end of your business. However, for an online freelance artist, location isn't a factor, and re-designing the website and electronic samples will take far less time and money.

### Words of Warning

An Internet business requires just as much dedication and commitment as a traditional business. Despite what you might see in advertisements, starting an online business does not usually mean overnight success and a huge influx into your bank account. However, having a solid plan in place and a clear vision of where you want to go will help you launch a successful online business.

## Laying the Groundwork

### Who Are You?

#### Identifying the Possibilities

You don't need a super-cool or highly technical idea to create a successful online business. What you do need is something that you are passionate about and something that other people will buy. A good place to start is products or services that you have wished for or dreamt about. Keep your idea broad so that you can narrow it down once you've done some research.

Consider the history of the Lug brand of travel bags. In 2004, a young couple was travelling from Dallas, Texas to Toronto, Ontario. On their 23-hour road trip they came up with an idea for a line of super-organized travel bags in fun colors. Their idea turned into a multi-million dollar company that has been featured on television shows like Oprah and in magazines like Vogue and Good Housekeeping.

### Doing Your Research

Once you have an idea, it's time to find out what the market needs. Look at:

- What other online businesses are doing (and not doing)
- Where customers in your area of interest are shopping and what they are shopping for
- The culture of your area of interest

- How you can create a niche for yourself by offering something that is unique in terms of cost, customization, or use

### Outlining Your Ideas

By now, you should have some solid business ideas. Now it's time to outline each idea to help you evaluate what your best option is. Some questions that you should ask yourself include:

- What does my product or service look like?
- What problem is this product or service solving?
- How do I know that others would be interested in this product or service?
- Who would my customers be?
- Can I make a profit from this product or service?

The amount of research that you do for each question will depend on many factors, including the size and complexity of your online business. It's typically best to start small and build the business as sales grow. The bigger the initial investment that you plan to make (especially if the online business will replace your full-time job), the more research you should do.

Make sure that you ask the right questions of the right people. Asking your family and friends if they think your business might make a profit might not be appropriate, but asking them who would buy your product or service might be.

Finally, remember that opinions and advice are just that. Evaluate each piece of information you receive, decide if it's valid, and then decide whether it belongs in your idea outline.

## Creating a Business Plan

### Why a Business Plan?

We firmly believe that every business needs a business plan, although the size, complexity, and components of the plan will depend on your business. The business plan requires you to take a close look at many aspects of your plan and commit to them. This, in turn, will clarify the business for you and expose any issues that will need to be resolved before the business is launched. A business plan is also a key element in obtaining funding should it be required.

Some people procrastinate about committing their plan to paper, but having a framework and acknowledging that the plan is going to help you out makes creating the business plan an easier task. In fact, the business plan should not be an intimidating exercise at all.

### The One-Page Plan

For an online business, a simple, one-page business plan is usually sufficient. This type of plan usually includes the following elements:

- Company description
- List of products and services
- Marketing and sales strategy
- Financial projections
- High-level design for website, mobile presence, and supporting services

## Sample Business Plan

To give you an idea of what the business plan is all about, here is a sample business plan for an online farmer's market.

### Test Your Knowledge

As you work through this business plan, take the time to add to it or consider what each section will look like for your business.

#### Company Description

FarmJam will be a 100% online service serving the greater Acmetown area. It will link farmers and consumers to provide an accessible, easy to use, farm-to-table experience.

---

---

#### Products and Services

Local farmers will deliver produce as it is harvested to FarmJam's warehouse. All products will be inventoried using a real-time electronic system. Customers can then order the products from a website or mobile app and choose a delivery time within the next 24 hours.

---

---

---

#### Company Structure

To begin, Norman and Sarah Miller will be the sole employees. They will be able to handle approximately 75 orders per day plus regular business operations. Norman will focus on business operations and marketing, while Sarah will focus on orders and liaising with vendors. A new employee will be required for each 50 average orders per day.

---

---

---

#### Competitive Analysis

One grocery store at the north end of Acmetown currently carries local produce, but does not offer a

delivery service. It is not on a transit route and is a 45-minute trip from other parts of Acmetown.

The southern end of Acmetown offers a farmer’s market during the summer months, weather permitting. This market is on a transit route and is more closely located to urban areas. However, its seasonality and limited parking have caused frustration for customers.

---



---



---



---



---



---



---

**Financial Projections Income**

FarmJam will generate most of its revenue via a 10% markup on all produce. Based on customer surveys, local grocery sales, and a similar service in a similar-sized town, we estimate that FarmJam will sell \$5,000 of produce each day. This will provide revenue of \$182,500 in the first year.

**Setup Expenses**

We estimate the following one-time expenses to set up the business. These costs will be covered by a \$50,000 grant from the Acmetown business association.

| Category              | Item                                | Amount                     |
|-----------------------|-------------------------------------|----------------------------|
| Software/Hardware     | Computers, tablets, and smartphones | \$5,000                    |
|                       | Inventory software                  | \$10,000                   |
|                       | Accounting software                 | \$1,500                    |
| Online Presence       | Development for mobile app          | \$10,000                   |
|                       | Website development                 | \$7,500                    |
| Training              | Entrepreneurial workshop            | \$0 (Business Association) |
|                       | Inventory software workshop         | \$2,500                    |
| <b>Total Expenses</b> |                                     | <b>\$36,500</b>            |

**Operational Expenses**

We estimate the following expenses for the first year.

| Category                   | Item                                | Amount   |
|----------------------------|-------------------------------------|----------|
| <b>Logistical Expenses</b> | Warehouse lease (2,500 square feet) | \$12,000 |
|                            | Vehicle lease (Four vehicles)       | \$24,000 |
|                            | Utilities                           | \$2,500  |
|                            | Telephone and Internet              | \$6,000  |
|                            | Insurance (Warehouse and vehicles)  | \$3,000  |
|                            | Fuel                                | \$6,000  |
|                            | Bags for products                   | \$2,500  |
| <b>Marketing Expenses</b>  | Website maintenance and hosting     | \$1,500  |

|                       |                                    |           |
|-----------------------|------------------------------------|-----------|
|                       | Internet and newspaper advertising | \$1,000   |
| <b>Staff Expenses</b> | Salary for Norman                  | \$40,000  |
|                       | Salary for Sarah                   | \$40,000  |
| <b>Total Expenses</b> |                                    | \$138,500 |

**Marketing Strategies**

FarmJam will leverage word-of-mouth advertising within the community to generate interest and attract customers. FarmJam will also put on workshops with local community groups to showcase local produce and provide cooking demonstrations.

FarmJam will use Facebook, Twitter, and Instagram to advertise products and keep customers up to date on what products are currently available.

### High-Level Online Design

The FarmJam website and mobile app will link directly to the inventory management system to allow customers to see what produce is in stock, place orders, and pay for orders. (Customers can also pay cash on delivery.) Customers will also be able to view profiles of the farmers on the website, suggest products that they would like to see, and submit questions for farmers to answer. Local technology company InDesign will create and maintain the app and website.

---

---

---

### Future Growth

If sales reach \$100,000 in the first year, FarmJam will be able to move to a bigger warehouse with increased cooling capacity. FarmJam will also be able to add two larger, refrigerated trucks to the fleet.

These two changes will enable FarmJam to add meat and dairy products to their delivery service. It will also enable FarmJam to pick up produce from farmers and process larger wholesale orders for local restaurants and markets.

---

---

## Gathering Resources

We highly recommend getting some specialized help when setting up your online business. A small business accountant will help you set up your finances appropriately, including taxes and insurance. Likewise, a small-business attorney will help you complete all the necessary paperwork and ensure that your work is protected.

You may also want to consider finding a mentor with experience in your field. Both types of resources can help you grow in the right way and make your business a success.

Some other specialists that you might consider getting help from (depending on your experience and your business model include):

- Marketing and/or social media specialists
- Website designers
- Software developers

Consider the possibility of bartering with other small companies. For example, if you need a client tracking program, and you know of a software company that offers one and needs the products that you offer, perhaps you can trade services. If you do the job well, this offers the added benefit of getting your name

out there and establishing your reputation.

Freelancers and contractors can also offer you specialized support when you need it. For example, you may decide to hire someone to build a mobile app to support your storefront. Websites like eLance and Guru can help you find someone who has the skills that you need. Be sure to ask for samples of the freelancer's work and references before committing to the project. As well, be very clear about what you want and check in frequently with them.