Do I Want to Become a Consultant?

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It's a combination word processor and food processor, in case I have to eat my own words.
Session Objectives

• Describe the consulting life
• Show how to determine consulting rates
• Explain marketing strategies
• Discuss legal status options
• Discuss how to network
The Consulting Life - Pros

- If independent you are your own boss – only your clients can fire you
- You can earn a higher income and be directly paid for your effort
- You can control when you work
Pros, continued

• Depending on your corporate status you can pay many expenses with pre-tax dollars

• You can live almost anywhere you want, especially if you are willing to travel
The Consulting Life - Cons

• You only get paid when you have work

• You will have cashflow delays

• You have to pay all your fringe benefits

• You will likely spend more time away from the family
Cons, continued

• You need to spend time completing Federal and/or State paperwork

• OR, you need to pay someone to complete the paperwork for you

• You have to make hay when the sun shines - meaning you work when the client wants you to work
Why Become a Consultant

• Your position has been eliminated or you have been demoted
• You have retired
• You are in a dead-end or boring job
• You want to increase your income
• You want a new challenge
Reasons Not to Become a Consultant

• As a bridge until you find a “real” job
• To show your boss that you are better than he/she
• To make a financial killing
• As a retirement hobby
Determining Your Consulting Rate - Factors to Consider

• What the market will bear
• Prevailing rates for solo consultants
• Your true consulting income need
• Desired weekly and annual work hours
What The Market Will Bear

• How much “hurt” is the client experiencing with the current issue/situation?

• What is the “return on investment” or the payback period – the ROI has to be high enough to make the investment necessary

• What are others charging for similar work?
Prevailing Rates

• Vary by discipline, e.g., management engineering vs. information systems

• Generally a minimum of $1,000 per day to be viewed as “professional”

• Typical ceiling of $1,500 - $2,000 per day unless highly qualified/experienced

• Rates are usually “plus expenses”
Prevailing Rates

• Expenses are usually 5% to 15% of a project depending on the amount of travel and on-site time required

• Many clients will request a cap on expenses

• Many clients will want a fixed or maximum project fee to avoid surprises

• Rates may be lower for long term projects
How to Determine Your Rate

- Use a spreadsheet – available from speaker
- Determine your annual salary goal
- Include all reasonable costs
- Estimate how many hours per year you will actually charge
Remember What a FTE Actually Costs a Hospital / Company

- Typical out-of-pocket benefits are 20% - 25% of salary costs even for management positions

- Paid time off is 12-16% of salary costs if replaced

- Support staff is an additional 25% - 50%, e.g., clerical support, administration, human resources, maintenance, IS, housekeeping, rent, etc.
Remember What a FTE Actually Costs a Hospital / Company

- $55/hour or $114,400 base salary
- Fringes benefits @25% = $28,625
- Support (A&G) @50% = $57,250
- Total cost is $200,200 / 2,080 hours = $96.25 / hour

- 2,080 paid hours – 280 PTO hours = 1,800 work hours
- 1,800 – 2x225 days meetings, etc = 1,350 “true” hours

- $200,200 true cost / 1,350 true worked hours = $148.30 per hour effective salary cost or 2.70 time base rate
FICA and Medicare Costs

• For 2012 FICA is 6.2% of first $110,100 of salary or a maximum of $6,826.20 – matched by company

• Medicare is 1.45% of total salary without a cap – matched by company

• As a consultant you pay both the company and personal FICA and Medicare cost
FICA and Medicare Costs

• FICA is the set of initials for the: “Federal Insurance Contributions Act”

• Now you have a talking point for your next reception
Health Insurance and Related Costs

- Individual rates are much higher
- There is no employee or courtesy break
- Can you be covered by someone else - what is the incremental cost?
Health Insurance and Related Costs

- Individual rates can be $400 - $1,000 monthly
- Family rates can be $1,000 - $1,500 monthly
- Calculate the net increase in monthly cost vs. what you are now paying as a co-pay
Other Salary-related Costs

• Disability insurance
• Federal unemployment costs (FUTA)
• State unemployment costs – usually much higher than Federal costs
• Long-term care insurance
• Pension
Annual Client Billed Hours

• Certainly not 2,080 billed hours

• You “work” 45 weeks annually and have 7 weeks of vacation, holiday and sick time and professional development time

• You cannot bill all the time - you have marketing time, professional meeting time, and you need “office” time
Annual Client Billed Hours

• High for junior-level staff in a large firm

• Lower for individuals also responsible for marketing and management

• A goal for a solo consultant is 60% of 45 weeks or 1,080 hours per year - 11.25 days per month
Travel Time Considerations

- Do you charge any travel time?
- Do you charge time one-way only?
- Do you charge more than 8-hours per day?
- Do you have a higher or a lower rate when you travel?
Travel Time Considerations

• Do you charge any travel time? Usually not if local (within an hour or so).

• Do you charge time one-way only? This is a common approach, especially if you can make use of the travel time. Examples include air travel or with more than one consultant so you can discuss the work.
Travel Time Considerations

• Do you charge more than 8-hours per day? Usually not as a professional unless back in hotel room at night doing work you would eventually do in the office.

• Do you have a higher or a lower rate when you travel? This is less common except perhaps for the actual travel time.
Billed Hours Impact on Hourly Rate

• Total salary-related costs can easily be 2.5 times the base hourly rate of pay

• Example, rate of pay $55/hour is $114,400 + $6,826 FICA + $1,596 MC + $4,576 insurance + $17,160 pension = $144,888. This is +28% of salary and 2.46 times $55 based on 1,080 billed hours annually
Clerical and Office Support

- Will you do it yourself?
- Will your significant other do it for you?
- If so, will you directly compensate the person for their time?
- It may take 4-8 hours per week
- You may pay $20-$40 per hour
Office Rent

- Do you use a spare room?
- Do you write off these costs?
- Do you rent space away from home?
- Can you set up a dedicated work space?
What Are Your Communication Costs?

• Basic business telephone line - triple cost of home line unless bundled service
• Fax line also?
• Cell phone in addition or in lieu of?
• Internet connection costs
• Pager? Remember these?
Mileage Rates

• The IRS allows $.55 per mile
• You can charge a higher rate to clients
• You must keep track of total business miles
• You either charge a higher mileage rate or a higher consulting rate, or more hours to offset these costs
Professional Society Costs

• Annual dues
• Annual conference registration, travel, hotel and related costs
• Local chapter meeting costs
• Subscriptions to magazines or services
• Licenses or professional registration fees
Total Cost Relative to Salary

- Total cost is at least 3 times salary
- Total cost typically 4 times salary
- See “Development of annual consulting hours & gross profit – 2012” spreadsheet available at no charge from speaker
Billing Cycles

• Typically monthly for time and expenses
• May be by project phase completion
• Payment can be delayed - “the check is in the mail”
• Typically paid 30 – 45 days after billing
How Do I Market?

- Simple brochure – not often used anymore
- Web site and domain name, e.g., Templin.com
- Word of mouth and references
- Public speaking - local chapters, and annual conferences
- Sub-contracting to start
Networking - Sub-Contracting

- Use professional organizations, e.g., SHS and HIMSS SIC SIG
- Contact other consultants
- Expect 20-50% less per hour
- Be willing to travel
Business Structure Options

• Sole proprietorship
• Partnership - not recommended
• S or C corporation
• LLC (limited liability company)
Sole Proprietorship

- Simplest structure, usually one individual
- Expenses and income from the business are included on your personal tax return
- You are personally responsible for your company’s liabilities
- Business loans are hard to acquire
- Section 105 medical insurance reimbursement plan available by hiring and covering the spouse with family coverage
Partnership

- The business is owned and operated by several individuals
- General partners own and operate the business and assume the liability
- Limited partners serve as investors only; they have no control over the company
- Profits or losses are passed through
C Corporation

- An independent legal entity separate from owners
- Requires compliance with more regulations and tax requirements
- Your personal assets are not at risk
- Higher costs are involved
- Income is taxed at corporate level. Dividends from after-tax profits paid to the owner are taxed at the individual level
- Section 105 medical benefits available to owner
S Corporation

• An independent legal entity separate from owners
• Requires compliance with more regulations and tax requirements
• Your personal assets are not at risk
• No tax at the corporate level. After-tax profits paid to the owner are taxed at the individual level
• Medical benefits not available to more-than 2% owners or their spouses
Limited Liability Company LLC

- A hybrid entity combining features of partnerships and corporations
- Provides liability protection without double taxation (taxed at the individual level)
- Earnings and losses pass through to owners on Schedule C income
- Tax treatment varies by state so may be a problem if you operate in multiple states
- Medical reimbursement available by hiring spouse with family coverage
Closing Thoughts

• Most new consultants under charge

• Most new consultants under estimate how many hours/days a project will require

• Many new consultants over estimate how many hours they will bill annually

• Most new consultants under estimate how many hours they will work per year

• Consulting can be very satisfying
Larger Consulting Firms

• Start some slides on working for larger consulting firms such as Premier, Inc.

• Marci Jackson will decide by 11/25 on participating. If not, end the presentation.
Questions