Ten Common Mistakes to Avoid as an Independent Consultant
An Update

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ABSTRACT

Errors in assumptions and business practices that limit the success of a nurse consultant, and ways to avoid them, are described. Enthusiasm and dedication must be accompanied by a realistic understanding of the time commitment, financial resources, and objective decision making necessary to succeed. The nurse consultant must be able to identify potential client needs and promote services effectively to a target market. Improper pricing with undervalued services must be avoided. Even with a large client base, poor cash flow management, inadequate legal precautions, and lack of contingency planning are critical concerns. The pros and cons of various business forms, such as partnerships, are explored. Independent consulting can be satisfying and profitable with proper understanding of the pitfalls and how to avoid them.

Choosing an Unprofitable Consultant Venture

A common characteristic of the professional who pursues self-employment is enthusiasm. Successful self-employment requires a belief in one’s self, a strong desire to succeed, and enthusiasm for the idea, product, or service to be offered. Sometimes this enthusiasm results in a decision to enter the consulting business without a realistic evaluation of whether a market exists for that idea, product, or service. Other erroneous motives are a desire to “have more time with the family,” “make a lot of money,” and avoid being supervised by someone else. DeStricker (2008) warns that consulting is “not an easy refuge from an undesirable job situation” (p. 24). The decision to become an independent occupational health nursing consultant should be based on an appraisal of consultant abilities and a thorough analysis of the proposed business (Schaefer, 2011). The nurse must determine whether enough potential clients exist and, if so, whether they will actually buy the consultant’s services by identifying prospective customers within a realistic
geographic area. The consultant venture must meet real needs of prospective clients. For example, a group of pediatric nurses identified a need to describe appropriate play for hospitalized children of various age groups. They developed a successful Age Appropriate Play Kardex for pediatric clinical practice (Rauen, Sperry, & Miller, 1988).

Some nurses are lured into the prospect of becoming a consultant because of interest expressed by one or two potential clients. Phillips and Phillips (2004) warn not to rely on a single client. What happens if that one customer is sold to another company, goes out of business, or opts to contract with another consultant? A large base of smaller companies is preferred over one or two large company clients. The number of potential clients and the competition expected for those clients should be determined.

- Who is the competition?
- How do they compete in marketing, services, and price?
- What can they do better or not as well?

Competitors to independent nursing consultants include physician consultants, hospital-based occupational health programs, safety consultants, mobile health services, public health service agencies, industrial hygiene consultants, and other nurses. Biech (2007) suggests market research also include interviews with potential customers, research of related literature, inquiries to trade and professional associations, and market tests such as questionnaires. An example is the Needs Assessment Survey conducted by the American Association of Occupational Health Nurses, Inc. (AAOHN) to assist nurses in deciding on the continuing education programs offered to occupational health nurses at the next AAOHN National Conference.

It is important to objectively determine if the venture will result in a profit, break even, or lead to a loss. For the nurse seeking only personal reward from an independent practice, breaking even may be enough. For those seeking a profit, a consulting business may not be the most profitable investment for their time and money. Phillips and Phillips (2004) described an entrepreneur who left her previous job to start a team building service. She did an extensive campaign with promotional materials, mailing lists, and personal contacts. Unfortunately, the market was weak in her specialty area and the competition was too intense. She finally took a job in another field with much lower pay. A positive attitude is essential. However, emotional factors should not determine whether to start a consulting business.

UNDERESTIMATING THE TIME REQUIRED

Nurses have been heard to say such things as, “I think I’ll go into consulting so I can take vacations whenever I want” and “I want to work for myself so I can spend more time with my family.” Independent nursing practice, as with any other small business, requires incredibly long hours and substantial schedule flexibility (Biech, 2007). Clients have needs and demands that they expect to be met. If the training has to be done the second week of the month, or the report has to be received 3 days after the site visit, it is the consultant’s time being controlled. Workloads are often unpredictable. Gumpert (1991) offered an excellent analogy: being self-employed is like getting on a roller coaster, buckling the seat belt, and being blindfolded before the first ascent. The journey includes deep lows and sharp highs—only a few consultation requests for a few months, followed by a strong demand in other months. Not only must the service be provided to the client, but the business itself requires attention (Holtz & Zahn, 2004). The consultant typically assumes the roles of purchasing agent, secretary, bookkeeper, media developer, and sales representative. Considerable time must also be allowed for developing proposals, especially formal responses, Request for Proposals (RFPs), which can be complex and may require bidder meetings and question and answer sessions. Creating time to stay current in the nursing profession is also critical. The reality is that the business and the clients control the consultant’s time.

To be effective, several time management strategies should be considered. First, it is essential to establish an understanding with friends and family about how opportunities to be together may be more limited due to owning a business. Emphasis must be on the quality of time shared, planning special events so that the new entrepreneur can attend. Another time saver is to physically segregate the main functions of the office from household activities. This strategy can lead to improved productivity with less time consumption. Examples of physical segregation include having a dedicated computer workstation, a mail processing table, an accounting or bookkeeping area, and a filing center. Outside help is another strategy. DeStricker (2008) warns that it is not realistic to expect to do everything alone. A college intern, business services center, temporary services, or subcontractor may prove cost- and time-effective during times of peak demand and crisis situations. Nevertheless, owning a successful business may require working weekends, nights, and even holidays. The consultant must be prepared to devote time, must have schedule flexibility, and must possess a relentless will to succeed (Gaebler, 2011).

LACKING AN ADEQUATE BUSINESS PLAN

The U.S. Small Business Administration (2011b) describes a business plan as “a living document that outlines every critical aspect of its operation.” Schaefer (2011) advises, “It is critical for all businesses to have a business plan.” The plan serves as the yardstick to measure financial status and progress toward business goals. It identifies monetary needs and supports realistic decision making. A business plan is essential to obtain bank financing, attract investments, convince prospective clients, attract key employees, and maintain business activities (Gray, 2006). Business plans can be written in a variety of formats. A simple plan includes:

- Executive Summary.
- Description of the company.
- Description of the market.
- Description of the products and services.
Critical to establishing prices is correctly estimating the amount of time and money needed to complete the job to the expectations of the client. For instance, it is easy to underestimate the amount of time it takes to write customized plans because of the site-specific data that must be gathered and analyzed for the project. Failing to take into account vendor price changes is another mistake. In one case, a consultant submitted a proposal for a consulting project that required flying to several of the client’s plants across the United States. By the time the client reviewed and accepted the proposal 6 months later, airfares had nearly doubled. The consultant had failed to include a price increase contingency in the proposal. Consequently, the consultant had to complete the proposed job at a loss. A similar experience occurred in a construction firm. The estimator failed to take into account changes in raw material prices. The company was forced to honor a signed contract proposal that ultimately put it into bankruptcy.

FAILING TO MAINTAIN ADEQUATE CASH FLOW

Cash flow is the difference between revenue and expenditures over a given time (e.g., monthly). “Cash-flow problems are the number one reason that small businesses fail” (Biech, 2007, p. 149). Although it would be ideal to have a consulting business consisting of a post office box that receives money, providing consulting services requires expenditures. If money received is greater than money spent, the business is in a state of positive cash flow. If expenditures are greater, a negative cash flow exists. A negative cash flow is not in itself bad, and should even be expected. But it should not be allowed to persist, as it means the business is taking a loss. The U.S. Small Business Administration (2011a) warns of the need to generate enough sales revenue to pay the ongoing expenses incurred while running the business.

Negative cash flow can also be caused by slow paying clients. The net 30-day payment term is almost nonexistent for consultants. Often, clients pay from 45 to more than 120 days later. However, the consultant will need to pay monthly bills. Negative cash flow can also be caused by excessive operating costs. For instance, a business should purchase only those materials and services essential to maintaining the business, not unneeded computer capacity or expensive office furniture. Adequate cash flow must also be available to fund new projects.

Cash flow problems can be avoided by:

- Keeping costs down to essentials.
- Renting or temporarily contracting equipment (e.g., big copy machines) until the business can support a substantial expenditure.
- Sending invoices promptly after completing projects.
- Enticing clients to pay on time, such as offering price discounts for prompt payment.
- Obtaining a line of credit to offset periods of slow business, keeping company cash in reserve.
- Avoiding clients who do not pay.
- Obtaining quotes for services from other profession-
als (e.g., attorneys and accountants) based on price per job, not per hour.
- Taking advantage of free services and publications (e.g., U.S. Small Business Administration).
- Setting adequate prices for products and services provided.
- Asking for money in advance, such as a certain percentage of the total, to cover variable expenses for a large project.
- Keeping non-variable expenses, such as office rent, as low as feasible.

- Negotiating prices and fees.
- Collecting on invoices aggressively, such as calling the client’s accounting department to inquire about overdue payments.
- Avoiding more jobs than current cash flow can finance.

The objective is to maintain cash balances as close as possible to the amount needed for disbursements. When an increase in demand for consultant services occurs, additional expenses must be anticipated. Additional money does not arrive until later. When making plans for growth, allow for this lag in cash flow.

**FAILING TO MARKET EFFECTIVELY**

Many new consultants believe that once they have announced their intentions, business will come to them. Others, especially health care professionals, feel embarrassed or unethical advertising themselves. However, without promotional efforts, the market will never be aware of even the best nursing consultants. Marketing is not just advertising; it is promotional efforts to reach the potential buyer. The nurse is selling consultant services—what can be done for the benefit of the client, not the consultant as a person. The consultant’s primary objective, according to Block (2011), is to enable the clients to manage themselves differently and more successfully.

To market effectively, the consultant needs to:
- Identify what the client should perceive as the benefits of the services offered and how they meet client needs.
- Treat the client’s needs as paramount.
- Clarify differences and advantages of services being offered compared to those of competitors.
- Find the target market, a cluster of clients among the entire group of potential customers for whom the consultant can provide the maximum benefit. Market to that “niche” in the market arena.

Promotion of consultant services can be accomplished by five main methods: personal contact, “sales” incentives, paid advertising, unpaid publicity, and the Internet. Sidebar 1 lists some of the ways to promote consultant services. Of all these, personal referrals through word-of-mouth generate the most contracts (DeStricker, 2008).

The Internet is now the leading promotional tool for capturing prospective clients. Schaefer (2011) states emphatically, “Simply put, if you have a business today, you need a website. Period.” DeStricker (2008) indicates the need for a website, ensuring that it describes the services, lists previous clients and key accomplishments, and offers value-added content such as a newsletter or blog. The brochure or pamphlet of yesterday is now a website. Biech (2007) describes a website as essential, with the ability to bring potential clients to it 24/7. Several steps are required to establish a website, including obtaining a domain name, designing the site, and having the site published on a provider server. The nurse consultant must have essential contact information readily visible. The consensus of opinion is that it is best to hire a profes-
been started. A clearly defined contract protects all parties share ownership and, sometimes, management. A formal agreement or filing for partnership status is not

Even so, operating a consulting business is not risk-free. Accidental damages to client employees or property can occur. Professional practice carries the risks of negligence or malpractice. The consultant can be sued for “errors and omissions” in which the work done or failed to be done results in financial losses to the client. Insurance coverage, therefore, is essential (Entrepreneur Press & Sandlin, 2010). Coverage may include liability insurance, business interruption insurance, and workers’ compensation. An insurance broker is a recommended resource for additional discussion.

Another legal concern is protecting work and ideas. Ideas will be copied, but every effort should be made to copyright, patent, or label proprietary work. Employees, subcontractors, and clients should be asked to sign non-disclosure agreements to avoid material distribution. Employees entering the business should be required to sign an agreement not to compete for a specific period of time after leaving employment.

Certain records and documents are required by taxing authorities and the law. If a business does not have comprehensive records, analyzing the past and forecasting and planning for the future will suffer. If legal documentation requirements are not met, major problems can result. Although learning about legal requirements is not difficult, an initial review with an appropriate attorney is always recommended. Local and state governments can advise about the need to have a company name researched to avoid duplication. An accountant can advise about tax record requirements. The U.S. Small Business Administration has excellent web-based guidance describing legal record requirements.

SELECTING PARTNERS FOR SOCIAL REASONS

Prior to starting a consulting business, the consultant must decide on the legal form the business will take. Three general forms are common to most states.

Sole Proprietorship

This is the simplest and least expensive form of business. It is not a taxable entity. Income is reported on personal income tax returns. Business expenses and losses are deductible. The proprietor is personally responsible for financial liability incurred by the company. In the case of bankruptcy, creditors can go after personal possessions. An example describes what happened to a truck driver who hauled steel. He established his business by taking out a $100,000 loan for a tractor and trailer. Business was profitable and the loan payments were made on time. Then, a major strike in the steel industry shut down production and the need to transport steel. The driver could no longer make the necessary payments. He lost his home, car, tractor and trailer, and furniture to creditors.

Partnership

Partnership structure is when two or more individuals share ownership and, sometimes, management. A formal agreement or filing for partnership status is not
required. It is not a taxable entity. Professionals who contemplate providing consulting services together typically look at a partnership form of organization. Having a partner can be a good way to bring more start-up capital into the business. Partners are personally responsible for financial liability. In a limited partnership, limited partners are liable only to the extent of their investment. They do not share management responsibilities or authority. Sidebar 2 lists key points to remember when considering a partnership.

**Corporations**

Corporations are autonomous legal entities with readily transferable ownership. They are classified usually as either a C-corporation or a Subchapter-S corporation for tax purposes. Income is recorded by shareholders. The liability of all shareholders is limited to the amount they invest, which is one of the chief reasons the corporation entity is chosen. Gray (2006) cautions that this is not an automatic guarantee against personal liability, however. A corporation does not cease to exist if the owner or partners die. A closely held corporation does not offer stock to the public at large. C-corporations are subject to double taxation, first on their profits and then on the dividends paid out to the investor. A Subchapter-S corporation prevents double taxation. A Subchapter-S corporation is not taxed on its profits. The income is recorded by the consultant shareholder on personal taxes, even if not distributed to personal finances. Thus, it is taxed the same way as a sole proprietorship or partnership. To qualify as an S-corporation, the business must:
- Have no non-resident alien shareholders.
- Have only individuals, estates, or certain trusts as shareholders.
- Offer only one class of stock.
- Derive no more than 87% of its gross receipts from foreign countries.
- Derive no more than 25% of its gross receipts from royalties, rents, dividends, interest, annuities, and gains on sales or stock/securities exchanges.

However, a Subchapter-S corporation must have its losses or profits entered on the individual shareholder’s income tax returns. This can add a considerable personal tax liability if other income contributes substantially to the tax rate being used. Once a business has elected to be a C-corporation, it cannot return to Subchapter-S corporation status for another 5 years. Incorporation is accomplished by filing with the state. It is advisable to have an attorney draft the necessary documents (U.S. Small Business Administration, 2011b).

**Sidebar 2**

**Key Points to Remember When Considering a Partnership**

- Be selective.
- Determine what can be gained from a partnership.
- Decide what the expectations and desired qualities are for a partner (e.g., skills, money, contacts).
- Divide the ownership of the business according to the extent of each partner’s contributions and responsibilities—not an equal split.
- Decide what will be done if a partner dies or plans to end the relationship.
- Determine clear lines of authority. Partnerships work best when each partner has authority and responsibility over a specific function (e.g., marketing, billing, or contracts).
- Put all partnership agreements into writing. If financial problems develop, disagreements among partners can be resolved more easily.

*Note. Data from Holtje (2010).*

**Sidebar 3**

**Resources**

**Entrepreneurship—a Kaufman Foundation site**

[www.entrepreneurship.org](http://www.entrepreneurship.org)

**National Association for the Self Employed (NASE)**

1-800-232-6273

2121 Precinct Line Rd.

Hurst, TX 76054

[www.nase.org](http://www.nase.org)

**National Association of Women Business Owners (NAWBO)**

1-301-608-2590

1413 K St. N.W. Ste. 637

Washington, DC 20005

[www.nawbo.org](http://www.nawbo.org)

**National Federation of Independent Business**

[www.nfib.com](http://www.nfib.com)

**The SCORE Association**

Formerly Service Corps of Retired Executives

1-800-634-0245

[www.score.org](http://www.score.org)

**U.S. Small Business Association**

1-800-827-5722

409 Third St. SW

Washington, DC 20416

[www.sba.gov](http://www.sba.gov)
A popular form of business entity (Holtje, 2010) has become the Limited Liability Company (LLC). It is a form of business structure defined by state laws. An LLC is similar to a corporation in which owners have limited personal liability for the company debts and actions. It is also like a partnership, providing management flexibility, less paperwork, and the elimination of double taxation (unless filing taxes as a corporation). Owners of an LLC are called members, which may include individuals, corporations, other LLCs, and foreign entities; no maximum number of members is defined. Most states also permit “single member” LLCs with only one owner. The Internal Revenue Service does not recognize an LLC as a classification for federal tax purposes. An LLC business entity must file as a corporation (S or C), partnership, or sole proprietorship.

Ownership and control of sole proprietorships and corporations are clearly delineated. Disputes can be problematic in a partnership unless a written agreement has been legally created. Often, partners start a business with erroneous assumptions about what the other partner expects. It may not have been clearly decided what happens if one partner leaves the business. Partners must rely on the other’s decisions, performance, contributions, and judgments without having disciplinary or other methods of recourse. When lines of authority are not clear, legal action can result. Deciding to initiate a partnership based on “being friends” is an insufficient reason for selecting the partnership as an organizational model (Holtje, 2010).

FAILING TO ANTICIPATE MARKET CHANGES

The business world is dynamic. Some changes occur quickly, such as fads, whereas others occur gradually. It is especially critical for the consultant to stay a step ahead of the client market in knowledge and skills. Obsolescence spells disaster. Also, being unaware of trends and competitor activities can slow business to a trickle. Client needs change. Suppliers change products and product availability. Prices, such as airfare or printer toner costs, can increase rapidly. The independent consultant must anticipate and react to change. This strategy includes examining:

- Technological changes—changes that can improve efficiency (text messaging), that will result in a competitive disadvantage if not used (websites), and that are specific to meeting client needs (e.g., blood-borne pathogens personal protective equipment).
- Competitor changes, including new competitors, new marketing strategies, price change, and changes in products and services.
- Client needs and expectations change, as in new regulatory mandates, changes in management styles, and changes in on-site capability (Katcher & Snyder, 2010).

Ways to keep abreast of changes are through networking, professional journals, meetings, and business websites such as those listed in Sidebar 3. Networking includes not only nursing contacts, but also contacts cognizant of client and competitor activities. Monitoring regularly for updates on legislative activities and changes is essential. An excellent way to do this is by periodically reviewing government and competitor websites. Also, consultants must watch involvement of the public in hobbies, fads, and computer activities, which provide clues to future business trends. Obtaining regular advice from attorneys and accountants is vital.

CONCLUSION

By understanding common mistakes that can undermine a business endeavor, the nurse desiring to become an independent consultant can take specific actions to recognize and avoid them. Being self-employed is demanding, but the end result can be a comfortable living with the opportunity to create and innovate in an atmosphere of independence and personal challenge.

REFERENCES

ham, WA: International Self-Counsel Press Ltd.