

# Establishing a Business: Fundamental Aspects for Information Practitioners

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OPPORTUNITIES EXIST TODAY for information practitioners to establish consulting businesses. Undoubtedly, many information practitioners have had opportunities to provide consultant assistance for pay, but have been limited by the scope of a traditional setting, combined with an ignorance of what it takes to set themselves up in business. Library schools generally emphasize professional training for institutional work environments. As F. W. Lancaster describes: "The library profession is the most 'institution bound' of the professions, and the electronic age will force librarians to abandon the building to remain viable...."<sup>1</sup> Lancaster seems to indicate that preparation for the traditional environment for librarians might not be adequate and that a glimpse into the future might reveal what S.D. Neill (a professor at the School of Library and Information Science, University of Western Ontario, London, Ontario) predicts: "Close to 60% of the graduates of library schools in 2010 will be self employed or will work out of libraries under contract to small businesses....Access to information (not books) will be provided by those going into business for themselves—very few in the 1980's, but in increasing numbers as the next decade begins."<sup>2</sup> For some, nonetheless, this future is here now and the need to know and learn about consulting services is necessary. Futurist Alvin Toffler foresees a new dimension of the probable continued growth and economic importance of the "electronic cottage." This term refers to homes—rather than

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offices and factories—where work is being done primarily through the use of microcomputers and remote computer terminals. Many of these people will be self-employed and many will be information practitioners.

The basis for economic growth in the United States has shifted from industrial needs to needs for services and information. Employment growth has occurred overwhelmingly in these sectors. Indeed, we are said to be living in an information society. Information “experts” will become increasingly important to all types of businesses, large and small.

However, most information practitioners have not pursued opportunities to establish a business and provide consultant assistance for pay. The primary reasons for little initiative in this direction may be a misconception that establishing a business requires full-time effort and also an ignorance of the procedures for establishing a consulting business.

Establishing a business in the field of information practice does not necessarily require a full-time effort nor does it necessitate leaving the security of current employment. Information practitioners are in an ideal position to establish a business without assuming all the normally associated risks. Many information practitioners can pursue a consulting business as a second or part-time job. Minimal financial investment is required to establish the business since most of the costs involved in providing consulting services are variable. In other words, the consultant has minimal costs or expenses until the work is performed. Unlike most businesses, large amounts of inventory, employees, equipment, and facilities are not required prior to opening the business.

In most cases, operating a business successfully requires a working knowledge of traditional management skills. Therefore the majority of this article deals with the fundamental aspects of establishing a business. However, several personal qualities are, perhaps, even more important. Before getting down to the nuts and bolts practical side, information practitioners considering establishing a business should evaluate themselves in light of these necessary personal qualities.

## **Entrepreneurial Characteristics**

### *Creativity and Innovation*

Creativity and innovation are complementary. In order to be innovative one must be somewhat creative. Creativity has been defined as a combination of new and old ideas which will better satisfy a need. The application of creativity may be an important reason for the success of

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any business. The formation of the business itself is a creative act. Creativity can help in the long-range forecasting of the future role of the business and of the future environment in which the business will operate. Successful business owners are perceptive, farsighted and resourceful.

### *Coping with Change and Competition*

Effective business operators should not be interested merely in making a reasonable return on their investment in the current year. They must also look ahead and, to a greater or lesser degree, prepare plans for the business five to ten years in the future. It is possible to get some idea of the extent of future change when one reflects on the tremendous changes that have occurred in the past ten years. Changes in the future will continue at an accelerated rate. In order to be successful in the future, the self-employed person must become adept at coping with change. This requires flexibility and versatility.

### *Achievement Motivation*

Successful entrepreneurs have been described as people who have high need achievement. Need achievers take moderate risks, take responsibility for their actions, look actively for feedback to improve performance, and have a propensity to action. They do not wait for things to happen.

### *Problem Solving and Decision-Making*

The success of the business depends to a large extent on the individual's ability to solve problems and make decisions quickly. Business owners must be aware of problems, clarify problem situations, collect information, identify alternative solutions, select best alternative solutions, take action, and evaluate results.

### *Human Relations Ability*

Human factors, both in relation to employees and clients, are an important ingredient of success, especially in small business. Ability to have personal contact with clients is a decided advantage which the small business owner has over its larger competitors. Clients' needs are a prime consideration. The marketing strategies of many small businesses are client oriented rather than product oriented.

### *Developing a Positive Self-Image*

A positive self-image begins with an awareness of self. Prospective business operators must be willing to spend time evaluating their own

personalities. Personal strengths and weaknesses must be identified and understood. They must be willing to make an effort to change or modify any negative or unwanted personal traits. In addition, business operators must be tenacious. They must be able to accept failure and bounce back.

Information practitioners who possess these personality traits are likely to have considered establishing a consulting business. Moving from the consideration stage to the implementation stage requires a knowledge of key procedures and a willingness to proceed.

### **Key Steps for Organizing a Consulting Business**

The following list and discussion of key steps for organizing a consulting business is not exhaustive or all-encompassing. Each of the four major steps described should be broken down to smaller more specific procedures or tasks. Much has been written on each of the four steps. Information practitioners who are serious about establishing a consulting business should use the information presented here as a starting point for further action. Although the steps are presented in somewhat of a logical sequence, in reality much of the activity or procedures will be occurring simultaneously.

#### *Step 1: Identify and Define Salable Service*

The consulting business most likely to succeed is one which is based on a service that clients will pay for in sufficient volume to generate a profit. In order for a consulting business to be successful and profitable, there must be an adequate market for its services. The failure of many consulting businesses can be traced to the inability to identify and define a salable service. The enthusiasm of prospective consultants can often cause them to overlook this most basic business premise. The basic purpose of a consulting business is to provide services that clients need or want. Providing services which might sell is not likely to lead to much success. Before entering into the operation of a consulting business, it is, therefore, essential to determine just what services can be provided and whether a market exists for these services.

Closely linked with the creation of the consulting business as an organization is the establishment of limits. The work for which the business competes, or which is undertaken, should "fit" the image the business is attempting to create. A business which tries to be all things to all people runs the risk of being viewed as less expert or professional than competitors whose focus is more specific. No consulting business

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can respond to every funding opportunity nor meet the specialized needs of all potential clients. The diversity of interests among potential clients is so great that no consulting business could possibly deal with them all. Consultants who respond to every request for proposal or opportunity, regardless of their expertise, will find they spend all their time writing proposals, losing credibility, and not receiving awards and contracts. Rather than engaging in aimless wandering for funds, it is important that the business develop a reputation, credibility and expertise in specialized areas.

It is absolutely necessary that limits be imposed upon consulting interests. One way is to list the areas of expertise of both yourself and associates of the consulting business. From that list a statement of goals can be developed.

The development of a well-written goal statement that can be used to make decisions about future activities is important. When new opportunities arise the consultant can use the statement to judge a response. There is no lack of potential clients. A clear goal acts to screen out unproductive areas and focuses efforts upon realistic opportunities. When developing goal statements for the consulting business, keep in mind that making money cannot be a goal. A goal deals with particular topics or areas of expertise. Potential clients are not looking for consultants that want money, they are seeking solutions to problems.

Every consulting business sells some type of service to people. These people, or potential clients, can be described as people who *need or want* the services, are *able to buy* the services, and are *willing to buy* the services. The market for the consulting business is not comprised of all the people in a geographic area or within a given field, but only those who need the service and are willing and able to buy it. One way to begin to determine the market is to develop a list of agencies, institutions and individuals who need or want the services. The list can then be reduced to those who are able, and then to those who have a record of being willing to pay for consulting services. This market segmentation can be useful in helping to identify "real" potential clients.

### *Step 2: Determine the Legal Form of Organization*

One of the first decisions a consultant must make is to determine the form of legal organization of the business. However, this initial decision should not be considered as final. Not only will the business grow and alter its operation over time, but financial and tax situations may modify the advantages and disadvantages of the various forms of legal organization.

The vast majority of the consulting businesses in the United States are organized as one of three legal forms. They are the sole proprietorship, the partnership and the corporation. The sole proprietorship has only one owner. A partnership has two or more co-owners. A corporation is an association of stockholders or owners chartered by the state. The corporation has the authority to transact business in the same manner as one person.

There are other less common forms of legal organization, such as the subchapter-S corporation, the business trust, the partnership association, and the joint stock company available to the consulting business. Although most businesses are organized as a sole proprietorship, partnership or corporation, all forms of legal organization should be discussed with a competent attorney before any decision regarding which form to select is made.

The consultant should have a basic knowledge of the legal forms of organization available to the business, and should be aware of the relative advantages and disadvantages of each form of organization. Competent legal advice should be obtained when deciding which legal form to adopt. Basing the decision on form of organization on a business colleague's advice or experience is not sufficient. Factors such as current salary, other income, value of personal property, marital and family status, and amount of consulting income (which vary among individuals) can be important when making the decision. When discussing the decision with an attorney and an accountant, it is crucial that all such information be shared openly in order to obtain the best advice.

Generally, there are no special licenses required for a consulting business. When starting a sole proprietorship the only requirements are to determine if a license is required for the particular consulting business. The best way to determine if licenses, fees or registration are required is to check with an attorney. The business will be required to identify itself on tax forms and any required licenses by either the owner's social security number or a Federal Employer Identification Number. A social security number is all the identification required until employees are hired. Because of the limited restrictions, the sole proprietorship is the easiest to start and the initial costs are minimal.

### *Step 3: Establish an Identity for the Business*

Generally, a consultant's reputation or identity is the result of success over time. During the initiation phase of the business, there is likely to be a great divergence between the image or identity desired to be

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projected to potential clients and the actual substance to back it up. It is most important during this time that actions, statements, literature, and promotional methods do not project the impression of an amateur, unprofessional or fly-by-night operation.

Presenting a professional image of the business is as important to establishing an identity and securing consulting work as the actual services provided. Methods should be used to create an image which is consistent with the type and quality of services provided. Establishing an identity for the consulting business is closely related to promoting and selling services. Creating the image of an established professional organization and becoming visible will help to establish an identity for the business.

For the consulting business, the notion of organization goes beyond designing a structure for operational efficiency for legal organization. The existence of an organization communicates a sense of pooled resources, potential and permanency. An organization can be formed instantly by the creation of a label or name for the consulting business.

The name selected should be consistent with, and descriptive of, the services provided and should help to create the image of a "company" prepared to meet a focused need and to deliver a service or product.

The business name should be pleasant sounding and easy to pronounce. It should tell people what the business does. However, while being descriptive of services provided by the consulting business, it should not severely limit opportunities and should stand up to the passage of time. In some states or localities it is necessary to file a fictitious name statement if the business goes by any name other than the owner's real name.

The identity and credibility of the consulting business is developed in part by the potential clients' perceived significance or value of the business' resources, primarily people. The utilization of a pool of talented and interested individuals identified as associates can add to the business' resources. Individuals from this pool of resources can be called upon for their specific expertise when needed.

A simple technique used by many consulting businesses is to maintain a résumé file of individuals with varying expertise who have agreed to be identified from time to time as associates of the organization. After a telephone call for permission, a résumé can be copied and added to proposals or prospecti. Identifying and using an individual or individuals as associates at appropriate times can lend further credibility and identity to the consulting business and enhance its image as an organization.

A major part of establishing an identity for the consulting business is to create and maintain visibility. One element of visibility is communication.

Communication in this sense refers to the processes of giving and getting information. Development of a resource network is critical for communication. It can serve three purposes. First, by pursuing an ongoing dialogue with individuals in the field(s) within which the services are needed or utilized, the number of potential resources for consulting efforts is increased. Second, a planned sequence of contact increases collegial awareness and can provide information about potential opportunities for the consulting business. To establish an identity, it is critically important that informal dissemination of the business' existence take place. Third, communication through a network of individuals can provide clues that provide notice of forthcoming opportunities. A common complaint from isolated consultants is that announcements of opportunities always arrive too late or with such a limited time frame that response is harried and not as effective as it otherwise might be. An effort to both give and receive information through a network of individuals can enhance visibility and make a difference in the competitive consulting field.

Although informal communication through a resource network is extremely important, it should not be used as a substitute for a formal communication system. Target audiences for services must be identified and communicated with. The individuals who comprise the resource network can serve as the nucleus of a dissemination list. To develop a list of individuals with whom communication is essential, people must be identified who need to know about the existence of the consulting business. If specific people cannot be identified then positions should be listed.

Communication is most effective through a planned system of information dissemination. Giving information about the consulting business enhances visibility and creates a vehicle for the return of information. Personal interaction is important, but it is not the most effective or efficient approach. The easiest method for increasing visibility through dissemination of information is with printed materials delivered to a well-defined target audience. The dissemination list provides a target audience.

#### *Step 4: Managing Financial Aspects of Delivering Services*

Financial control and management is a very important aspect of any business, yet it is an oftentimes neglected activity. Many profession-

als who invest their energies and expertise in consulting work, direct all or almost all of their attention to the act of consulting and may not pay adequate attention to financial record keeping and management. Three fundamental aspects of financial control and management are: (1) pricing consulting services, (2) billing consulting services and expenses, and (3) record keeping.

Pricing in a service business is much more difficult than pricing in a product sales business. A product can be observed, compared and further analyzed prior to purchase. The price is explicitly stated which enables the buyer to make cost comparisons and/or to compare characteristics of the product to its cost. When a service is purchased, the buyer oftentimes sees only the expenditure of labor and the results of that labor. The buyer then generally equates the (see p. 13) costs of professional preparation, necessary equipment, preparation time, travel time, and other related costs. In a consulting business, the buyer of services usually sees only the consultant on-site and may miss a large portion of invested energies expended in planning, following up and reporting. Therefore, a pricing policy needs to be established to set a standard of quality and reputation for one's services, and to portray the total service or job to the client.

A pricing policy is a guide for determining what to charge for specific consulting activities and a means of consistently doing so. Establishing a pricing policy is difficult, but it will assist in avoiding potential problems in the long-term operation of the business. The establishment of a pricing policy for a consulting business depends on the type of consulting, the client, the expertise and uniqueness of the expertise being sold, the duration of the service, and other like factors. Generally, however, the consultant should follow these general steps: (1) obtain an estimate of what other similar consultants charge; (2) identify and list the major types of consulting services to be provided; (3) group the potential services into categories that relate to complexity or degree of skill required; (4) delineate labor costs for each of the categories; (5) identify and analyze other costs associated with the consulting services; and (6) summarize the pricing policy on paper for future use.

Billing for services and expenses is a task closely associated with pricing and managing the delivery of services. The billing process is a fairly simple one and is usually linked directly with previous arrangements for payment. These arrangements are most often tied to some oral or written agreements that are made in the initial stages of a consulting job. Many small jobs are billed upon completion while larger ones may have allowances for periodic billing and payment.

Regardless of the period of payment of billing, the process remains essentially the same. This involves the preparation and submission of an invoice, statement or claim form. The invoice or statement is a form that is sometimes specially printed or typewritten on business letterhead. A narrative description of the services that were provided and expenses that were incurred are included. In some cases consulting work done for specific agencies may require the use of agency-specific claim forms. Of course, the preparation of billing statements or claims should be based upon records of labor expenditures and upon records of other costs.

Record keeping is an important aspect of a successful consulting business. Record keeping is important not only for tax purposes, but also for billing, decision-making and planning.

A key principle in managing the financial aspects of a consulting business is to keep consulting expenditures separate from personal expenditures. Likewise, a separate accounting of consulting income is useful for record keeping and tax reporting. A business checking-account is extremely useful in keeping an accurate record of consulting expenses. A credit card used only for business expenses may also be useful. All consulting income should be recorded in some form. One way to accomplish this is to deposit all consulting income into the business checking-account. An income ledger will also provide a record of consulting income.

## Conclusion

Information practitioners have opportunities to pursue consulting as a private enterprise. There are advantages for information practitioners in entering a private business venture and there are not as many barriers to overcome as others find when establishing a completely new business. However, the success encountered in establishing a consulting business will be proportionate to proper preparation in three ways: (1) knowledge of their own profession in the information field, (2) knowledge of business operations, and (3) knowledge of their personal strengths and weaknesses.

## References

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