

PharmaSUG 2016 – Paper CP03

Are You Thinking About Becoming an Independent Contractor? Things to Consider as you Plan for Your New Entrepreneurship

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Abstract

Have you contemplated starting your own business as an independent contractor? There are many things to consider such as financial planning, establishing a business infrastructure, and support activities you will need such as IT. This paper will explore the many items to consider as you make your decision.

Introduction

Many people consider alternative employment opportunities such as becoming an independent contractor or consultant, and many companies utilize the services of specific experts and flexible resourcing solutions. Many people go into ventures such as this unprepared. They may think it's an easier way to make more money by capitalizing on knowledge and tools gained from 20+ years in industry; or they may think it's a way to gain more control of their work-life balance. The objective of this paper is to outline the traits required to be a successful consultant, whether it's a good time both personally and industry-wise to make the leap, what considerations are needed, and the steps needed to get started.

Background

First, let's explore the definitions of an employee and an independent contractor. An employee performs duties as determined by others (i.e. manager or supervisor). An employee's salary is typically pre-determined and paid on a regular and steady basis. Benefits complete the overall compensation package. Any necessary office equipment (computer, printer, phone, etc.) is provided by the employer as well. Professional training is provided by the employer generally at no cost to the employee. Additionally, the employee's manager provides career guidance and performance feedback helping the employee to improve skills.

An independent contractor must find their own paying work engagements, provide their own office equipment, be responsible for their own invoices and collections, and is basically in charge of "making their business happen".

There are both benefits and disadvantages to being self-employed. Many independent contractors enjoy the pride of owning their own company. The income potential is only limited by how much work you want to take on and your rates. A major benefit of being self-employed is that you are your own boss. This means you are able to set your own work days and hours, choose your clients and jobs, and benefit from significant tax and retirement advantages.

Ironically, the downside to being self-employed is that you are your own boss. It is up to you to motivate yourself and stay on task without having to be accountable to anyone but yourself. This can be challenging for many people. In addition, working as an independent contractor can be isolating at times. It is up to you to build your own network of colleagues to give you encouragement and bounce off ideas and solutions to problems.

Introspection

Becoming a successful independent consultant requires patience, confidence in your skills, an "all-in" mentality, and the ability to be self-directed. You must be able to persevere through long days and low billable times, and have the tolerance for adjusting to multiple client's requirements and preferences. In order to determine if you have these traits, you might ask yourself the following questions:

- Are you good at managing fluid situations?

- Do you like to be responsible for managing your workload?
- Can you see things from other's perspectives?
- Do you take the initiative in solving problems?

Additionally, you need to determine if the timing is right and you are ready to set up your own business. You will want to ask yourself the following questions:

- Do you have a nest egg saved up?
- Will your personal life align with self-employment?
- Do you have valuable, marketable experience?
- Are your skills current?
- Do you have a lot of industry and business contacts?

You will need to assess if the industry is ready for you. You should ask several colleagues how many think it's a good time to be an independent consultant, and also if it's not such a good time to be self-employed. You will want to assess if companies are hiring consultants, and if so for how long and for how much. Companies typically utilize contractors and consultants for the following reasons:

- Staffing flexibility (hiring and firing)
- Cost savings
- Reducing liability
- Reducing fixed costs
- To increase ramp-up time
- For specialization and expertise
- A trial run for potential permanent hires, "try before you buy"

You will need to assess the market for potential clients and find out who is hiring independent contractors and consultants. These may include CROs looking to augment project teams, staffing companies, pharma companies looking for targeted expertise, and biotech and medical companies looking to supplement their internal expertise.

Compensation

There are a variety of models for consultant compensation. As an independent consultant, it will be up to you to determine the best fit model for you, your client, and the scope of work. Compensation models include hourly, daily, or monthly rates; unit-based rates; and fixed price for the scope of work. You will need to understand the market and determine what you will charge for each type of compensation. Below is an illustration of the current market situation:

Income by Employment Status

Title	National Average Employee Salary*	Average Contractor Income based on <u>2000</u> annual hours**	% Difference
Principal Statistical Programmer	\$102k	\$170k	40%
Senior Statistical Programmer	\$98k	\$150k	34%
Manager Statistical Programming	\$120k	\$180k	33%

*Salary averages from www.indeed.com

**Estimate based on current consulting rate trends

Expenses

This potential earnings potential sounds great, but remember consultants have expenses too. Here is non-inclusive short list of items that you will pay out of pocket:

- Payroll taxes: FICA, Medicare
- Benefits

- Insurances
- Training and licensures
- Accounting and legal fees
- Equipment and software
- Supplies

And don't forget that you will need to allot time to manage your business, which includes activities such as invoicing, collections, marketing, business development, and attending industry conferences.

Practical Next Steps

Are you ready to take the leap? See the following checklist for starting-up your own business. Don't forget to budget for the costs of these items. Additionally, think about a plan to market your business and the associated costs such as website design and maintenance or the costs to join professional organizations to market your new business.

Sample Business Start-up Checklist

- Select a name and legal structure
- Write a business plan
- Obtain a EIN
- Register for state and local taxes
- Open a company bank account
- Obtain state and county business licenses
- Set up an accounting and record-keeping system or outsource
- Obtain business insurance(s)
- Hire an attorney
- Systemize and organize
- Develop a business identity
- Identify your target clients
- Update your CV!
- Market your business
- LinkedIn
- Join self-employment blogs or groups
- Start networking!

Company Name and Legal Structure

The first decision is what to name your business. Will you use your name? Will you create a new name? Probably one of the more complicated decisions you will make is to decide on the legal structure of your new business, and there are many considerations including if you plan to have employees, when you anticipate having your first client, and how much you expect to bill on a monthly basis. You will need to decide if you want to incorporate or have a sole proprietorship. You may want to consult with an accountant and/or attorney to determine the best model for you. There are also online options such as bizfilings.com and legalzoom.com.

Finances

You will need to create a financial infrastructure for your business. Set up a corporate bank account so you do not commingle your funds. Consider getting a revolving line of credit to manage the financial peaks and valleys of your business, and get a company credit card. Decide if you will use an accounting system such as QuickBooks or hire an accountant and budget accordingly. Remember that you will need to reserve time to invoice your clients and do collections. Explore tax advantages of your company status, and remember you will need to make quarterly estimated tax payments. Finally, set up a SEP-IRA to plan for your retirement.

Protecting Your Business

You need to protect your business. Consider the following business insurances and services, and budget accordingly:

- General liability or umbrella policy
- Errors and omissions
- Secure an attorney
- Contracts review and advice
- Contracts ARE binding – understand what you are signing
- Lawsuits or contract breach

Sales and Marketing

Now you are ready to sell yourself. Overhaul your CV. Make sure you list studies you have supported or lead including phase, therapeutic area, and indication. It is recommended to create a bio with your CV and to tailor it to fit the needs for each opportunity you are pursuing. You might also consider adding a record of special training you have completed or conducted. For example, if you taught a class on RECIST criteria for programmers, you will want this highlighted for a client in the oncology therapeutic space. Things to consider:

- Overhaul your CV, it is your sales brochure
- Create a comprehensive list of studies including phase, therapeutic area ,and indication
- Provide a record of training
- Provide “powerful” written references
- Create a bio to send with your CV
- Tailor it for each project
- Practice interviewing

Start Networking

Networking is how many successful consultants find their gigs. Create a professional profile on LinkedIn, and make sure to have a professional looking photo. Join LinkedIn groups that fit your experience and interest. Reach out to recruiting agencies. Join and attend professional association meetings such as PharmaSUG, PhUSE, and CDISC. Reach out to former colleagues and past clients. Let them know what you are doing. Ask them to write a recommendation to post on LinkedIn and/or your website.

- Create a professional profile on LinkedIn
- Communicate when and why potential clients should contact you
- Join groups you have experience and interest in (i.e. Oncology clinical research)
- Link-up with recruiting agencies
- Join local and national associations
- Connect & re-connect with your contacts

Being an independent consultant can be rewarding financially and professionally, but it is not for everyone. If you believe it is the right fit for you, here are some links for future reference. Learn everything about your business you can. Explore websites such as SBA.gov, Entrepreneur.com, IRS.gov, and Theselfemployed.com. Talk to seasoned consultants, find a mentor, meet with your accountant, take classes/seminars, and speak with recruiting agencies. Good luck!

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