

SE-32

Self-Employment Questions and Answers 101: Starting Out

by

John B. McHugh

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Why Self-Employment?

Hundreds of thousands of professionals are out of work because of the prolonged recession and permanent downsizing of the U.S. economy. Fewer well-paying jobs are available to professionals such as IT directors, HRM executives, advertising executives, bankers, investment advisors, financial managers, designers, lawyers, editors, architects, etc. Even though the economy has improved, companies are getting by with less payroll and pocketing the savings. So self-employment is an option for you to generate some cash flow and create a new career for yourself.

Or maybe you are working at a job you love, the money is good, and your job is secure, but self-employment is something you have always dreamed of. Then, you too, should read on.

Do You Need Reliable Information on Self-Employment?

If you are starting on your self-employment journey or even if you have experience in self-employment, you know that getting reliable information on the subject is difficult. There is precious little information on the "how to's" of self-employment. Much of what is available are either get-rich-quick scams or pyramid deals. Small business management is not the same as self-employment. For the most part, the needs of those aspiring to become self-employed are not met. Many who are self-employed must learn by costly trial and error.

What useful information on self-employment can I offer you? A substantial amount, as I have been accumulating information and "how-to's" on the techniques of self-employment. During my 30 years of self-employment, I have experienced everything I write about. Through extensive trial and error, I have acquired a body of knowledge that I share with you as your *Self-Employment Advisor*.

I have kept a journal on my experiences, observed self-employed individuals, and read extensively on subjects related to self-employment. I have experienced every high and every low, every success and failure as a self-employed professional. I have tried and experimented every possible way to promote myself. I am living proof of the cliché, "You ought to write a book."

To help you navigate your self-employment, I will answer the questions that I am most frequently asked about self-employment as well as those I had to figure out myself.

Why Two Self-Employment Q & A Papers 101 and 102?

I have written two separate McHugh Self-Employment Q& A papers. The topics in each paper are fundamental to your self-employment success, and are broken out into two papers for these reasons. First, all 24 topics, some with complex answers, make for a long read and your time is valuable. Second, the separation of the topics into two papers reflects my judgment as to what you need to know when you are starting self-employment (101) and those topics that are of more value once you have launched your self-employment venture(102). Admittedly my selection is arbitrary, based on my 30 years experience, and some topics could be covered either in 101 or in 102.

Terminology Note: "Prospect" and "Client"

The terms *prospect* and *client* are not synonymous and should not be used interchangeably. Here is the difference. A prospect is someone who is considering using your services and you have not yet decided to serve this individual. A client is someone who has decided to use your services and he/she has met your selection criteria of someone you want to serve. When someone becomes a client, no money has changed hands yet, but the mutual commitment is made. Up until that point in time that person is a prospect. My job is to advise you on how to convert the prospect into a client (i.e., cash-flow) and likewise avoid those who should remain prospects (or maybe just suspects).

What are some of the cold, hard truths of self-employment?

Many aspire to be self-employed. But as Ringo Starr sings, "It Don't Come Easy." Self-employment can be a hard road to take unless, maybe, you are a world-famous heart surgeon and patients seek you out. Having traveled the self-employment road myself, here are some of the cold hard "truths" I have learned during my journey:

- *Only you can promote your service to prospects.* Unless prospects know about you, no one will contact you. *Don't be shy, be pushy.* Many capable people are shy when it comes to promoting themselves. The operative word is *chutzpah*.
- *In the initial years of self-employment, plan to dedicate at least 25 % to 50% of your time to developing new business.* The commitment includes direct mail, publicity, article writing, social media, blogs, speaking, and networking.
- Successful self-employment is a balance between promoting yourself, acquiring new accounts, practicing your craft, earning an income, and back-office (bookkeeping, billing/collecting, taxes, record keeping, computer systems, etc.).
- *Think of yourself as a **BUSINESS**.* If you don't take yourself seriously, no one else will.
- *People will waste your time.* Many will call and expect free advice. Many assume that your time is worth less than a used car salesperson.

What ten questions should you ask prior to working on a self-employed basis?

Many self-employed people fail to think systematically about how they should approach self-employment. They think, " I have a service that I offer and word will get around and business will come in." If only it were so easy. The following 10 questions are a self-

audit to determine if you are just dabbling or serious about earning a living as a self-employed professional.

- What are your goals? Can you quantify them?
- How will you acquire new business?
- How will you promote and publicize your business?
- Do you have a brochure? Website? Use social media?
- How will you use your existing professional network? Add new network contacts?
- How will you generate referrals?
- How will you generate inquiries from qualified prospects?
- What agreements, contracts do you have? Are they in template form?
- What is your fee schedule? What is the rationale behind your fee schedule?

What are some attributes of successful self-employed people?

I am sure if you asked 10 different experts, you would get 10 different answers to this question. My list of eight attributes is a product of self-observation and my observation of other self-employed individuals, both successful and unsuccessful.

My list includes:

- Initiative
- Risk tolerance
- Aggressiveness
- Tenacity and perseverance
- Creativity
- Salesmanship
- Project management/time management
- Optimism

These eight attributes are explored in detail in a McHugh Self-Employment paper, SE-33, ***Eight Attributes Needed for Successful Self-Employment***, 2012, 6 pages, \$4, which can be purchased at www.self-employmentadvisor.com.

How do you establish a profitable hourly rate?

Self-employed people need to carefully think through how they establish their hourly rates and take into account a number of considerations. If you are self-employed, you will have a number of costs to recover that you probably never thought about when you worked for someone else.

Those who are new to self-employment run the risk of charging an hourly rate that is far too low for them to make any serious money. Usually it's a matter of not understanding how to build an hourly rate that recovers all your costs. I suspect it's also because many lack self-confidence or are afraid the fees will be too high and drive business away. (Think chutzpah.)

If you don't recover all your costs, most likely you will never earn a profit as these costs remain even if you incur them infrequently. Costs you must load into your hourly rate include: benefits and taxes, retirement contributions, the costs of promotion and publicity and unbillable time.

Establishing your rate is more complex than thinking, "I will make money if I charge X per hour." There are myriad considerations in establishing a rate that is profitable. If you charge too low an hourly rate your net income will always be low. In fact, you may even lose money. If your hourly rate is too high, you won't be competitive and probably will go out of business.

Given the importance of this topic, I have written a paper that will help you set an hourly rate that is profitable: SE-34, *How to Establish a Profitable Hourly Rate*, 2012, 6 pages, \$6. To order www.self-employmentadvisor.com.

Should you ask for money up front?

In my business I always ask for a substantial portion of the fee (usually 40 %) up front, 40% upon a set point in the project and the remainder upon completion. You should always get money up front when you are starting out as you will need the cash flow. And it is prudent practice to get some payment up front for clients who are new, and also if you have concerns about the client's credit worthiness.

"Clients often have difficulty understanding that you are selling your professional advice. Professional advice is intangible. You can't see it or feel it; there is always a natural reluctance to pay for things you can't see or feel," according to Jay Foonberg in his book, *How to Start and Build a Legal Practice*. You deliver the advice and the client figures, "This isn't a tangible so why should I pay?" So unless you get money up front, you may find yourself working for nothing.

What if you are selling a product? This is a different situation even though many of the same rules apply when dealing with compensation. However, what I write in this paper is aimed at those selling a service such as editing, or advice such as consulting.

When dealing with money — your own money — you can't be too careful. Money can bring out some of the meanest, nastiest traits in people. The funny thing is that some who behave the worst have the money but want something for nothing or want to make a game out of stiffing you. *When you sense this is the case, don't walk away, run.*

Jay Foonberg says it best, "It's better not to work than to work and not get paid. The client who can't or won't pay you cash up front at the beginning of the case is the same client who can't or won't pay you cash during the case, and is the same client who can't or won't pay you cash at the end of the case."

Think of the old hit song, "*Money Honey*...If you want to get along with me."

What about moonlighting?

If you are currently working for someone, this section is written for you. You may love your job, make good money, have a great boss, and feel secure. However, like me, maybe you always have wondered about moonlighting. It's actually a good idea to consider moonlighting, as you never know when your employment situation can change and you can find yourself among the jobless.

I am a proponent of moonlighting as a way of learning about self-employment. To have some experience with moonlighting and the ability to earn extra income is a real plus. If you have moonlighting experience you will be able to earn some much needed cash if you lose your job. Here are some caveats about moonlighting.

First, behave ethically. You must never compete with your company or reveal proprietary information. Second, your company may have a policy against moonlighting or may require you to seek permission. Always comply with your company's moonlighting policy. And finally, do not moonlight if your day job performance will suffer. Use your own time. Moonlighting takes energy, ambition, and discipline. It's not for everyone.

A warning: do not tell any of your work colleagues that you're moonlighting. Sharing this information will cause you grief as colleagues may be envious and your political adversaries may use this information against you.

Should you ever send a resume to a prospect?

No. Sending your resume, in lieu of a brochure, makes you look like you are looking for a job or between jobs. This puts you in a supplicant position and makes you appear desperate. Companies will always lowball you when you appear to be desperate. Also, if you come across as desperate, a prospect may question your competency.

Let me give you an example. Once I was on the job market and was also trying to bring some cash in as a self-employed consultant. I had only a resume to promote myself.

I sent my resume, looking for work, to a competitor of my former company in another city, about 400 miles from where I live. An executive at that company said, "Sure, love to talk, stop by." Note I had little else going on and this invitation excited me. So I traveled to their office at my expense. Here's what happened.

I spent most of the day getting my brain picked. I was too inexperienced to understand the dynamics of the situation; namely, these freeloaders had no interest in retaining me as a consultant. Later, after I figured that out, they called again to ask some more questions. I said, "Can't talk with you now," and I sent an invoice for a retainer. I never heard from them again.

Understand that many companies are adept at getting you to work for nothing when you appear to be vulnerable. The fact that a company has the means to pay you doesn't mean they intend to pay you. If you sense you are dealing with a parasite, bring out the repellent ASAP. *The world can be a mean and inhospitable place, particularly when you appear to be dealing from a weak position. Only you can take care of your own*

interests. Maybe you think this viewpoint is cynical but it is the reality of the world we live in.

What type of promotion works best?

A short brochure that can be the basis for your website is ideal for sending to potential clients .When preparing your brochure, be sure it answers these questions:

- What is your service?
- How will clients benefit?
- What is the value of your service?
- Why would someone want to use your service?
- What are your credentials? What is your experience in your field?
- How can people contact you?

Use bullets to minimize copy and the amount of time it will take your potential clients to get to the heart of your message. This information will be the nucleus for LinkedIn™ and your website copy. This brochure can be one 8 ½ x 11 page. If you want to dress up the appearance of your brochure, that's fine, but not necessary.

Should you use social media as a tool to promote your service?

Social media can be valuable in getting your name in front of your audience. It's free, except you need to factor in the cost of your time, which could be substantial. First, a couple of definitions will be useful.

According to Pam Boiros of SkillSoft Books 24x7, "Social media is any online platform or site that enables users to create their own content and make it available to others. Like everything with social media, there are varying definitions." Pam also states, " And although the terms are sometimes used interchangeably, *social networking* is very different from *social media*. *Social networking* is the action of building and expanding your contacts through an online platform. A key aspect is the network effect – the connections you have or that you make to connect you to even more people. For example, if you have 1,000 connections on LinkedIn like I do, the number of second and third level connections you have multiplies out to the millions. Literally millions of people from whom you are only one or two degrees separated."

Think strategically about your use of social media to promote yourself. Ask: What do I want to accomplish in terms of branding and the image I want to convey? What is the most productive social media for my service specialty? How will I measure effectiveness? How much time should I invest learning social media? What are my criteria for commenting and avoiding pointless, inane discussions that dominate much of social media?

Some caveats: Provide useful information or something that demonstrates your professional competence. Be careful not to overdo it. Avoid the trite and inane in your social media. Always drive traffic to your website.

You will experience a learning curve with social media, so you need to monitor your time and to learn what works best for you. Most likely you will get a sense if there is any return on your investment of time, with metrics such as spikes in website traffic, inquiries and new business acquired.

For my audience, nonfiction publishers, I use LinkedIn as my go-to social media because it reaches a professional audience at the executive level. I also have Facebook™ (only family and personal) and Twitter™ (inactive) accounts.

I manage my own LinkedIn group, *Association and Nonprofit Publishing*, which is a closed group only for publishing managers, who are my base of potential clients.

Why a closed group? I am able to screen those who join and block anyone selling a product or a service that is competitive with my services and products or just plain selling anything (for example, insurance) and offshore vendors. My members do not want to be bothered with endless sales pitches. I am the gatekeeper who ensures that doesn't happen.

Some may complain if they are excluded from my LinkedIn group. I believe it was William Randolph Hearst who allegedly said, "When you own the printing press, you can control the message." I invest substantial time in managing my LinkedIn group because it gives me exclusive exposure as the " marquee star." I have spent many hours researching directories and other sources to invite people to join my group. Why would I want to share the top billing with a competitor who wants to take business from me?

Here is the description of my LinkedIn group, *Association and Nonprofit Publishing* :

Association and Nonprofit Publishing is a closed group and is open only to practicing publishing managers and editors. Our intent is to educate and inform our members on the publishing business without blatant sales pitches. Our group has over 742 members in the commercial and nonprofit publishing sectors. Topics: association/nonprofit publishing, book publishing, copyright, executive recruiting, marketing, product development, periodicals, RFP's, social media, and new ventures.

Tip: When you manage a closed group, you must personally ensure that postings are value-added content and whenever there is a question asked, you must personally answer that question or find a subject matter expert to answer that question.

What are some other suggestions when using social media?

Here are four from Pam Boiros:

- The key thing is experimentation. Social media and social networking can seem terribly intimidating, and they can be an incredible time drain if you're not disciplined in your approach. The best advice I have is to roll up your sleeves and dig in. Carve out perhaps an hour per day to understand what each social

site offers, the type of community each attracts, and the fit for your organization/brand/product.

- Build profiles for yourself and/or your brands on the various social sites *where it makes sense*. You may or may not need a Facebook page, depending upon your product, service, and intended audiences. More specialized communities may be a better use of your time.
- Many social sites are interlinked. A post on Facebook may take you to a blog post, a Tweet on Twitter might lead you to a shared photo on the photo-sharing site Flickr™. Explore the connections to better understand the strengths of each site.
- Mobile and social technologies are inextricably linked. Mobile technologies like smartphones and tablets took off because of the instant access to one's social networks. For example, according to [Social Skinny](#), smartphone users average 24 minutes per day using social sites. Nothing like the instant gratification of posting that photo you just took with your phone right to your social networks. Think about how the two technologies used in conjunction can benefit your social media activities.

Where does relationship building come into play when you receive an inquiry? How important is that first contact with a prospect?

To paraphrase a famous coach. "Relationships are not the only thing, relationships are everything." From that first phone call you should be building a positive relationship that converts the prospect into a cash-paying client.

Let me illustrate. In the last three years, I needed the services of four professionals including an estate planning lawyer, insurance agent, photographer, and tax preparer (CPA). After the requisite Google search and some Angie's List™ research, I compiled a list of professionals to call. After phone interviews, I selected my service providers.

Here are the things that I liked about the four that I selected. First, *they listened* to my needs. Second, each *asked questions* to qualify my needs. Finally, each *explained their fees* and what I would get for my money.

Note the phone calls were about me and my needs. Once I asked questions and understood their qualifications, I then selected them on the basis of how comfortable I was with them and whether I could trust them. I knew what they would deliver. Their fees were secondary (the insurance agent is paid his commission by the insurance company).

How about you? When you receive a call from a prospect, will that prospect be comfortable with you and trust you? Ask yourself, "Is that first call from a prospect all about me or all about the prospect and his/her needs? How can I quickly build a rapport with this person?"

Let me illustrate a first contact with a service provider that didn't inspire my confidence. I was shopping for some professional head-shot photographs for my website and for

other promotional purposes. I called one photographer who worked out of a home studio, which is common for photographers.

I called another photographer, who indicated that he could talk with me but he was also having breakfast with his mother. I figured, "OK, let's see how this goes." After the third time, our conversation was interrupted with, "More tea, mother?" I thought to myself, "I am for apple pie, motherhood, and the American flag, but this is ridiculous ." I said good-bye.

The next photographer I called listened carefully to my needs and expectations. He then said, "I recommend three head shots. We will take 75 poses, it will take about an hour and a half, you will receive the three head shots and files, and the cost will be \$185 plus tax." I said, "Deal. Let's set a time."

Which photographer understood the importance of that first contact with a prospect?

What are the tax liabilities of self-employment income?

Self-employment has major tax implications. You must pay the Self-Employment tax. According to the IRS, "Self-employment tax is a tax consisting of Social Security and Medicare taxes primarily for individuals who work for themselves. It is similar to the Social Security and Medicare taxes withheld from the pay of most wage earners."

According to the IRS:

- **Tax rates.** For tax years beginning in 2011, the social security part of the self-employment tax decreases from 12.4% to 10.4%. The Medicare part of the tax remains at 2.9%. As a result, the self-employment tax is reduced from 15.3% to 13.3%. These tax rates have been extended into 2012.
- **Maximum net earnings.** The maximum net self-employment earnings subject to the social security part of the self-employment tax remains \$106,800 for 2011. There is no maximum limit on earnings subject to the Medicare part.

Note: Tax rates can change annually so check with your tax preparer or with the IRS. (<http://www.irs.gov>) for the latest tax rates.

Keep meticulous documentation of your income and expenses. The IRS requires filing a Schedule C, which is the form you file if you have self-employment income (or loss).

Learn about the tax aspects of self-employment. Understand how self-employment income is taxed, particularly the IRS requirement for quarterly payment of taxes on estimated income. Many newcomers to self-employment fail to file quarterly returns and when they file in April they are shocked with a large tax bill along with penalties for underpaying taxes. *As with any tax matter, always consult with a qualified tax advisor.*

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services. If legal advice or such services are required, contact a competent professional with these areas of expertise.

Reviewer Acknowledgment: Gary Porter

I wish to thank Gary Porter for his critical review of this manuscript. Gary Porter is a retired professor of accounting and author of numerous college textbooks. He is currently on the National Advisory Council and Distinguished Lecturer in the College of Business and Public Administration at Drake University. His passion for creative writing has resulted in the publication of various newspaper articles and essays, including a first-place award in the River Falls Reads (Wisconsin) contest. Gary's first fiction book, *Duffy: The Tale of a Terrier* (Beaver's Pond Press, 2011) tells the story of a rescue dog arriving in heaven with a longing for his adoring folks back home. Then he meets Rex, a literary easterner of the Boston Terrier persuasion, who encourages him to write his life story. Gary lives with his wife Melissa in Hudson, Wisconsin, where they actively support animal rescue and welfare organizations.

Services for Self-Employed Individuals

If you are interested in self-employment, consider McHugh's ***Self-Employment Evaluation Interview***, which consists of 24 questions and a self-assessment of the eight key attributes in order to judge your potential for self-employment success. For a modest fee, McHugh will evaluate your self-employment plan or, if you are self-employed, offer an evaluation of your current efforts. A written report is part of this service. Included also in your fee are complementary copies of the four papers listed below, which are for sale (\$26.00). See contact information at the end.

McHugh Papers on Self-Employment

SE-30, *Self-Employment Tactics and Tips*, 2012, 2 pages, Free

SE-31, *Ten Tips for an Effective Website*, 2012, 1 page Free

SE-32, *Self-Employment 101: Questions & Answers, Starting Out*, 2012, 9 pages, \$6

SE-33, *Eight Attributes Needed for Successful Self-Employment*, 2012, 6 pages, \$4

SE-34, *How to Establish a Profitable Hourly Rate*, 2012, 6 pages, \$6

SE-35, *Self-Employment 102, Questions & Answers, Suggestions for Success*, 2012, 14 pages, \$10

Self-Employment Forum

John B. McHugh's Self-Employment Forum provides regular tips and serves as a venue to exchange ideas with others on self-employment. Join now to participate in this informative exchange and to grow your self-employment expertise. The [-Self-Employment Forum.](#)

About John B. "Jack" McHugh

Jack McHugh is a self-employed publishing advisor and publisher. Over the last 30 years, he has created and refined his own self-employment business model. During this period of trial, error, mistakes, and successes, he kept a journal on his self-employment efforts and now has distilled them into succinct "how to's" for those who aspire to be self-employed.

McHugh contends that "there is precious little information on the 'how to's' of self-employment." Much of what is available amounts to either get-rich-quick scams or pyramid deals. He also states "the needs of those aspiring to become self-employed are not met. I have much practical wisdom to share with folks. I am the living proof of the cliché, 'You ought to write a book.'"

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