

“Life is too short to be unhappy in business.”  
— George L. Brown

## **Chapter One – Define Yourself**

### **Introduction**

It may sound overly dramatic, but the winds of change are coming to SMB Consultants. A storm is gathering around us. We can ignore the change, we can fight the change, but we can't stop the change. There is one more alternative – we can make our businesses evolve to take advantage of the change.

Technicians who support Small and Medium-sized Businesses (SMB) are virtually all small businesses. Even the larger consulting houses tend to be in the range of ten to twenty consultants. A consulting company with fifty or more technicians is very rare.

After roughly thirty years of quiet anonymity, our businesses are now the focus of three major movements. After watching one industry after another go through the process of growth and consolidation, it's our turn.

During the Dot Com Bubble we put up with technicians who wanted \$70,000 salaries for entry level jobs. After the bubble burst, some of those unemployed technicians competed against us at \$25 per hour. But the forces of change were not always as visible.

After the Tech Wreck of the early 2000's, three movements emerged that are changing our business whether we like it or not. These movements are loosely related to one another.

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The first movement is the most mature – Managed Services. I define managed services as Technical Support delivered under a service agreement that provides specified rates and guarantees the consultant a specific minimum income.

It can mean flat rate pricing to some. To others it means remote administration or remote monitoring. It can be anything from a home grown collection of tools and procedures to a complete software and services package.

The second movement is the growth of the franchised “geek” industry. The Best Buy Geek Squad has the mindshare in this business right now. They’re kind of the Kleenex of mobile computer technicians. Geeks on Call, Computer Troubleshooters, and several other companies are fighting for the P.R. success of the Geek Squad.

These are still early days for the franchised “geek” industry. I don’t know if the current service model and pricing model are sustainable. But you can be sure of this – they’re not going away. They may need to be rebuilt and re-constituted. There may be an industry shakedown. If Best Buy is successful, others will follow. But some form of franchised or licensed/branded technical service will survive.

You can also be sure of this: Branded technical support will move from home users to small business users—and eventually to medium size businesses. Best Buy is already opening Geek Squads that focus on small businesses.

Which leads us to the third major movement – major national companies are beginning to compete with us, the small consultants. The most notable entry into this field is Dell Computers. They like to call their offering “Managed Services.” In fact, they’re combining remote administration, help desk support, and local I.T. consultants to provide a one-stop-shopping package to small businesses.

The Dell Managed Services offering is very immature. It has the

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most visibility among SMB consultants because many of them consider Dell a “partner” and that partner is now competing with them. As with the services mentioned above, the Dell model may need to be restructured to be profitable. At the same time, others will join this fray.

In addition to those three movements, there’s a rising fever for Mergers and Acquisition (M&A) in the small end of the SMB consulting world. Several organizations have grown up specializing in helping buyers and sellers of IT consulting firms find each other and strike a deal.

The M&A activity started to head up in the mid-2000’s simply because our industry was reaching a certain maturity. When the recession hit in late 2008, many small companies either ceased to exist or sold off their lists in order to get some extra cash before they went out of business. Today – ten years later – we’re seeing a lot of people selling because they want to retire.

Is all of this depressing? No! What a wonderful, busy, exciting time to be in the industry! This is exactly the environment in which entrepreneurs flourish! Companies like Dell and Best Buy could take years to figure out what they’re doing. And we, the “little guys,” have the clear advantage. When they zig, we can zag. We can change directions, fill in the gaps, clean up the messes, and make money in the process.

And best of all, this is the perfect time for us — for SMB consultants — to redefine our businesses.

That’s where this book comes in. Your contracts or service agreements are the very definition of the services you offer and the prices you charge. They are the formal definition of your relationship with your clients. There is always the personal side, of course, and that’s what keeps small businesses in business. But the basic description of how you operate is defined by your service contracts.

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As we look ahead to the year 2025, it is the job of the business owner to anticipate what the market will look like and to position the business to be successful in that market. Here's what we know:

➤ **Managed services will be everywhere.**

As a result, a certain piece of our business will be “commoditized.” That is, there will be a large number of chores that anyone can do and they will be farmed out to the lowest bidder.

➤ **Branded technical support will be everywhere.**

Again, that means that certain services will become commodities. It also means that you have opportunities to join a franchise, buy into a licensed brand, join a technical group, or start your own organization.

➤ **One-Stop-Shopping from national companies will be everywhere.**

This is really a combination of the previous two that is implemented by a large corporation. Your opportunity may be to take part in the process, use them where you can, and compete where they can't.

➤ **Due to M&A activity, there will be some very large players in our business who are very professional.**

For the most part, the large players such as Staples, Ingram Micro, and Dell have had no real ability to compete with us. They have size but no real experience delivering “boots on the ground” tech support to small business. The opposite is true of the large MSPs (Managed Service Providers) made up from smaller companies with lots of experience.

➤ **TCP/IP and IoT bring you more opportunity to succeed**

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**than anything that’s emerged in the last two decades.**

Virtually every evolving technology is using TCP/IP and Internetworking to deliver services. As IoT (Internet of Things) evolves, it will create massive networks that need to be managed. Suddenly, we have an almost unlimited set of opportunities in front of us.

‣ **None of these can lead to the demise of small I.T. consulting firms.**

One piece of the market will consist of commodity services. One piece will consist of clients who will never use managed services or branded support. And one piece will always consist of specialty services that cannot be supplied by the “competition” mentioned above.

This book has a very simple goal – to provide SMB consultants with a solid introduction to support agreements. My goal is to make this book immediately useful. Notice that I didn’t call this “The Big Fat Book of . . .” or “Everything You Need to Know . . .” This book is not the “Bible” of consulting agreements.

This book is a Quick Start Guide. It covers the basic information you need to write a good service agreement in the modern era. If nothing else, it should give you a place to start thinking about how you will formulate your business as these winds of change blow across the landscape of SMB consulting.

I believe these changes are coming—in fact they’re already here. Five years from now, almost every aspect of small biz I.T. consulting will be different. Now is the time to figure out where your business is going and how to get there. Every SMB consultant without a business plan needs one. You need to define who you are and where you’re going. This book provides one tiny piece of that puzzle.

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## Define Yourself

The first step in defining your relationship with your client is to define who you are. Are you a sole proprietor? Are you a corporation? An LLC? Something else?

There are really only a few ways to define yourself. And, really, the two default methods are sole proprietor and S-Corp. We'll discuss why below. Pretty much everyone starts out as a sole proprietor. Once you get to a certain size, or a certain salary, then S-Corp makes sense.

To your clients, only two things matter:

“To whom do I make the check out?”

and

“Do I need to send 1099s at the end of the year?”

Other than that, the only time you really need to pay attention to how your business is legally defined is in your service agreements. Of particular importance, as you'll see in the “boilerplate” sections, is the question of getting out of the way of Uncle Sam.

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**Note to non-U.S. readers:** This section is U.S.-centric. I have enough work trying to keep up on U.S. tax laws without trying to address the U.K., Canada, Australia, India, and the rest of the world. I think the general issues are the same in other countries, but the specific laws will vary dramatically.

Use what you find here as a common-sense discussion, but absolutely find the right professional assistance for your country.

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## Forming Your Consultancy

I'm sure you're a very nice person. But if I were to engage in business

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with you, I'd want to make sure that your personal "stuff" doesn't get all mixed up with my personal "stuff." If you've ever been a landlord, you know what I mean. In business, we need to separate our personal financial life from our professional financial life.

This section covers a brief overview of the various forms your business might take. If you are an S-Corp, or have recently discussed all this with your accountant or enrolled agent, then you might skip to the next section (entitled "Important Safety Tip: Don't Mess With the IRS"). If you're just starting out, are a sole proprietor, LLC, or some other type of entity, this section is probably worth reading.

In general, I think that sole proprietors should re-address the question of incorporation every few years. In particular, if you are successful, then revisiting the benefits is in order.

Another area affected by your business form is your status as an employer. When you hire people, then you have a whole new world of taxes and forms and filings. And now you have your personal stuff exposed to your employees' personal stuff.

### **Important Safety Tip: Don't Mess With the IRS**

People go bankrupt when they ignore the IRS's instructions. This is not for you.

You need to be very careful to make sure that your service agreements are written so that you cannot be considered an employee of your clients. You can say "I'm not." But that only goes so far. The IRS rules change all the time, but two issues will always affect independent consultants.

First, the question of whether the client should be withholding taxes from your "paycheck." Second, the question of whether you can take a home office deduction.

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On both questions, I'm deep into the "play it safe" school of thought.

We're not going to look at the home office deduction very closely as it's not the focus of this book. But you need to talk to your CPA or Enrolled Agent and take his advice. As for your Uncle, go to <http://www.irs.gov> and do a search of "home office."

On the question of employee versus independent contractor, we have several items in the service agreements chapters that are intended to define this relationship. Again, to find out the latest rules and regs, go to <http://www.irs.gov> and search for "Employee or Independent Contractor?" You might also look at IRS form SS-8, "Determination of Worker Status for Purposes of Federal Employment Taxes and Income Tax Withholding."

Just so you know, your Uncle doesn't care how you see yourself or your relationship with the client. Uncle Sam has some very specific ideas about whether or not you're an employee. The general rule is: If the client controls what will be done and how it will be done, then the client is your employer.

Of course, this is broken down into specific discussions. For example, if the client tells you where to be, when to be there, how to get the job done, what tools to use, who to hire, where to buy supplies, and in what sequence work must be performed, then you are an employee.

Similarly, if the client pays for training, you might be an employee.

You might look at the IRS publications and find yourself on a borderline for one or more regulations. That's where contracts or service agreements come in. The IRS specifically states that one of the criteria for defining the relationship is to specify that relationship in a contract.

So, you see why it's important to make sure you never do any work without some kind of agreement. Even the "Credit Agreement"

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we present covers the basics of the relationship. If anyone balks at signing this, you can tell them two things. First, you won't work without it. And, second, one of the goals is to define your relationship so they don't have to withhold taxes and put you on their payroll.

As for the longer service agreements, just make sure you cover all the major points the IRS might want to look at. State very specifically that you, the consultant, will determine what needs to be done, what tools are necessary, the order in which work will be performed, etc. Also state very plainly that you are a contractor and not an employee, and that you'll pay your own taxes.

And that's the key to success – who's paying all those taxes? After all, the IRS does not exist to make the world a better place (which is good, because they suck at it). The IRS exists to collect various kinds of taxes. You don't have to specify that you'll pay your Federal taxes, and your state taxes, and your unemployment taxes, etc. But it goes a long ways to have a signed agreement that both you and the client know that you are paying your taxes.

The bottom line: Find out what the current rules are and rely on professionals for advice. The tax business is just as fast-paced as the computer business. By the time something gets printed, it's probably out of date. Find a good Certified Public Accountant or Enrolled Agent to advise you on these matters. And make sure you have a lawyer review your service agreements!

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If you are the kind of consultant who actually “goes to work” at a client's office, has a desk to sit at, and you perform most or all of your work there, you need to be particularly careful about these regulations. You also need to be extremely careful about taking a home office deduction.

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