

Jungle to Jungle

BY JASON HANNAS

A lioness creeps quietly through the tall grass, staring hungrily at her unsuspecting prey. Slowly, methodically, she studies the antelope. As she moves closer, the young buck sniffs the air and looks around nervously. The lioness crouches. The buck turns. She springs. He runs. Too late... Caught in a snare of claws and teeth, it's a jungle out here.

Similarly, a COBOL II consultant nervously approaches the boss at his consulting firm to ask for a raise. His manager shakes his head. "We just raised our bill rate to the client three weeks ago," he explains. The young contractor looks at his paycheck. No more than last month. Can he go direct to the client? Not for 12 months. Caught in a snare of non-compete agreements and inflated profit margins, it's a jungle out here.

The contracting business is very attractive on the outside. Just as a *National Geographic* TV special calls to young explorers, the allure of contracting beckons the skilled systems professional. However, the reality of the contracting world is far more dangerous than it seems when viewing it from the comfort of your full-time job. Granted, in this instance the expression, "the grass is always greener..." is actually true. Contracting is certainly more lucrative. But if you want to graze over here, you've got to be willing to take some risks. Before starting your safari, you'll need to understand where you fall in the food chain.

There have traditionally been two ways to enter the contracting arena: as an independent contractor or a contract employee. Each position has its place in the food chain at different levels and enjoys certain advantages over the other. I will explain them briefly and introduce a relatively new alternative.

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INDEPENDENT CONTRACTOR VS. CONTRACT EMPLOYEE: WHAT'S THE DIFFERENCE?

Hanging out near the top of the food chain is the independent contractor. Since people naturally want control over who they work for and how much they earn, this is generally the first route considered. Not only is this the road to more money, but the rewards of running your own business cannot be duplicated. However, with rewards come risks. Foremost is security. Not only must you concentrate on fulfilling the contract obligations, but now you've got a business to run. It is very difficult marketing yourself while on assignment. Remember that the lion might be king of the jungle but he still has to eat on a regular basis. The reason many small contracting businesses fail is that there is too much time between contracts and thus paychecks.

Other considerations that directly impact the wallet are quarterly taxes and professional insurance. And if you want to avoid starving between assignments, marketing and advertising costs need to be considered.

To top it all off, you're subject to the company's payment schedule. Having to wait 45 or 60 days can add up to a real financial strain. There are pass-through agencies designed to relieve some of this burden by bankrolling or funding independent contractors for a fee. This means they will bill the client, collect, and pay you on a weekly basis. If the company doesn't pay — don't worry. Your agency assumes all risk. However, as your bill rate increases, so does their risk for exposure. In other words, the more you earn, the more you'll pay. Although this is a happy problem, you may find the "cost of money" to be very costly indeed.

The contract employee is usually a non-incorporated individual working through a consulting firm or temp staffing agency. They are paid on a W-2, and may enjoy many benefits of full-time employment. They are not out beating the pavement looking for that next assignment and could have access to company 401k plans, health insurance, etc. The hassles of running your own business are non-existent. However, two major drawbacks place the contract employee further down the food chain. First is the lack of control. You might not have a voice in determining where you're placed or for how long. You'll also sign a non-compete agreement that will not allow you to work for the client unless you go through that agency. The length of the non-compete clause could range from six months to two years.

ICE is an alliance of more than 3,300 independent contract professionals. They are a full-disclosure organization offering a range of services to their members including contract placement, professional insurance, and funding services. For more information, visit www.icenationwide.com.


The second drawback is the potential income lost by going through an agency. Obviously, the firm has to cover costs for marketing, payroll, employer taxes, insurance, etc., and must charge reasonable fees on top of your bill rate. However, a consulting firm's idea of what's reasonable may differ greatly from yours. Some firms take as much as 30 percent to 50 percent of the total bill rate in profit margin alone. Is an hourly markup of \$40 fair when you are bringing home \$50? Assuming that you can find out what they are billing for your work, it's important to assess the value of the service provided by the consulting firm. Neither of these two options is perfect and there are shortcomings for clients as well as contractors. Many companies find themselves in a Catch-22. In order to stay further away from potential tax liability, they require contractors to go through an Employer of Record such as a consulting firm. However, they also know that they are losing a lot of money to these third-party agencies.

THE EMERGENCE OF THE INDEPENDENT EMPLOYEE

The emergence of a third contractor classification has been facilitated by alliances such as the Independent Contractor Exchange (ICE). In our organization, we refer to this contractor as the independent employee. We have structured a program that enables a contractor (incorporated or not) to find a contract on his own and run the deal through ICE, so the client is removed from any tax liability. The contractor is paid weekly, has all applicable insurance, and will not have to deal with employer-side taxes.

Unlike a contract employee, however, an independent employee does not sign a non-compete agreement and has full control over rate negotiations with the client. The only foreseeable downside to this alternative is that you still have to find work. To offset this, ICE offers contract placement services free to members. Our mission is to offer an entire corporate infrastructure to assist contractors in building their own business. This new and

exciting approach is helping many individuals climb to the top of the food chain without a lot of the risks associated with independent contracting.

Finally, no matter which route you decide to take, if you are dealing with any third party, find one that is "full-disclosure." If the agency you deal with cannot or will not divulge the entire revenue distribution, there is a reason. You can probably find a better deal elsewhere. Shop around. Remember, it's a jungle out here. But with the right information you can make it seem a little more like a walk in the park. 

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