APESMA Connect's 2004 Survey of Independent Contractors & Consultants

CONNECT

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APESMA

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Congratulations to Tony Johansen, John Durant and Lisa Harvey who were the winners of the $50 Officeworks vouchers offered to those who completed and submitted the survey.

APESMA Connect's 2004 Survey of Independent Contractors and Consultants — key findings

The 2004 Survey of Independent Contractors and Consultants found the major concerns for independent contractors over the last two years were squeezed profit margins, PSI, the increasing small business compliance burden in relation to GST and BAS, and escalating PI insurance premiums.

While respondents not surprisingly cited lack of income security as the major disadvantage of operating as a contractor, over 70 per cent indicated that they were satisfied or very satisfied operating under such arrangements.

Over 60 per cent of contractors reported that they chose to operate through non-standard work arrangements for better lifestyle and balance between work and family, but a surprising 50 per cent reported that working under these arrangements had caused problems with family activities; non-standard working arrangements had not necessarily met their expectations in this area.

Roughly a third of respondents were operating as contractors because they couldn't find permanent work, and almost 65 per cent reported that they believed that contractors were used in workplaces as a cost-cutting measure. 75 per cent indicated that they believed contractors were used by employers to avoid their employment obligations.

On a positive note, over 80 per cent of contractors had undertaken professional development activities in the previous four years, and over half had been involved in either formal or informal training and networking activities in the preceding 12 months.

And finally, the APESMA services valued most by respondents were discounted PI, PL and income protection insurance, the Connect Guide to Getting Started in Business, the pro-forma contract for service and Guide to Drafting Contracts, the mentoring service and our Guide to PSI.

The purpose of conducting this survey of APESMA's independent contractors and consultants was to establish a sound basis for policy development, and to obtain valuable information on the views of professionals operating a small business.

Thank-you to all the members who responded to the survey – your input is greatly appreciated.

I hope you find the report of interest, and the benchmarks set out in the IT and marketing section useful as a point of comparison in looking at the your own consultancy operation.

Kim Rickard, Connect Executive Officer

What do contractors get paid?

Hourly rates by responsibility level

The survey found that the median hourly rate ranges for contractors by responsibility level were as follows:

Figure 1 – Hourly rates by responsibility level

	Hourly rate range
Level 1	$29-$43
Level 2	$44-$64
Level 3	$60-$86
Level 4	$79-$94
Level 5	$114-$143
Above Level 5*	$135-$233

* Responsibility level definitions are available under the General Section of the Business Info page of the Connect website at www.apesma.asn.au/connect.

Earnings as a contractor vs employee

The survey sought information on how contractors' earnings over their last three engagements compared with their earnings as an employee.

The responses indicated that just under 43 per cent were on comparable earnings (between 80 and 140 per cent of their earnings as an employee).

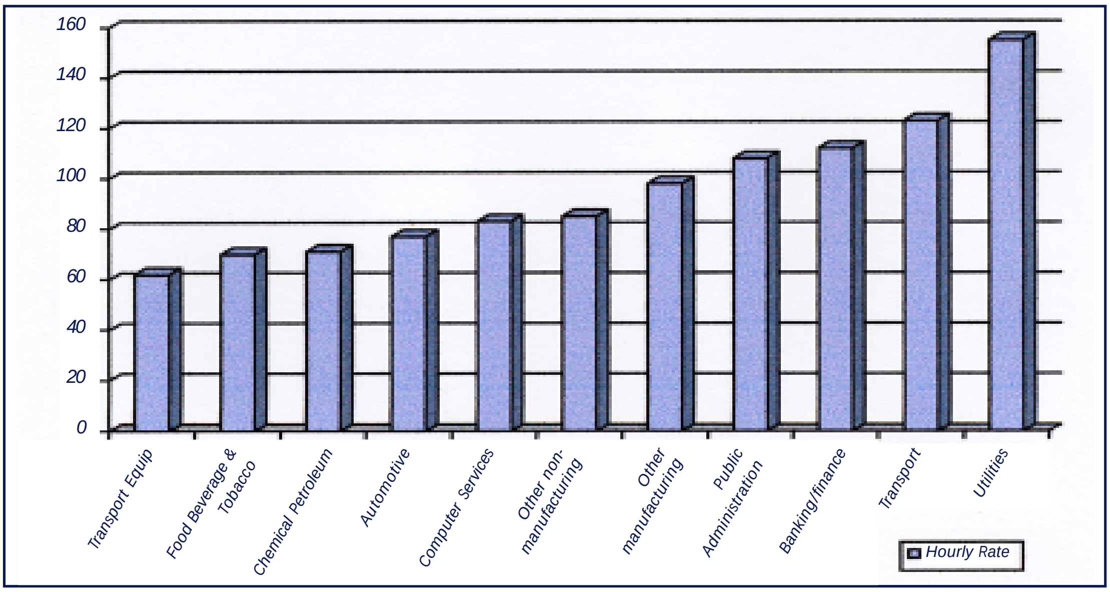
Just under 16 per cent earned over 140 per cent of their previous earnings while around 41 per cent earned less than 80 per cent of their previous income.

Contract rates by industry

Contractors operating in utilities such as power, gas and water recorded the highest hourly rates followed by the transport industry and the banking/finance industry.

The transport equipment (non-automotive) and food/beverage/tobacco industries recorded the lowest rates.

Figure 2 – Hourly rates by industry



Comparison of rates for public and private sector

While there was a wide degree of variance for contractor hourly rates paid in the private sector, interestingly there was no significant difference between mean rates paid in the public compared to the private sector. The average hourly rate in the private sector was $94 and in the public sector $108.

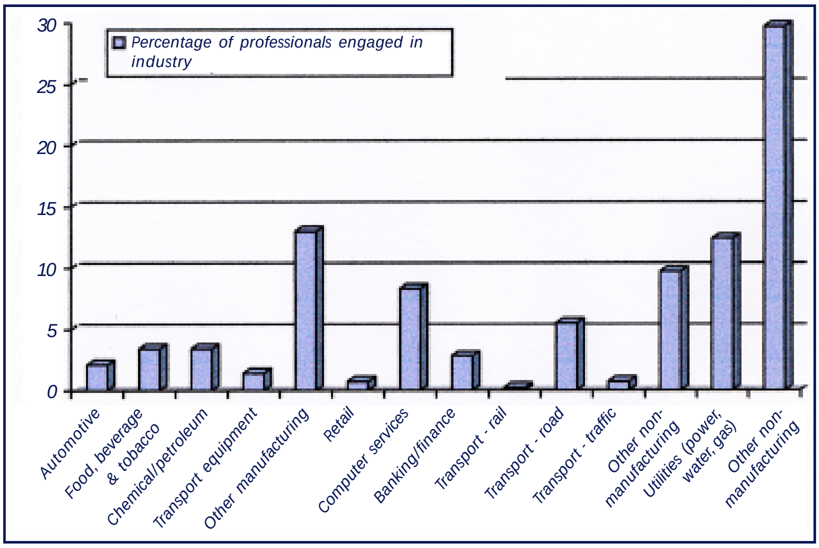
What hours do contractors work?

Contractors worked an average 32 chargeable hours per week. Respondents indicated that on average, they would like to be working and charging for 36 hours per week.

Where are contractors engaged?

The survey confirmed that professionals operating as independent contractors are dispersed widely throughout industry and across the public and private sector.

Figure 3 - Dispersal of professionals operating as independent contractors across industries

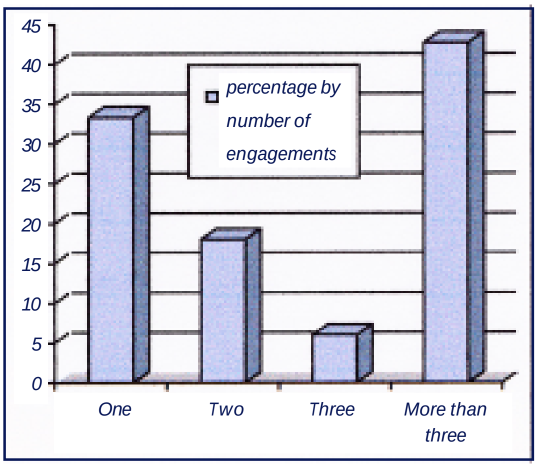


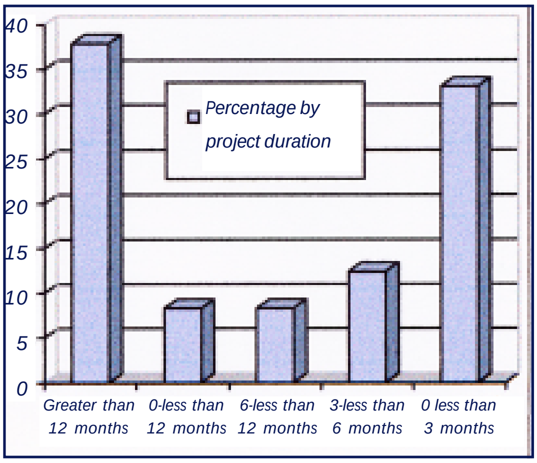
Engagements and project duration

There appeared to be a degree of polarisation in the area of engagements and project duration in the survey population.

While just over 42 per cent of respondents undertook more than four contract engagements in the previous 12 months, just over 33 per cent had undertaken only one engagement in the same period. These figures were supported by the finding that 33.1 per cent were engaged on projects of less than three months' duration while around 38 per cent of respondents participated in projects of greater than 12 months' duration. This would suggest that APESMA contractor professionals are most likely to have either one client or more than four clients in a 12 month period.

Figure 4 – Engagements and project duration





These figures indicate that while over 40 per cent of respondents have a diverse client base and work to multiple clients, around 33 per cent worked to a single client. These groups are likely to have different servicing needs in terms of PSI because of the impact the number of clients has on personal services business status.

Major issues

Survey respondents indicated that PSI (the Alienation of Personal Services Income legislation) and GST and BAS were two of their key business concerns over the previous three years. Members reported spending an average two to three hours per week maintaining tax records. PSI was seen as a major or significant problem by 29.8 per cent of respondents and as a potential problem by a further 31 per cent.

Respondents' concerns over the increasing administrative and accounting burden in relation to taxation support the findings of the 2003 CPA Australia Small Business Compliance Burden Survey (also known as the Red Tape survey) which found that small businesses were critical of the increased paperwork required to comply in the area of small business taxation and the increased accountancy costs associated with outsourcing this work.

Legal liability and professional indemnity insurance were named as key areas of concern with 54 per cent indicating that it was a major concern in the previous two to three years. Around 75 per cent reported that their professional indemnity and/or public liability premiums had increased in the previous 12 months by an average 44 per cent. Respondents recovered on average around 40 per cent of this cost from clients. These figures are in line with the Association of Consulting Engineers Association's professional indemnity insurance survey which found that around 20 per cent of consulting engineering firms are recovering only half their PI costs from clients.

Underemployment

The survey sought information on the extent to which independent contractors perceive themselves to be underemployed. 35 per cent indicated that they were engaged on projects which sometimes, often or always under-utilised their qualification, while 29.5 per cent reported that their contract engagements sometimes, often or always under-utilised their experience.

These figures would suggest that underemployment is perceived as a significant problem for contract professionals.

IT and marketing

The survey sought information on the cost of IT hardware and maintenance and marketing to professionals operating as independent contractors. Respondents indicated that they spent an average 7.3 per cent of their total operating costs on maintaining and purchasing new IT for their businesses, and just over two hours per week on maintaining infrastructure.

In terms of marketing, respondents spent on average just over two hours per week and 2.95 per cent of their total operating costs on marketing. An average 68 per cent of respondents' business was repeat business.

These figures would indicate that purchasing and maintaining IT is a significant consideration for independent contractors, that contractors make a sizeable allocation of time and money to marketing, and that repeat business accounts for a major proportion of engagements for contractors operating as professionals.

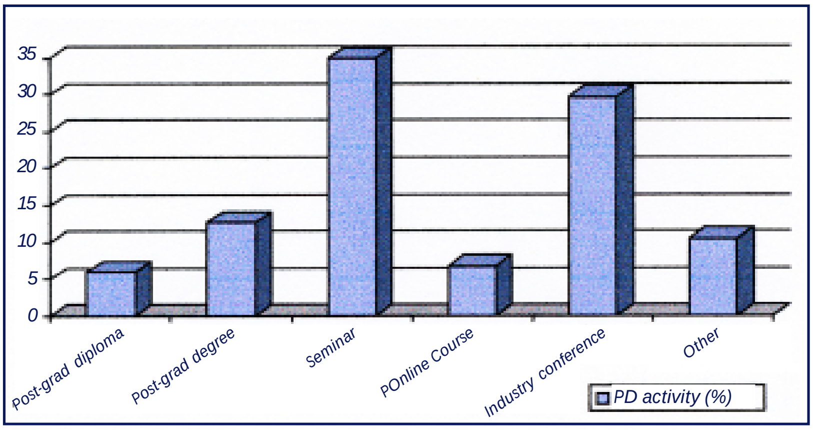
Professional development

The survey sought information on the nature and level of professional development undertaken by contractors. Over 80 per cent of contractors surveyed indicated that they had participated in formal training or professional development in the last four years – over half had undertaken such activities in the previous 12 months.

Nature of professional development activities

The nature of the professional development activities ranged from post-graduate work to seminars and industry conferences.

Figure 5 – Nature of formal professional development activities in previous four years



84.2 per cent of respondents indicated that in the previous 12 months they had also participated in informal professional development activities such as networking with peers. Of these, 50 per cent had participated in more than 15 hours of PD.

This would suggest that professionals operating as independent contractors understand the importance of maintaining and expanding their portfolio of relevant skills and actively seek out PD activities through formal channels such as industry conferences, post-graduate study and seminars, as well as through informal channels such as networking with professional colleagues.

Comparison of PD experience as a contractor compared with experience as an employee or labour hire worker

49.1 per cent of survey respondents indicated that they had participated in lower levels of professional development activities as a contractor than as an employee. 20.5 per cent said they had undertaken more professional development as an independent contractor, and 30.4 per cent reported the same level of professional development. Of those who obtained work through a labour hire agency, 98.8 per cent indicated that the agency did not assist them in any way with professional development activities.

Sources of business support

The survey sought information on government, APESMA and other organisations as sources of business support and training to clarify how professionals utilise government business services, and to determine whether APESMA was seen as a relevant and appropriate provider of professional development services.

Over 75 per cent indicated that they had not accessed government support services for three years or more, those who did so were pre-dominantly accessing either GST/BAS information (36.4 per cent) or business start-up advice (22.7 per cent). 98 per cent of respondents saw APESMA as an appropriate training and education provider and 52.1 per cent utilised APESMA as a provider of professional development services.

Use of contractors

The survey sought information on contractors' perceptions of the reasons they are utilised in business, about how they are regarded by their professional colleagues and about what informed their choice to act as a contractor.

How and why contractors are used

92 per cent of those surveyed indicated that they believed contractors were brought in to cover busy/peak times and 98.1 per cent reported that, in their view, contractors were used in workplaces to cover specialist functions.

At the same time, 64.1 per cent reported that they believed that contractors were used in workplaces as a cost-cutting measure, while 75.2 per cent indicated that they believed that contractors were used sometimes, often or always to avoid their employment obligations. These figures would suggest that contractors believe they are brought in to cover peak periods and to cover specialist functions but ALSO as a means of employers avoiding their employment obligations. If contractors believed they were used only as a means of employers avoiding their obligations, we would expect that contractors would overwhelmingly perceive themselves to be victims of the trend toward outsourcing, when in fact 59 per cent see themselves as beneficiaries of this trend.

How professionals operating as independent contractors are regarded by employee colleagues?

Figure 6 – How contractors are regarded by employee colleagues

Regarded by professionals colleagues as	Percentage
1. As an outsider	31.3
2. Potential threat	20.2
3. With distance	15.3
4. With suspicion	10.4
5. With professional respect	58.3
6. As a source of expertise	54.0
7. As a professional colleague	53.4
8. As someone to learn from	38.7
9. With trust	33.1
10. Other	4.9

If we generally characterise items 1-4 as negative, and items 5-9 as positive, survey responses would indicate that contractors believe overwhelmingly that they are viewed by their employee peers in positive rather than negative ways.

Interestingly, while 54 per cent of respondents indicated that they were seen as a source of expertise by their employee colleagues, 25.3 per cent of respondents indicated that they passed on their skills and expertise *selectively* to their professional colleagues working as employees. Outsourcing of specialist functions is likely to impact on the upskilling of professionals on staff.

Contractor experience

Reasons for opting to act as a contractor

Respondents were asked about their reasons for choosing to operate as an independent contractor (respondents could select up to 3 responses).

The main reason respondents cited was better lifestyle (46 per cent). This was followed by better balance between work and family (35 per cent), better money (34 per cent), couldn't find permanent work (31.3 per cent), better balance between work and travel (15.3 per cent), previous position was outsourced (10.4 per cent) and as a probationary period prior to permanent work (3.1 per cent).

Satisfaction levels

73.3 per cent of respondents indicated that they were satisfied or very satisfied with operating under contractor arrangements. 11 per cent were dissatisfied working under these arrangements. 30.6 per cent of respondents indicated that they would take up the option of working as a full-time permanent employee while 69.4 per cent said they would not take up this option. The fairly high proportion of those who would not be interested in taking up the option of acting as an employee is consistent with the significant proportion of those who opted for contracting as a lifestyle choice (62 per cent).

Drawbacks of working under contractor arrangements

Respondents cited lack of income security as the major disadvantage of operating as an independent contractor. This was followed by difficulty in locating clients (46.6 per cent), few holidays (38 per cent) and long hours (33.1 per cent).

A total of 34.5 per cent reported that working under contractor arrangements sometimes, often or always caused problems securing a mortgage or personal loan while 22.3 per cent indicated that working as a contractor caused problems paying bills sometimes or often.

A surprising 49.7 per cent reported that working under contractor arrangements caused problems with family activities, in spite of the significant number who reported choosing to operate as a contractor for a better balance between work and family.

Advantages of operating as a contractor

Survey respondents reported the major advantages of working under contractor arrangements as follows (in order):

Demographics

The survey sought demographic data from participants as background to the findings. This information will assist Connect with service development and targeting of information services.

Profession

71 per cent of respondents were Professional Engineers, followed by IT Professionals (13.6%), Professional Scientists (4.3%), Managers (3.7%), Pharmacists (1.2%) and Architects (0.6%).

Home or office-based

63.6 per cent of respondents operated from home, 6.8 per cent operated from a commercial office and 21 per cent operated from both.

Gender

The gender breakdown of survey respondents was Male 94.4 per cent and Female 5.6 per cent. This is in line with the gender composition of the Connect membership.

Age group

The mean age of respondents was 48 and the distribution was as follows:

Minimum	21
Percentile 25	41
Median	49
Percentile 75	56
Maximum	69

Education level

Education level	%
Bachelor degree	42.6
Graduate certificate or diploma	19.8
Masters	24.1
PhD	9.3
Other	4.3
Total	100

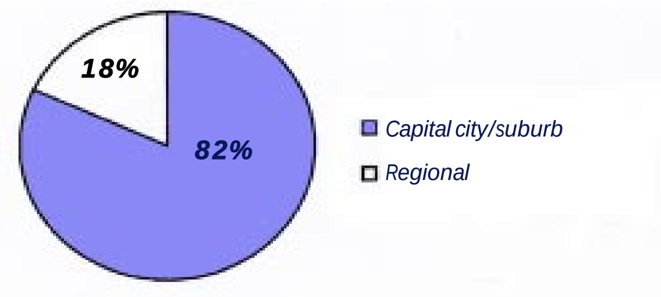
Figure 7 – Advantages of operating as a contractor

Advantage	Percentage Yes	Percentage No	Advantage	Percentage Yes	Percentage No
Being own boss	68.7	31.3	Better than being without work	31.1	68.7
Lifestyle	62.0	38.0	A way of phasing out of full-time work and into semi-retirement	27.0	73.0
Able to operate from home	57.7	42.3	Balance between work and travel	19.0	81.0
Sense of satisfaction from taking risk and being successful	54.0	46.0	Means of supplementing income	14.7	85.3
Income	47.2	52.8	Source of income during years with young family	7.4	92.6
Balance between work and family	43.6	56.4			
Access to business tax deductions	39.9	60.1			

State

State	%
NSW	23.3
VIC	38.0
QLD	9.2
SA	4.3
WA	11.0
TAS	3.1
ACT	7.4
Overseas	3.7

Regional/capital city location



Legal entity

65.4% of respondents operated through a company structure, 9.9% operated through a partnership or trust, and 24.7% operated as sole traders.

Years consultancy operation has been in operation

Years	%
Less than 1 year	8.6
1 to less than 2 years	6.8
2 to less than 3 years	9.3
3 to less than 4 years	13.0
More than 4 years	62.3
Total	100.0

Connect would like to acknowledge the assistance of Surveys & Website Manager Dominic Angerame, and Web Developer Felicity Dynan, for their assistance with the data collection, design and analysis of this survey.