

Why agents don't want to pay contractors market rate

Introduction

Contractors without an established network of contacts will almost always use sales agents to find contracts.

There are many [advantages to using sales agents to find contracts](#). They are an extremely cost effective method of outsourcing your sales activities.

However, contractors need to understand how agencies and agents work in order to maximise their return when [negotiating their rate](#).

This article explains why, when it comes to contract rate, agents certainly don't work in your best interest.

How Agencies Operate

Agencies are a sales brokerage. Their business is reselling products - you the contractor. Like all reselling businesses their profit is obtained by maximising the difference between the buy and sell price - their margin.

Agents get paid a small basic salary plus commission, based on the margin they achieve. A typical agency margin is around 15%. Commission rates for agents are around 10% of margin.

An Example

Let's assume a client is prepared to pay £500 per day for a contractor.

The breakdown is as follows:

Daily rate to client:	£500
Monthly revenue (21 days):	£10,500
Agency commission @ 15%:	£1575
Agent commission @ 10%:	£157.50

Rate for contractor = £425 (£500 * 85%)

Contractor Monthly revenue = £8,925

Let's consider three options

1. Agent attempts to increase rate to £475 for contractor
2. Agent attempts to increase their margin to 25%, reducing the contractors rate by £50 to £375.
3. Agent attempts to increase rate charged by client by £50, whilst still paying the client £425.

Option 1: Agent attempts to increase rate to £475 for contractor

Daily rate to client:	£560
Monthly revenue (21 days):	£11,760
Agency commission @ 15%:	£1765
Agent commission @ 10%:	£176.50

Rate for contractor = £475

Contractor Monthly revenue = £9,975

The agents commission increases by an extra £19 (+12%).

The contractors revenue increases by an extra £1070 (+12%)

Option 2: Agent attempts to increase their margin to 25%, reducing the contractors rate by £50 to £375.

Daily rate to client:	£500
Monthly revenue (21 days):	£10,500
Agency commission @ 25%:	£2625
Agent commission @ 10%:	£262.50

Rate for contractor = £375

Contractor Monthly revenue = £7,875

The agents commission increases by an extra £105 (+66%).
The contractors revenue decreases by £1050 (- 11%).

Option 3: Agent attempts to increase rate charged to client by £50, whilst still paying the client £425.

Daily rate to client: £550
Monthly revenue (21 days): £11,500
Agency commission @ 23%: £2625
Agent commission @ 10%: £262.50

Rate for contractor = £425
Contractor Monthly revenue = £7,875

The agents commission increases by an extra £105 (+66%).
The contractors revenue stays the same.

Conclusions

The examples show that of the three options the least attractive option is to pay the contractor more money!

The most attractive options are to overcharge the client and the underpay the contractor. Not surprising really, it is after all *how their business works*

Dealing with Contractor Agents

As the calculations show, despite what some agents might tell you they have no interest in trying to obtain the best possible rate for you at all. Furthermore, they have no interest in helping you to gain further skills, pay you an above market rate, or help you to further your contract career. That's the nature of the business.

Contractors should be aware that they and the agent are fighting for the maximum share of the clients budget for the contract role. Thinking that you and your agent share the same commercial interests is not really in your best interest!

Summary

As this article explains when it comes to negotiating agents cannot be trusted to serve your best interests. This applies both at the start of the contract and for every renewal when you hear the famous phrase "The client is not prepared to pay you any more money – there are no pay rises."

Good luck in your contracting.

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