

Contractors who understand "contract rate poker" can improve renewal negotiation

Contractors need to increase their own rates. They are not employees and therefore don't enjoy index-linked, longevity or cost-of-living pay rises. No, there are only three key things that influence their rates, and the likelihood of any rate increases:

- o The market demand for their skills
- o The value they can bring to their clients
- o How well they can negotiate.

So, how can you apply this to yourself? You can influence market demand and the value you bring to an extent, by investing in gaining new skills and experience. But when seeking a rate increase at contract-renewal time, negotiating skills nearly always make the biggest impact.

How agency negotiations work

Let's put the renewal process into perspective and see how it fits into the agency negotiation model. Employment businesses, like contractor recruitment agencies, make their money on new contracts. So, for the most part, it's a numbers game for agents, where volume counts – the more 'bums on seats', the more they earn.

When you then look at what agencies actually do, there's little difference in the time taken to get a new contractor signed up to a client and the time taken to renegotiate a rate for a renewal. And, as the old saying goes, 'time is money'. So let's see what an agent would naturally wish to spend more time on.

“ A contractor with less-developed negotiating skills may hold all the aces, but can still lose the game ”

Negotiating a higher rate makes no financial sense for the agent

The returns to the agency on negotiating a higher rate are generally minimal. After all, they receive a percentage commission of your fees – generally between 4% and 20% – and if they negotiate an extra £25 per day, for them that's between an extra £22 and £110 a month (£25 x 22 days x 4%/20%). Contrast that with the £352 to £1,760 per month an agent landing a new contractor at £400 per day can expect to receive (£400 x 22 days x 4%/20%).

Clearly, the most sensible commercial course of action is for agents to maximise the number of new contract positions they fill, and try to avoid having to spend too much time renegotiating rates for contract renewals. It's important to remember that as a starting point when trying to increase the rate you get at contract renewal time – there's very little incentive for an agent to push this.

However, losing one of their 'bums on a seat' is potentially a different story altogether for the agent, and this is where negotiation is similar to playing poker. In theory, the player holding the worst hand should 'lose', but the sign of an expert contractor is one who still comes out tops, even with a terrible hand.

A contractor with less-developed negotiating skills may hold all the aces, but can still lose the game. So, unless you can show that you've got a hand worthy of note to justify a rate increase, then you should expect to receive the brush-off from your agent.

Playing 'rate poker' - know what's in your hand

So, what could be your strong cards that will help make an agent fight for a rate rise on your behalf?

- o Ace: If you don't pay me more I will leave
- o Ace: I have another contract lined up that will pay the rate I want
- o Ace: The client will suffer if I leave. They need me to stay and it'll make the agency look bad if I'm forced to leave
- o Ace: The market rate has gone up
- o Ace: I have lots of savings, and don't care if I lose the contract.
- o Ace: You are charging a very high margin, and could easily reduce it to increase my rate.

And what might be the strong cards in the agent's hand?

- o Ace: The market is poor, and you are being overpaid
- o Ace: The client doesn't care if you leave; you are replaceable

- o Ace: I know that you will stay, even for no rate rise and possibly even if I reduce the rate
- o Ace: Financially, I know that you really need the job.

With these potential cards in-hand, negotiations should start with guarded conversations between you and your agent, each trying to find out what cards the other holds. And here's where contractors with great negotiating skills come to the fore. You only have to give the impression that you are holding the aces (even if the truth may be the opposite) – that's negotiation, and what being in business as a contractor is all about.

That's why it pays to understand that a simple rate rise won't provide a sufficient margin to motivate your agent, but if the agent is facing the loss of their entire margin because you play a mean game of rate poker, you might get you the result you want.

Agencies can have flexibility in their margins, so if it means the difference between losing a possibly highly lucrative contractor or retaining them, then there is wriggle room particularly if the margin is high. But only holding the "I know your margin is a bit high" card on it's own, pleading poverty, and saying that you deserve a rise won't get you anywhere at all - that's simply not negotiation - and is more akin to begging - "Please Sir, can I have some more!"

So, coming back to the original point, contractors don't deserve pay rises, or rate increases in the case of contractors, so it is not unfair of the agency not to push for rate increases – it is simply business.

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