

Negotiating your initial rate - tips for contractors

Introduction

Maximising your contract revenue means two things:

- o Avoiding gaps between contracts.
- o Charging the highest rate you can.

Using agents can help avoid gaps in contracts because they are effectively working on your behalf to find you a contract whilst you are in an existing one.

When you use agents you need to have good negotiation skills to maximise your rate.

Agency commissions and rates

- o An agency will typically mark up your rate by anything from a minimum of 12% to up to 20%.
- o Consultancies specialising in higher skilled and experienced contractors will charge them to the client at around £1000 and take a cut of around 40% - 60%.
- o A margin less than 12% is not commercially viable for an agent.
- o Many large firms have fixed margin agreements with their agencies of between 15% and 20%. You can spot a fixed rate deal easily when the agent responds to your rate quote with something like 'I think I can get you more than that.'
- o Contracts which have no fixed margin agreement provide an opportunity for the agent to charge as higher margin as they can.

Negotiation Tips

Before making applications:

- o Make sure you know what you are worth. Ask around.
- o If your sales and negotiation skills are almost non-existent, then read a basic book to get some advice. Knowing the basics of sales can help you get that higher rate.

In your application (via email):

- o In general, don't state your current rate. If you go too high you risk putting yourself out of contention. If it is too low then the agent could try and secure themselves a nice healthy margin and you will miss out. Always state that you charge the 'market rate'.
- o As an exception to the advice above, if the market demand is particularly high and you find yourself being able to pick and choose, then putting a rate in the email can ensure you do not get contacted by time wasters who want to pay peanuts.

On the phone:

- o The purpose of the phone call is to get an interview, not to agree rate before you have even had a chance to interview.
- o Try to be vague and non-committal. If you stand firmly on a high rate you might not get an interview. If you go too low then you might certainly get an interview, but you might not maximise your rate.
- o It is better to state a range of rates and say that 'it depends on what the client is looking for'. Try and appear flexible.
- o Prompt the agent asking 'How much is the client expecting to pay?' you can then respond by saying something like 'Sure, I can work with that number?'

During the interview:

- o Never discuss rate at an interview, unless it is a direct contract, in which case you should try and close the deal. Rates should be negotiated between yourself and the agent outside of the interview.
- o Establish how keen the agent is by trying to close the interview with the standard statement 'Do you have any reservations about hiring me to do the work?'
- o Ask the client if they have interviewed anyone else, or whether they intend to. This fact will potentially help your bargaining position.
- o The best bargaining position to have is to leave the interview having been offered the position.

After the interview – Negotiation time:

- o The rate you will now be able to command is totally dependant on the strength of your bargaining position. Factors are:
 - o The agent is so close to signing a deal, that they will reduce their margin (slightly) if it means getting your signature on paper. They would rather do that then have to try and source the position again.
 - o If the client has already told the agent they want you, the agent will not want to disappoint the client. [Bear in mind that if the agent blows the deal due to rate disputes they are unlikely to tell the client. In that case you might want to drop them an email to let them know the truth.]
 - o If you have other offers then you have the strongest position of 'not caring if you don't get the contract'.
 - o The demand of market.
- o Bear in mind that if you decide not to take a contract, for say £40 per hour, you'll need to secure another one within a week for £41.50 to earn the same annual revenue. For further analysis on this see: Financial Considerations When Deciding to Take a Contract. Whilst you should negotiate as high as rate as possible, there is really no point holding out for an extra 50 pence or a pound.
- o If you sound too keen then you'll get your rate negotiated down by the agent. Act nonchalant, but not arrogant.
- o During negotiations the agent might say something like 'I don't think I can do it for that rate, I'll call you back in a few hours'. Don't then call them back for at least 24 hours – you'll look too keen. Remember, the person who moves first loses.
- o Don't be afraid to say 'No' if the rate is too low and you feel you can get something else. It will frustrate the agent since they are so close to making a deal, but falling before the last fence happens to agents and contractors and is just part of the business.
- o Hold your nerve. The agent will try all sales tactics to evaluate the strength of your bargaining position. It really is a game of poker!

Closing Comments

Securing the maximum rate you can contains many variables which will determine the strength of your bargaining position. Some of these will be market driven (supply/demand) whilst others are controlled by you (other offers etc).

After establishing the strength of your position, the rate you will get comes down purely to the level of your sales and negotiation skills.

If you are a first time contractor, then chances are that your sales and negotiation skills will be less than those contractors with more experience. For that reason alone agents often enjoy securing contracts for first timers, since they can maximise their margins.

Don't worry if you fail the first time and the agent gets the upper hand. You certainly wouldn't be the first contractor this has happened to and it is all part of the learning process of going contracting.

Good luck!

Published: Wednesday, January 10, 2007


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