

Preparing and negotiating a contract renewal

Introduction

Contractors have fixed length contracts with a start and end date.

It is common for clients to ask a contractor to extend their existing contract and continue to supply services for them.

When a contract is 'extended' you have the opportunity of renegotiating the contract, to obtain more preferable contract terms and potentially a higher rate.

A previous article discussed [negotiating an initial contract](#). This article deals with the contract renewal process, and discusses factors and strategies to help maximise your negotiations.

“Extension” or “Renewal”?

The client or agent might refer to a 'contract extension', to give you the impression that the only option available to you is to extend under the terms of your existing contract, including rate.

This terminology is a little misleading, because in reality you are entering into negotiations for a 'contract renewal' whereby you can renegotiate your position, as though you were negotiating for the first time.

Renewal objectives

Common renewal objectives are:

- o Obtaining a first renewal, particularly if the first contract is 6 months or less. You want to ensure you can demonstrate to potential future clients that you have staying power.
- o Increase your rate if the market has risen, or maintain your existing rate if the market has dropped.
- o If currently inside IR35, then renegotiate contract terms to get yourself outside of IR35.
- o If negotiations are unsuccessful, resulting in you not renewing, then ensure you leave on a good note without burning bridges.

The role of the agent

Factors to consider regarding agents:

- o Agents put their client's needs first and foremost before the needs of the contractor.
- o The objective of the agent will be to get your contract renewed with minimum hassle for both them and the client. I.e. No rate increase and no renegotiation of terms.
- o Agents receive about 10% commission on their profit margins. And their margin is typically 20%. Thus, a small rise in your rate represents very little in the way of extra commission for the agent.

To summarise, agents have little motivation for helping you get what you want.

Effect of market demands

In a market with huge demand (like the late 1990's) an agent and client will be working together to desperately hold onto the contractors they have and ensure that they do not leave to get more money elsewhere.

“ Agents have little motivation for helping you get what you want. ”

When the market demand favours the buyer (like the early 2000's) the client and agent will be working together to get the most for their money, by keeping rates low and picking the best talent.

Who to negotiate with - client or agent?

Negotiating solely with the agent is not a sensible strategy, since their loyalties side entirely with the client.

It is difficult to negotiate solely with the client, since they will ask that you speak to the agent, who they are paying to get them the best deal.

“ Negotiating solely with the agent is not a sensible strategy ”

Remember, both the client and the agent want what is best for the client, not what is best for you.

A good strategy is to keep both the agent and the client involved in all of the negotiation communications. This then avoids any miscommunication by any of the parties.

Pitch to the decision maker

If you are trying to get a rate rise then ensure you pitch your reasons to the client, and not the agent.

Remember the golden rule in sales: 'Always speak to the decision maker'.

There is little point trying to convince the agent why the client should raise your rate.

The agent probably won't understand the subject matter, and you cannot guarantee they will pass your reasons onto the client. If they do rely your reasons to the client a second hand sales pitch by someone not on your side, with a thin grasp of the subject matter, is unlikely to make much impact.

Thus, it is imperative that you pitch your reasons for a rate rise to the client.

Justifying a rate rise

If the market has dropped since your last renewal (or first contract) then a rate rise is highly unlikely. After the dot com bubble burst, contractors found themselves negotiating rate decreases. If you are overpaid, then your best strategy is to keep quiet and hope that you can renew at the same rate.

If the market has risen then the fact that you can earn more money elsewhere is a strong bargaining point and should be stressed. If the client is sensible they are unlikely to want to incur cost of replacing you with someone who will command the same increased rate.

If the market is unchanged and you have not increased your skill set then the only justification for a rate rise would be the cost of replacing you. This is the classic 'hold up' and is not recommended at all. You should keep your clients happy and earn yourself good references.

If the market is unchanged, but your skills have increased and are worth more in the market, then you have good reason to request a higher rate. Tread carefully though, because from a perception standpoint clients are unlikely to agree with this. In this scenario to get a higher rate might mean moving on.

IR35 Issues

If you are currently caught by IR35 then [renegotiating your contract for IR35 compliance](#) might be easier, and certainly more financially rewarding than negotiating a small rate rise.

You can calculate the difference using the [Contract Comparison Calculator](#)

Timing

Normally the contract renewal process is not started until one month before your current contract end date.

If clients anticipate a risk that a contractor might not renew resulting in a project schedule being affected they might try to get a contractor to [consider an early contract renewal](#).

If you have not heard from either the agent or the client at the start of that four week window then you should start the process yourself by asking both the client and agent if they are interested in offering you another contract.

Negotiation tips

Maximising your return in the negotiations is dependant on the strength of your bargaining position, and your sales skills.

The strongest bargaining position for you to have is 'I don't care - I will not renew unless you meet my demands'. This can occur if you already have another offer elsewhere.

If you don't mind leaving the client and believe you can do better elsewhere then try and line up an alternative contract. [You can even hint to your existing client/agent that you are seeking alternatives. This tends to get things moving!]

Seeking alternatives to strengthen your position is not unethical, and not disloyal to your existing client. It is simply business - playing the game.

If you are happy to stay at the existing client for the same money and terms, then avoid laying those cards on the table, otherwise you can consider yourself trumped! There is no point holding a begging bowl and entering into negotiations saying 'I'll work for the same but please give me some money!'

Negotiating a contract renewal is similar to negotiating an initial contract, with the added factor that the client might not wish to incur the cost of replacing you.

“ Maximising your return in the negotiations is dependant on the strength of your bargaining position. ”

Having a contract renewed looks good on your CV. It shows you have staying power and that clients like you. If this is the first renewal at the client then it might be sensible to renew, unless you can get significantly more money elsewhere.

If your negotiations fail and result in you finish your existing contract, then try to ensure you leave on good terms.

Closing comments

Negotiating a contract renewal is pure sales. You must know the strength of your position, play your strategy accordingly, and finally ensure that you keep the client happy.


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