

Contractor doctor: are agencies legally bound to reveal contract margins?

Dear Contractor Doctor,

I'm a first time contractor, and the contract I'm on at the moment ends on the 16th of December. The company I work for wants to extend my contract. I'm hoping to renegotiate my daily rate.

Is my agency legally bound to tell me the percentage they take of my daily rate?

[Name Supplied]

Contractor Doctor says:

There is no legal requirement for an agency to tell you their mark up.

An agent takes their commission from the amount charged to the client, and not paid to the contractor. You could sell yourself for £300 a day and be charged out at £800 a day and have no idea. A sensible mark up is around 12.5% to 15%.

I suspect you are looking for a way to find out how much you are worth in the market so you can negotiate accordingly. Finding out how much you are currently being charged out for is a good place to start!

There is no point asking the agent for the margin figure, since you might not get the truth. It doesn't make for good business when distributors start telling their suppliers how much they are marking their goods up for!

You are more likely to get the right answer from the client. Clients do not want to see their contractors getting taken advantage of by high agency margins because the contractors find out, lose motivation and ultimately leave. It is not good for their business.

You can find out from your client by saying the following: "I'm worried that my agent is taking a large part of my daily rate that is charged to you because I'm being paid less than many of my friends in the market with the same skills. I was phoned the other day by an agent who was offering an extra £50 a day. Do you know what margin they are charging?".

A statement like that will provide sufficient motivation for your manager to find out! It also sets an expectation that you want more money.

Knowing your current mark up is one way of perhaps negotiating a rate rise. There are two more:

Put yourself on the market and see what you are worth. Keep raising the price until agents react with no interest.

Take into account the cost of being replaced.

Since your contract is up for renewal on 16th December, you will also need to take into account any loss of earnings should you decide not to renew your current contract to chase one for a higher rate.

When going into contract negotiations you always need the strongest bargaining position possible which is 'If you don't pay what I want I will go elsewhere.' In that regard it is often useful trying to line up another contract up for more money.

The weakest bargaining position is 'Please renew me, I really need the contract, and doubt I'll find one elsewhere.' In those cases the agent might negotiate a higher margin for themselves, or even the client might insist on a 10% cut. This is something many contractors will be very aware of over the past few years.

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