Contracting mindset tips: failure to consider the opportunity cost can be expensive

Contractors with sought after skills will receive many offers at suboptimal rates, particularly when market conditions are tough. But the cost of taking a poorly paid contract can prove to have been an expensive mistake months later, when the opportunity cost is calculated.

Would you rent your house out for less than the market said it was worth?

You've put your house up for letting and you know from extensive local market research that it's worth £1,000 a month. The day you start advertising, you get an offer for £750 for a 12-month let. Do you accept, or wait a few days or weeks to see if you get your asking price?

You pay your cleaner £9 an hour because that's the going rate in your town. You decide to implement a personal austerity plan and tell him in future you'll pay him £7 an hour. He leaves because it'll only take him a few days or weeks to find another cleaning job at £9 per hour or more.

Your gardener is on a fixed-price contract to do the garden each week. You regularly ask for little extras and keep her late, repeatedly going over jobs for next week. She quits, and starts work across the road for a client who only expects her to achieve what's been agreed and paid for.

Short-term gain really can cause long-term pain

Agencies will try to secure good contractors for less than they are worth, particularly in tough markets, because it is good business, if a little short-sighted. If you have been between contracts for a few weeks and agents know this, expect offers below your target rate.

A classic client tactic in tough markets is to demand a blanket rate reduction from all its contractors. If accepted, a 10% reduction mid-way through a contract could end-up being a permanent reduction in your market rate.

Clients regularly asking you to work excessive hours, or to provide extras not in the contract, will start to expect these services, so when you ask for more money for these jobs at renewal, will respond with, "But they've always been included in your rate?".

Calculate the opportunity cost every time you think of accepting a new contract

It's tempting to accept a contract offer that might be 25% lower than your usual daily rate if the market is tough and you've nothing else on the table. But if the contract is a long one, that 25% can end up costing you much more than if you'd waited a few more days or weeks for something better.

Push back against blanket rate reductions from clients, and suggest alternative cost-saving strategies to them. If this fails, work out the termination period at your proper market rate whilst looking for a new contract. The opportunity cost of a 10% reduction over several months, and the risk of being permanently stuck on the lower rate, is far higher than a few weeks between contracts looking for an assignment that pays properly.

Contractor mindset tip:

Contractors failing to consider the opportunity costs of their contracting options may be making costly business decisions.

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