

Determining the contract rate for your skills when entering the contract market

Permanent employees [going contracting for the first time](#) need to know what rate to command for their skills. So how do you go about working out how much you should be quoting when entering the market?

Importance of getting the right rate

Failing to quote the market rate for your skills could lessen your chances of securing a contract, and more often than not could end up with you lining the pocket of an agency rather than your own.

If you quote less than the market rate then:

You could miss out on higher incomes, instead just lining the agents pocket with a healthy margin.

You could appear less skilled than you actually are and fail to get interviews. Perception is key.

Get more interviews since you are charging less than your competitors, but then fail to get any offers because you are over qualified.

If you quote more than the market rate then:

You could appear more skilled than you actually are and fail to get interviews.

Get fewer interviews since you charge more than your competitors.

Fail to get any offers after interviews because you are not qualified enough.

Whilst maximising your income is one reason for quoting a good market rate, it is also important to pitch yourself at the right level. Your skill set, and **CV** is one part of the pitch and price is another. If they fail to align then it could lessen your chances of securing a position. Most firms expect to get what they pay for and the price you charge will be perceived to be what you are actually worth.

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Permanent packages versus contract market rates

Advertisements for permanent positions normally display a salary figure together with benefits, and sometimes a 'total package' amount. Prospective candidates can then easily compare various opportunities.

However, the majority of advertisements for contract positions rarely mention the rate other than quoting 'market rate'. Whilst there is no legal requirement to quote the rate, if a rate is quoted this tends to be because:

It is lower than the market rate. This prevents agents receiving applications from candidates with higher rate requirements.

It is higher than market rate, and therefore is a good selling point for the contract.

[There is another reason for a high rate: the position might be fictitious and just be used as bait to collect CVs for future use. Whilst this is illegal activity, it does occasionally occur.]

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Agency margins

It is in the interest of the agent not to quote the rate since they are looking to make as much margin on the sale as they can. That's how they make their money.

As sales people, agents welcome the opportunity of negotiating with contractors who aren't entirely sure what they should be charging - because they can negotiate rates down and increase their margins. Thus, the naïve first time contractor can be a good opportunity for an agent.

Some agencies have fixed percentage margin agreements with their clients. Whilst charging under market rate can sometimes be attractive to an agent since they stand a better chance of placing you, beware of pitching at the wrong level. Most firms appreciate that you get what you pay for.

Asking the question '[What is an Acceptable Agency Margin](#)' is nonsensical. Negotiating with agents is a game where they try and squeeze margin out of you whilst you try and get the top rate you can.

Determining a minimum rate

Contracting usually pays more than permanent employment. You can therefore determine a minimum starting point for your rate based on what you get paid as a permanent employee.

To do this start with your permanent salary and add in your benefits (health, [contractor pension](#) etc) until you get to a 'total package' figure. Put that figure into the [Permanent to Contracting Calculator](#) to determine a minimum starting rate. For example, a total package of £50k results in needing a rate of £28 per hour outside IR35, or £39 per hour inside [IR35](#). The [IR35 tax legislation](#) is a key piece of tax legislation that all contractors need to be aware of, and try to ensure they do not get caught by. The [financial impact of IR35](#) on your take home pay is huge, with contractors caught by IR35 taking home 25% less than those that aren't caught.

Reading market rate surveys

Some web sites offer very useful survey results stating what rates certain skills can command in the current market.

Whilst these figures provide some good overall guidelines they can be a little limited, since they do not take into account combinations of skills, the level of experience, and market sectors.

Asking other contractors

This is the best way of finding out what you should charge. Simply ask an experienced contractor you know or work with who has similar skills and experience to you.

However, consider that rates for contractors working in the same market with the same skills and experience could have rates differing by up to £100 per day.

Market type

It can be, but is not always, the case that different markets pay higher rates than others. Banking for example is known for higher rates and a daily rate could be as much as £100 more in banking. But expect to work longer hours for that money.

Playing the field - agencies

When you speak to agents it will normally be because you have applied for a position and they are phoning you to discuss rates and possibly arrange an interview. Make sure you have a number to mind, for both hourly and daily rates.

They will inevitably ask the question 'What sort of rate are you looking for?'

You can try your luck by saying 'I charge market rates, what can the client afford?' The agent might mention a rate, in which case you can try saying you were looking for £10 an hour more and then gauge their reaction.

If they don't quote a rate then throw a number at them and try to gauge their reaction. If they agree with it then add £5 an hour to the next agent you phone.

After a speaking to around 10 different agents you will get a rough idea what is a good rate for your skills.

Conclusion

For first time contractors it is hard to know what rate to quote for your skills. It's not until you've got hard experience that you can measure what you're worth, what you should have charged and what to do next time.

For first time contractors it is advisable to only commit to a maximum of a 6 month contract whilst you get the vital experience and understand what you are really worth.

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