How contractors can avoid having their rates cut by clients

Contractors need not simply give in and accept enforced rate cuts when faced with clients who want to reduce their own overheads. Indeed, for some canny contractors that understand their true worth, 'crisis points' like these can even be an opportunity to **negotiate higher rates**.

Of course, contracting rates do fluctuate according to market conditions and the supply and demand for certain skills. When clients perceive supply exceeds demand, they may try to save costs with blanket cost-cutting measures. But contractors are not all commodities, and those who have invested in acquiring skills and experience in high demand can use their differentiation to their benefit.

There are plenty of examples of how contractors have held onto or even increased rates during tough times. However, contractors should also be prepared to be flexible. Whether this means changing clients or even accepting a pay cut, a reasonably paying contract is better than no contract at all. But contractors should always have a financial buffer for the times when rates offered are simply not high enough and they would prefer to have the flexibility to walk away.

Rate cuts for contractors are not the same as pay cuts and redundancies for permies

So what might lead to a contractor being faced with a rate cut? The typical scenario is when a large organisation that engages significant numbers of contractors decides that cost savings are required. People are expensive, so are often the first cost to be targeted for cuts.

Employees have rights and the process of cutting salaries and employee headcount can be lengthy, expensive and harmful to morale. It's certainly not a quick fix that the finance director can implement to achieve rapid cost cutting and increased profitability.

What this means in practice is that, from the finance director's perspective, contractors are a variable supplier cost which can be reduced immediately. That potentially means rate cuts across the board. But the finance director (or procurement officer or human resources manager) won't know how important each supplier might be to the success of critical projects, so there will always be exceptions to the rule.

There is also a silver lining for contractors facing weak market conditions. Unlike employees, contractors can quickly reduce their rates, or the number of days worked, and hang on to at least some of their income. Employees, on the other hand, are more likely simply to be made redundant.

What contractors should do when the rate-cutting email arrives

The email could be delivered at the same time as a contract renewal, or it could be sent out of the blue to the entire contracting workforce, irrespective of contract status. Depending on the nature of the client's organisation, it could come via the client's line manager or human resources, finance or procurement departments. Sometimes, it comes from the contractor's agency.

Whatever the source, contractors on the receiving end of an email demanding a rate cut should:

Not panic, or just roll over and accept the rate cut – keep calm and carry on!

Not take it personally – contractors are business services providers and not employees; it's just business

Understand that there is no loyalty in contracting; to the client contractors are suppliers and not employees; to the contractor, clients are just that – clients

Understand that the email is the first stage in a business negotiation.

Under no circumstances should contractors 'shoot from the hip' with an immediate response. They should carefully consider their available strategies; the key ones are outlined below.

Strategies for dealing with clients' rate reduction demands

Contractors have a range of strategies they can adopt to deal with a rate cut demand. The choice of strategy will depend on an individual contractor's skills, experience and circumstances. But, for most contractors, there are alternatives to simply accepting a rate cut. These include:

Calling their bluff: Contractors with exceptional skills and experience without whom the project might fail, or at least stall, can respond with something like: "Thank you for your letter, but I am confident that the services I provide remain of excellent value. In addition, I have increased my skills base during the contract period, and am not prepared to reduce our prices going forward. In fact, we were planning to increase rates by X% in line with inflation." When considering this strategy, contractors should also have, or be confident of quickly acquiring, a new contract.

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Lining up another contract: There is no need for a contractor to be 'loyal' to their client and carry on working for it after the contract end date. Business is business. Do some market research about the buoyancy of the contract market and going rates for your particular skills and experience. Get your up-to-date CV out to agencies. Gauge the level of interest and line up some alternative contracts. Then, if calling the client's bluff does not work, you can walk away into the new contract.

Letting the agency take the strain: Agencies make margins on contractor day rates. It is possible the agency will take a cut in their margin if it keeps the contractor in the contract. If the contractor has another role lined up with a different agency, this can be a powerful ploy. However, some agencies have fixed margins agreed with the client.

Cut costs elsewhere: There are other ways to make cost savings. Contractors confident of their value to the project could suggest to their client project manager that costs are cut elsewhere. This could mean: suggesting a non-essential part of the project is scaled back; terminating another contractor on the team who is underperforming; or the entire project team reducing the number of days worked each month.

Contractors who can foresee rate cuts on the horizon, which have yet to be enacted, should consider pre-empting the cuts and putting into place some of the above strategies in advance.

Beware of dirty tricks and pitfalls

Contractors are small businesses and don't enjoy the benefits of employment rights. That means they can be vulnerable to sharp business practices that, in extreme cases, can devolve into dirty tricks by clients seeking to cut costs.

Contractors should beware of:

Client not signing the final timesheet: If no compromise can be reached and the contractor decides to leave, or is terminated by the client, the contractor should pack their 'escape pod'. During the termination period, contractors should make sure they get the final timesheet signed, plus retain copies of any emails from client project managers confirming that any final work has been completed according to specification and schedule.

Beware breach of contract: Having secured another contract, and having been terminated, contractors should beware of any attempts by clients to place them in breach of contract due to non-performance. This is a classic client tactic designed to save a month's worth of fees. Contractors should pay special attention to performing their duties exactly as requested and securing proof, such as project sign-offs and confirmation emails. If the firm does try this on, contractors could make a counter offer to take half the termination period fees in exchange for the promise that they won't litigate against the client.

Contractors aren't in unions, so don't always share with other contractors: Even thought they don't have unions, contractors can effectively work together to combat a particularly unreasonable client. On smaller projects, where the rate cut is not organisation-wide, this can be effective. But in most large client organisations, it is every contractor for themself. One contractor's skill set might keep them out of pay cut territory, where the next ten on the same project will have no option because they are more expendable.

It is never pleasant for contractors to suffer rate reductions. But by adopting a rate reduction response strategy, contractors can push back and secure a good deal either with their existing client, or with a fresh one.

Published: Thursday, December 1, 2011