

How to negotiate your initial rate with agencies to maximise your contractor earnings

Maximising your contract revenue means two things:

Avoiding gaps between contracts.

Charging the highest rate you can.

Using agents can help avoid gaps in contracts because they are effectively working on your behalf to search for a new contract, while learning the art of negotiation with agents will help you maximise your rate.

When you use agents you need to have good negotiation skills to maximise your rate.

How agencies calculate their commissions and rates

Before you start negotiating with an agent, it's important for contractors to understand how agents calculate their rate and understand that they aren't working in the interests of the contractor but rather for their own profit margin.

An agency will typically mark up your rate by anything from a minimum of 12% to up to 20%.

Consultancies that specialise in higher skilled and experienced contractors will charge them to the client at around £1000 and take a cut of around 40% - 60%.

A margin of less than 12% is not usually commercially viable for an agent.

Many large firms have fixed margin agreements with their agencies of between 15% and 20%. You can spot a fixed rate deal easily when the agent responds to your rate quote with something like 'I think I can get you more than that.'

Contracts which have no fixed margin agreement provide an opportunity for the agent to charge as higher margin as they can.

How to successfully negotiate your rate with agencies

Before making applications:

Ask yourself the question "What should my contractor rate be? What is the rate below which I'm not willing to negotiate?" It's important that you know what you are worth. Ask around.

If your sales and negotiation skills are almost non-existent, then read a basic book to get some advice. Knowing the basics of sales can help you get that higher rate.

In your application (via email):

In general, don't state your current rate. If you go too high you risk putting yourself out of contention. If it is too low then the agent could try and secure themselves a nice healthy margin and you will miss out. Good negotiation is about not showing your cards too early in the game. Always state that you charge the 'market rate'.

As an exception to the advice above, if the market demand is particularly high and you find yourself being able to pick and choose, then putting a rate in the email can ensure you do not get contacted by time-wasters who want to pay peanuts.

If you're highly skilled or have particularly valuable experience in relation to a particular type of contract make sure you emphasise this in the email, this can put things in your favour when negotiating your rate in a subsequent interview.

On the phone:

The purpose of the phone call is to get an interview, not to agree rate before you have even had a chance to interview. This is not the time to start real negotiations with an agent.

Try to be vague and non-committal. If you stand firmly on a high rate you might not get an interview. If you go too low then you might certainly get an interview, but you might not maximise your rate.

It is better to state a range of rates and say that 'it depends on what the client is looking for'. Try and appear flexible.

Prompt the agent asking 'How much is the client expecting to pay?' you can then respond by saying something like 'Sure, I can work with that number?'

During the interview:

Never discuss rate at an interview, unless it is a direct contract, in which case you should try and close the deal. Rates should be negotiated between yourself and the agent outside of the interview.

Establish how keen the agent is by trying to close the interview with the standard statement 'Do you have any reservations about hiring me to do the work?'

Find out about the competition for the contract. Ask the client if they have interviewed anyone else, or whether they intend to. This fact will potentially help you negotiate with the agent for a higher contract rate.

The best bargaining position to have is to leave the interview having been offered the position.

After the interview – Negotiation time:

The rate you will now be able to command is totally dependant on the strength of your bargaining position. Factors are:

The agent is so close to signing a deal, that they will reduce their margin (slightly) if it means getting your signature on paper. They would rather do that than have to try and source the position again.

If the client has already told the agent they want you, the agent will not want to disappoint the client. [Bear in mind that if the agent blows the deal due to rate disputes they are unlikely to tell the client. In that case you might want to drop them an email to let them know the truth.]

If you have other offers then you have the strongest position of 'not caring if you don't get the contract'.

The demand of market.

Bear in mind that if you decide not to take a contract, for say £40 per hour, you'll need to secure another one within a week for £41.50 to earn the same annual revenue. For further analysis on this see: Financial Considerations When Deciding to Take a Contract. Whilst you should negotiate as high as rate as possible, there is really no point holding out for an extra 50 pence or a pound.

If you sound too keen then you'll get your rate negotiated down by the agent. Act nonchalant, but not arrogant.

During negotiations the agent might say something like 'I don't think I can do it for that rate, I'll call you back in a few hours'. Don't then call them back for at least 24 hours – you'll look too keen. Remember, the person who moves first loses.

Don't be afraid to say 'No', it can be one of your most power tools when negotiating with agents. If the rate is too low and you feel you can get something else then trust your judgement. It will frustrate the agent since they are so close to making a deal, but falling before the last fence happens to agents and contractors and is just part of the business.

Hold your nerve. The agent will try all sales tactics to evaluate the strength of your bargaining position and negotiating skills. It really is a game of poker!

Important factors to remember when negotiating your rate with an agent

Securing the maximum rate you can relies on many variables which will determine the strength of your bargaining position. Some of these will be market driven (supply/demand) whilst others are controlled by you (other offers etc).

After establishing the strength of your position and demonstrating your skills and experience, the rate you will get comes down purely to the level of your sales and negotiation skills.

If you are a first time contractor, then chances are that your sales and negotiation skills will be less than those contractors with more experience. For that reason alone agents often enjoy securing contracts for first timers, since they can maximise their margins.

Don't worry if you fail the first time and the agent gets the upper hand. You certainly wouldn't be the first contractor this has happened to and improving your negotiation skills with agents is all part of the learning process of going contracting.

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