

Should contractors use agents to find contracts?

Introduction

As a contractor you have two options when trying to find work:

Use agencies.

Find a contract yourself.

This article examines the financial considerations and practicalities when deciding which path to take.

Agency commissions & rates:

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

Consultancies specialising 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 less than 12% is not 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.

Agents get paid a rolling commission based on their margin, typically around 10%.

A typical agent will close 2 or 3 contract deals a month.

Companies and Agents

Some firms have a policy that all contractors must contract via an agent, even if they are sourced directly.

For firms which hire direct contractors, they will not in general pay higher rates than 'agency sourced' contractors.

Large firms who use agencies will have a 'approved suppliers list' of agencies they will use. It is difficult for new agents to try and get on that list.

Using an agent

A detailed discussion about how to find a contract is discussed in another article. Here are the summary points relevant to this article:

Sourcing a contract through agents requires applying to jobs advertised on the internet job boards and then chasing them up for interviews.

To get a good rate via an agent you will need to:

Know your market rate, and

Have good negotiation skills.

Sourcing a Contract yourself

Reasons for sourcing contracts yourself might be:

You believe you can get a higher return by cutting out the agency.

Your skills are very niche and not typically advertised.

You think you can do a better job of finding a contract than an agent can. I.e. Sourcing it yourself is more optimal and the path of least resistance.

Sourcing a contract yourself is done thorough two methods:

Networking: Sourced through your own network of contracts.

Cold calling: Sourced by contacting firms directly.

Networking

Networking is by far the easiest method of securing a contract directly with a client. If you do not have contacts who can help secure you a position then finding a contract from a cold start is an uphill struggle. Without networking you are essentially pitching your sales skills against those of the experienced sales agents.

Cold calling

The first thing you will need to do is get a list of firms and contact names to call. Emailing to info@companyname.com will never work, neither will 'Please can I speak to the person responsible for hiring X, Y, Z'. Establishing this initial list will take time and you will need to learn standard sales techniques to do this.

Due to the high number of agencies, most firms employ 'gate keepers' to protect managers from being continuously bombarded with prospect phone calls each day. There are standard sales techniques for circum navigating gate keepers which you will need to learn.

Expect 90%+ of all cold calls to result in rejection.

After bypassing a gate keeper, you will then need to jump a number of hurdles:

You will need to convince the manager to talk to you, rather than tell you to go away. Expect the vast majority to politely tell you where to go.

If they will talk to you then you need to establish whether they have a position available requiring your skills. The majority won't have one immediately if at all.

If they do have the skill requirement, then they might have a policy of using agencies and simply refer you to them. Otherwise you will need to quickly convince them you are the person they need and then 'make a close' and arrange an interview. There are standard sales techniques for both convincing a client and closing deals, which you will need to learn.

Cold calling from a cold start can be a long process: first establishing a list of contacts, and then working with that list to try and locate a client who needs your skills, hires contractors directly and is prepared to interview you.

Financial Considerations

If your reason for going direct is to 'cut out the middle man' and earn more then there will be an added 'cost of sales' for securing a contract.

Here are the main issues and some calculations to highlight the cost:

When you are not in contract, you don't get paid. The 'cost of sales', particularly down the cold calling route, is thus potentially very high.

Sourcing a contract yourself via cold calling can be very time consuming, and is not something you will be able to do whilst you are currently in contract.

It is unlikely you will be able to command a much higher rate (if any) simply because you are contracting directly.

Let's assume a current contract with the following details:

Rate: £40 per hour

Hours: 37.5 per week

Weeks per year: 46, to take into account all time off.

Agency mark up: 15% [They charge for £46 per hour]

IR35 status: outside [although for this argument it makes no difference]

Annual Revenue (@£40 per hour) = £69,000.

Annual Revenue (@ £46 per hour) = £79,350.

Let's now reduce the number of weeks worked each year to see where the 'break even' mark is:

Weeks	Revenue (@ £46 per hour)
46 (original)	£79,350
45	£77,625
44	£75,900
43	£74,175
42	£72,450
41	£70,725
40	£69,000

This calculation tells us that, if you can manage to cut out the agency margin and collect it yourself, you'll need to secure your own contract within 6 weeks

to make it worth your while.

If the extra rate you get is only increased by half what the agent charges (£43) then the same calculation tells us you would need to find the contract in 3 weeks.

Up against it

For a contractor to secure contract via cold calling they are at a huge disadvantage compared to the agent:

It takes a lot of time and effort to secure an interview.

A contractor has little or no sales skills compared to an agent with professional selling experience.

An agent is experienced in professional selling.

An agent will already have a list of leads (companies and contact names) they can work with. The contractor starts from scratch.

A good agent will average 2-3 deals per month. This means with all the experience and resources of an agent you might be able to secure a position in two weeks, but is unlikely.

Closing comments

If you can secure a contract via networking then there is a chance you can earn more money by cutting out the agent.

Cold calling is unlikely to be commercially viable for the contractor.

If a contractor does not have a network of contacts to secure work then the most sensible approach is to learn some negotiation skills to try and get the best rate possible on each contract.

Published: Friday, April 20, 2007

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