

absolutely business



A guide to negotiation of rates

By Denise Walker FREC

Why negotiate?

Everyone wants a bargain and clients of recruitment agencies are no exception. They regularly ask for discounts, even where they may not truly expect them, and your response to such requests can make or break your working relationships – both with your clients and others, such as your sales team. A simple ‘No’ followed by the reasons why can often be enough to get the client to agree to full fees, whereas an immediate ‘yes’ may make the client question the quality of your service and the rate you initially quoted. If you negotiate too low, will your staff struggle to earn the same levels of bonus/commission/profit share or will they simply chose to turn their attention to other, more profitable clients? And if you negotiate with one client but not another of equal value, how will you justify your decisions?

Negotiation can only really take place once you and your client have a good understanding of the service to be provided and of the amount of business available. The key to successful negotiation lies in understanding the value of your service and the costs involved in providing that service. This requires that you think ahead and have clear objectives and a solid ‘bottom line’ which it would not be good business for you to fall below. You will then feel much more confident in holding your ground when faced with a tough client negotiation. There is no benefit to be had by agreeing a deal that makes either party resentful and any fee reduction you make must be balanced by an increased level of profitable business, more favourable payment terms or other benefits.

In general, a recruitment consultancy sets its terms at a level, which enables it to cover:

- direct costs - the costs of providing the service, to the desired levels of quality – including staff bonus/commission/profit share;
- indirect costs – overhead, including staff salaries, training, marketing, advertising, premises etc.; and
- the target profit margin.

All business owners set their fee structure to achieve the above, based on the sales levels they expect to achieve. In some circumstances, it may be appropriate to negotiate on set fees, for example, where there is the opportunity to win sufficient volumes of business – after all, a high amount of business from one source can be a lot more profitable than a low amount from a number of different clients.

Negotiation is carried out in the recruitment industry every day and methods of doing so can be both formal and informal. However, if you are considering large negotiation projects, such as master vendor agreements specific professional advice is highly recommended.

Informal negotiation – the pros and cons

The benefits of informal negotiation are:

- The negotiation can be tailored to each client.
- The client is made to feel 'special'.

Problems with informal negotiation are:

- You can become inconsistent with your pricing – and when clients talk to each other (as they invariably do), you could appear to be operating an unfair policy.
- You could become a victim of not being able to say 'no', to the detriment of your credibility.
- Your staff will not have a structure to work to – so either they will negotiate to inappropriate levels or you, as the business owner, will end up having to negotiate on every deal.
- Your profit margins will be unprotected and cash flow unpredictable.
- There is a tendency to concede too quickly to clients demands for a 'discount' without getting something back in return to make the reduced fee worthwhile for you.
- Giving in too easily on rates makes it look as if you were overcharging in the first place.

Formal negotiation – the pros and cons

The benefits of establishing a formal negotiation procedure from the start are:

- You can be more objective in your decisions, which makes your negotiation policy visible and fair – clients are often impressed with impartiality.
- The 'emotion' is taken out of negotiation, making it easier to deal with clients who 'put you on the spot'.
- As your business grows, the staff you take on know your policy from the beginning of their employment with you.
- Your profit margins are protected from the temptation to give more than you can afford.
- Having a formal structure to work to shows the client that you have thought it through and they are less likely to raise objections.

Problems with formal negotiation are:

- The negotiation can be too structured for some situations.
- If applied by inexperienced staff, the client relationship could be damaged (i.e. the client might feel like a one of many, rather than 'special').

In summary, although negotiation is often based on volumes of business, remember there are many more elements to a successful negotiation than just the fees. You can negotiate on the levels of service to be provided (to interview or not to interview for example), payment terms, speed of response and feedback from the client, frequency of rate reviews, sole agency for 2 weeks etc.

However you negotiate, it is important to remember that a negotiation is a two-way agreement. If you don't fulfill your side of the bargain, the client will be quick to complain. Likewise, you must address any failure on the part of the client to live up to their commitments, especially where a deal has been agreed based on prompt payment or volume business that doesn't materialize.

About Denise Walker FREC

Denise Walker owns and runs Absolutely Business, a specialist management consultancy, designed exclusively for the recruitment industry, delivering **business consultancy, interim management** and **training services**.

Contact

t 0118 9821535 **e** denise@absolutelybusiness.co.uk **w** www.absolutelybusiness.co.uk