

Understanding Contracting: For Technical Communicators Working Through Contracting Companies

By Theresa Daus-Weber
Senior Member Rocky Mountain Chapter STC

This presentation summarizes information for technical communicators to understand the pricing aspects of working through a contracting company to recognize reasonable and unreasonable contract pricing structures.

There are three parties involved when working through a contracting company:

- The contractor
- The client who receives the contractor's services
- The contracting company that sells the contractor's services to the client and who administers the contractor's pay from the client's payment to the contracting company. The contracting company may designate two personnel to complete the contract placement—an account manager who identifies the client's requirement and the recruiter who finds candidates to fill the requirement.

Realize that there are two payments made for contracting services:

1. The amount the client pays the contracting company that includes:

- Your rate
- *Your taxes, FICA, etc
- *The contracting company's commission for finding you for the client
- *The contracting company's cost to administer your placement such as processing payroll
- *The contracting company's profit on the placement

*The items identified with an asterisk are considered "markup," which is the amount the client pays the contracting company in excess of your rate.

2. The amount of pay the contractor receives

Understand the following variables in contract pricing.

- The contracting company is motivated to offer the contractor's services to the client at the lowest competitive bid as a strategy to obtain the client's business
- The lower the rate the client pays for your services, the lower the client's percentage of markup is on your rate, a cost savings to the client, and loss of profit to the contractor and the contracting company
- The higher the contractor's rate and the lower the client's rate, the lower the contracting company's profit

When considering a contracting position, include the following actions in the financial analysis of the position.

Understanding Contracting: For Technical Communicators Working Through Contracting Companies

- Let the contracting company know that you understand how contract pricing is structured, i.e. contractor's rate, markup paid by the client, and the contracting company's profit.
- Ask the contracting company the structure of the placement i.e., contractor's rate and the percentage of markup that the client is paying to determine the contracting company's profit. It is professional, reasonable, and fair to know the financial aspects of the placement including the contractor's compensation, the markup to the client, and the profit to the contracting company.

The following summary compares a reasonable and an unreasonable contract pricing structure.

Price Structure of Contracting Scenarios	Contractor		Client		Contracting Company		
	Earning Rate /Hr	% of Total	Charge Rate/Hr	% Markup	Expenses Paid (26-28% withholdings)	Profit/Hr	% Profit
Reasonable Market Rate	\$34	75	\$45	32	\$8.75	\$2.25	6
Unreasonable—Skewed to Contracting Company unfair profit	\$23	42	\$55	139	6.00	\$26	113