Change Orders Can be Profitable, If—

Good Management and Common Sense Are Priority Items When Dealing With Project Changes

The landscape of false hopes is literally sprinkled with the remains of contractors—including wall and ceiling contractors—who have run amiss of the change order.

To handle a change order properly requires management and common sense.

And bidding a job at cost in the hopes that profits can be made up on the change orders is not management and common sense. It is a one-way street—complete with disastrous potholes to financial ruin.

If any wall and ceiling contractor thinks that a project change order will automatically assure him of a better profit picture, he’s wrong. If the change order isn’t handled properly, it will assure him of an unhealthy loss.

A quick look at some of the problems involved in change orders will reveal how to avoid the more serious mistakes:

Before Initiating Change Orders

A wall and ceiling contractor should always remember RULE ONE: Never initiate—or allow any of your superintendents, foremen, or employees—to initiate a change in project scope unless that change is supported by WRITTEN DIRECTION AND/OR AUTHORIZATION—and the terms of payment for the additional work have been defined.

Establish Procedures During Negotiations

When a contract is negotiated is the time to establish the procedures for change order costs. And these procedures should include 1) consideration for the labor input in the work (including increased or decreased productivity of employees); 2) a statement of the overhead and profit allowances (these are usually stated in percentage terms—but this rule isn’t
ironclad), and 3) a statement concerning just how payments will be made on change orders (good examples include negotiated lump sum, contractor to proceed on a cost-to-be-determine basis, and time and material costs plus add-ons for overhead and profit).

By negotiating carefully for a firm, well understood procedure on change orders, the chance of hard feelings is minimized. Furthermore, the possibilities of losses is also reduced on change orders.

**Allowances For Management Costs**

Where many wall and ceiling contractors miss out in their change order work is the failure to provide for the increased amount of management time associated with a project change. Whether a subcontractor realizes it fully or not—or is willing to make a free contribution—his management talents represent a value input into the procedure.

This management allowance should be for such things as submission and resubmission of shop drawings or layouts and schematics, or both as well as cancellation and rescheduling of equipment and material procurement.

Allowance should also be made for additional warranty coverage such as a change from a painted surface to a vinyl covering.

**Make Plans For Reduced Efficiency**

Once an employee has finished a job he likes to move onto the next task. It's true that he's being paid for his time, but there most definitely can be a demoralizing effect on worker efficiency when he must go back to a job he has just completed—and done well—and rip it out or throw it away.

The resentment that a craftsman feels on many change orders must be recognized and accommodated in the planning because this reduced efficiency can produce a loss.

With the above pitfalls clearly in mind, attention to the management procedures in evaluating and pricing becomes much easier. Please refer to the diagram showing the procedural steps for change order management.

In order to clearly understand these procedures, a run-through of a typical change order will be helpful. During the progress of a job, the Owner directs a change in the type of ceiling system from an exposed zee bar system to a metal pan ceiling system so as to gain more effective sound absorption values.

**Scope Evaluation**

The new ceiling system will require a different type of lighting fixture... what happens to the 25% of the present fixtures already on the jobs... what changes will be required in installation procedure and materials... what part of the already installed work will have to be changed... what labor change will be required to install the new fixtures and hangers... what effect will this change have on the moral of labor and on project time...

**Material Costs**

Determine additional cost for new bars and fixtures... determine cost involved in returning the fixtures and zee bars... determine cost changes and miscellaneous materials needed to install any new fixtures and tee bars (count every nut, bolt, screw, wire clip, pad, wire grid, splice hood)... determine cost of miscellaneous material needed to modify existing installation so it will be compatible with new system...

**Transportation Cost**

Determine transportation costs of getting new materials to the job site... determine transportation costs of getting returned equipment to your own warehouse or to the manufacturer... be certain that transportation costs include the operational costs of your own vehicles, commercial carrier charges, and any related direct labor costs...

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Additional Labor Cost

Determine the cost of additional labor effort which may be required to install and connect the new system’s components . . . determine the cost of labor which may be needed to modify and/or change existing installations so they’ll be compatible with the new fixtures. Give special consideration to job difficulty factors so a realistic addition can be calculated . . .

Project Time

Will the impending change order require additional labor to maintain the job schedule . . . if a job schedule extension is approved for the change will this effect scheduling with other trades on other work . . .

Management Cost

The wall and ceiling contractor’s management is overhead as is the cost of operation. These costs on change orders will understandably be higher than the overhead cost calculated for the original project. Thus, the operations costs of a project change should include all management costs related to the change and the items it effects. If overhead isn’t properly computed for each of the items mentioned above, a loss is much easier to occur.

Changed Warranties

Potential expense on many items, components, etc. is bound to increase. These would include new materials, tools needed, more expensive equipment, extended time of warranty coverage. The latter element must be included to guard against a future loss.

Cost and Profit

The sum total of the contractor’s cost includes all of the items mentioned except for the profit. Profit is the principle reason for being in business.

Often, profit mark-up on change orders is placed on a sliding scale to allow the wall and ceiling contractor to recover a greater profit on small changes and a lesser percentage on big changes. Profit is entirely within the province and negotiating skill of the contractor because only he knows what is reasonable.

By following the procedure outlined here a wall and ceiling contractor can take some giant steps toward removing the loss element involved in change order work. It can be profitable (and should be since it represents work and skill), but it can also be ruinous.

As a final word of advice and caution, having this procedure in the office is one thing. Getting the word and procedure out into the field to a foreman or a superintendent is another—and a vital move.

Field people should understand and follow a contractor’s change order procedures. The former are the people who are usually contacted by the general contractor or some other representative of the Owner.

Minor changes can add up to a considerable amount of time and money. For this reason, all changes should be subject to careful control.

And RULE ONE should always apply for every individual involved in the wall and ceiling contractor’s production team. Every change, major or minor, must always be authorized in writing.

Once the change order is authorized, the amount and method of payment determined, the wall and ceiling contractor needs only to follow his own careful procedure—and he has done what any prudent businessman must do to increase the prospect of profit and removed the risk of loss.