Overall, the job went pretty well—fast-paced and harried (as usual)—but no major problems. “There were a few changes by the owner and architect during the work—plus a few more that your own guys flushed out (that had to fixed)—but nothing that couldn’t be absorbed,” you thought at the time.

But now, here you are, hunched over your final job-cost report, and something’s wrong. The profit line item on the report seems much smaller than you thought it would be. You suspect (and hope for) for clerical error—and timidly begin examining the report in more minute detail. Sure enough, the rows and numbers seem to add up, so accepting your fate, you force your mind to reflect back on the job in question—straining to recall any singular or remarkable examples of waste or miscarriage that would explain this profit shortfall.

No immediate, ready answers spring to mind, but there is something, however, that’s starkly clear: the jobs over—it’s been over for a month—and there’s no going back to ask for more money now! You didn’t even know the job was a loser until five minutes ago! How could you have? Final billings were still arriving from vendors and subs up until the day before yesterday And now it’s too late. Now, all you can do is clean up the mess, bury the bodies and search for solutions.

**Discovery**

So you go back to discover what went wrong. Upon further study and investigation—and a chat with your job foreman—you eventually piece together those seemingly minor (remember?) changes and alterations to your work during the course of the project that weren’t quite as minor as you had been led to believe. In fact, when added up, they turned out to be quite costly. A little labor here, some additional material there, then there was that trim detail that was changed on the fly, and so on. But (taken alone) they just didn’t seem big enough to demand an extra compensation.

You grit your teeth and do the math. You figure you coughed-up almost $4,200 in extras. Now, your original profit line item was only $10,000—and coupled with some other overages suffered in general conditions—you end up unceremoniously saddled with a mere half of your original profit estimate. Now, you remember, conversations with the architect where there were hints and intimations that “you’d be taken care of” on some of these overages, but of course, now that the job is over, the architect is suddenly battling a chronic case of “selective memory” and doesn’t remember making any such gestures . . . and there’s not a written change order in site.

So you’re stuck. Once again you’ve 
been burnt—and once again you vow that “from here on out, everything’s gonna be in writing! We’ll stop the damn job if we have to!” You’ve been in business a long time and have always been the kind of company (and the kind of guy) to take a man at his word—sealing deals on a handshake and honoring the golden rule—and tried to shy away from putting everything—especially “gentlemen’s agreement” things—in writing. “But, next time’s gonna be different!” you tell yourself. But then, sure enough, on the next job, you and your crew fall right back into the same old pattern and habits.

So, how do you get a handle on out-of-control changes in the field? Well, continue reading.

**The Change Order**

In today’s construction world, it is truly rare that any building project is completed without extras. Extras are changes that happen after the original base contracts for construction are let. Though they could offer the owner a credit (through, perhaps, an item of work that was deleted), for the most part, these extras almost always involve additional charges to the owner. Items such as the unanticipated upgrade of electrical service, alteration or rerouting of site utilities, or unforseen subterranean encumbrances (for example, an old building that was buried on site that no one knew about) are common fodder for these types of extras.

These extras, if agreed to and accepted by the owner and architect, eventually...
become modifications to the base contract or (more generically known as) change orders. A change order is simply written evidence that an owner has requested the contractor to perform (normally) additional labor and/or provide additional materials for improvements that weren’t delineated in the original plans and specifications. Causes for such changes include the following items:

- The owner or architect simply having a change of heart over a detail after the project has begun.
- The owner not understanding the architect’s original intent/detail as set forth in the original plans/specs.
- Alteration due to code, covenant, ordinance or other governing body interpretation.
- Actual errors on the architectural plans/specifications and/or poorly defined details.
- Unanticipated, unforseen, or unknown (often subterranean) site circumstances.

Of course, there may be other reasons for legitimate changes. The key ingredient is that the change in question was not anticipated by any (or all) of the parties. A contractor who simply “blows his bid” by missing something in the plans and specifications that was clearly defined as being in his scope of work generally does not have justification to ask for more compensation.

Get It in Writing

But, let’s assume it’s not your fault. Now, as nice a guy as you are and as
much as you want to get along with the everyone—owners and design professionals alike—situations like those listed above are normally not your fault. Generally (unless there’s very strict language in the specifications or your contract to the contrary), you are well within your rights to request additional remuneration should one of these circumstances arise. And for some people, this simple exercise of asking for additional compensation comes quite hard. There’s a natural tendency for these sorts of people to refrain from “rocking the boat.”

But business is business—and like it or not, we’re all in a field that is growing more global and homogenized (and therefore intrinsically colder in spirit) every day. The small-town relationships of old are fading from view and the sentimental vision of two business people simply trusting one another is unfortunately and sadly growing endangered. But perhaps we shouldn’t be surprised. All sides—the contractor, architect and owner—take a business risk when they enter into a construction project, and all become equally susceptible to (potentially large) losses should changes spiral out of control.

And so, the change order becomes important. The change order is transformed into a clinical, executable and isolated business negotiation that demands the same level of importance and attention to detail as the original base contract. Also, in our litigation-conscious world, the change order also becomes a document that may have potential legal ramifications should the parties disagree later on down the road. So, like I’m sure you’ve heard before (and like you’ve no doubt told yourself): You must put the change order in writing, and then make a concerted effort to have someone who is representing the owner sign it.

**A Reality Bite, (or “Reality Bites”)**

Now, I’ve been (and still am) in your shoes. We don’t work in Wonderland. Projects vary; so do the personalities of owners and architects. Some jobs genuinely do include a true spirit of cooperation and partnering that make the change order process relatively fair and smooth. But some projects don’t—like most any project spawned from that abomination known as competitive-bid, where virtually every action that occurs from the moment the architect pulls the plan from the plotter is adversarial—hardly an atmosphere that fosters a benevolent and cooperative mood come change order time. In these hostile environments, it can sometimes be quite difficult (if not impossible) to get anyone to sign anything.

**New Discipline**

But the effort must be made and like any skill that’s worth learning, it takes a committed, focused and disciplined effort to master the change order process. You basically need three elements:

First, you need the courage and conviction to demand compensation when legitimate changes arise.

Then you will require the ability to price, negotiate, and execute these changes quickly and efficiently.

Finally, you need to have the ability to enact changes with as little disruption as possible to project schedule.

Now, of course, that first one calls for plain ol’, everyday “intestinal fortitude” (guts)—but not just your own part, your people in the field need it too. So, part of mastering the change order skill is the proper instruction and motivation of your job foremen and managers. Simply scheduling one meeting and demanding the field people obey your words won’t do it. A sound program will invariably include periodic, repeated and consistent reinforcement by you and those doing your administration work.

Quick pricing and turnaround of change requests is also vital. Now, this can be tricky, particularly when working with an architect on, perhaps, a commercial project. Here, when a change comes up, you’ll often receive something in the mail with a title such as “Proposal for Contract Modification” or other such jargon. Included on the document is a description of the change, the scope of work involved, and a request that you submit a (probably additional) lump-sum amount for this new work. You work up your price, send it back to the architect (who then goes to the owner) for approval, and await instructions on whether to proceed with the change.

Unfortunately, though, this process can sometimes take days (weeks?) to complete. So, when schedule is critical and pricing can’t realistically be put together in such a short period of time, sometimes your best bet will be to incorporate an unpriced version of a change order known often as a “field authorization for change” or something of
the sort. This basically gives the contractor the “go ahead” to proceed (to avoid interrupting the schedule), and implies a tacit understanding by the owner, architect and contractor to negotiate a mutually fair settlement later on when the parties can get together.

Of course, as we’ve touched on already, this type of agreement can leave the situation a bit open-ended, but sometimes, it’s the only way to proceed.

Here are some other thoughts to keep in mind when creating your change-order program:

- Pricing the changes punctually and getting those prices to the decision-makers is vital. Most changes are relatively small in scope and should be costed the very same day if possible.

- Without quelling enthusiasm, try to make your workers cognizant of not creating changes themselves, often through what they perceive as “a better way to build it.” I know this one sounds silly, but I see it happen all the time. There are a lot of opinions out there—one of them good and some of them not so good. In construction, there are often a lot of different (but perfectly acceptable) ways to do something right. If the original detail will suffice to deliver a suitable outcome—leave it alone!

- Never, ever initiate petty change orders such as charging for an extra local trips, (minor) cleaning of someone else’s mess to access your work, or “housekeeping” things of that sort. Items such as these fall into the “cost of doing business.” There’s a line between legitimate, billable extras and everyday business overhead, and that line should not be crossed. And besides, often they won’t pay you anyway and all you’ve really succeeded in doing is alienating a customer, thereby making it more difficult when your next change negotiation comes around.

- All decision-makers in the office and the field should be aware that changes must always require full and proper documentation of some kind. The decision about whether to go with a priced or unpriced version will depend solely on the situation and individual.

- Make sure all your field people (who apply) have the necessary forms and documents at their ready disposal when changes occur. It would be a shame to lose profit simply because the paper wasn’t available.

- Sometimes, especially when there simply isn’t time to price the changes as fast as they’re occurring, you’re best to try to structure the changes around a time-and-material fee or an hourly fee. Then be forthright and fair when it comes time to bill. This sort of honesty and fair play can often win repeat customers.

- On this same theme, although I’ve heard it espoused in the past, I don’t agree with the philosophy that change orders are a good way to pump up your overall profits by charging inordinately large 50, 60 . . . or 100 percent markups on them and then forcing them down the throat of the owner in the heat of the moment (to maintain schedule). In the long run, the customer will figure out he’s been nailed, and you will lose his business!

On the other hand, if you keep markups in line with the your original percentages, the owner will take notice.

- Create a program that involves as little as possible of your field workers’ time. You want your project managers and superintendents performing the actual work of construction—not pricing and negotiating change orders.

- Back at the office, you need to track change orders individually by job, classifying each with some sort of cost code and type (whatever works with your accounting system), and break out your actual costs into (generally) labor, material, subcontract and equipment. Do it as they come in. Don’t wait until the job is completed or it may snowball on you.

A complete change order program, like any program that stands a sincere and genuine chance of becoming successful, is something obtained only through a dedicated, attentive and involved effort on the part of everyone in an organization. The ability to ask for more money does not come easy to a lot of people, but it is a necessary skill that is vital in maintaining your company’s financial health. By implementing some or all of the items in this piece, you’ll be well on your way to launching your own profitable change-order program.

Good luck!

About the Author
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