

Tracking Changes — All of Them

by Fred Seifert

Like any builder talking to a prospective customer, I get two questions more than any others: “How much will it cost? And when will it be done?”

These are important, valid concerns, but the answers depend on another question: How many change orders will there be? No other single item can do more damage to the budget and schedule than change orders.

As a custom builder, I know to expect change orders. It’s unreasonable to expect homeowners to reach a final decision on every item in the house before the project breaks ground. The key is to make sure clients understand all the implications that even the smallest of change orders can have on the overall project. Otherwise, there may be hard feelings when there’s a budget overrun or a schedule delay.

I’ve implemented a simple system

that allows me to track not only cost overruns but schedule delays as well. My change order form is a basic Word document that spells out exactly what will happen to both the budget and the schedule if the change order is executed. Once it becomes evident that a change order is necessary, I follow a few simple guidelines.

Don’t Quote a Ballpark Price

Many times change orders are conceived as you walk around the job site with your clients. “Wouldn’t this room look nice with a tray ceiling? How much?” they ask.

From experience, I’ve learned never to answer that question on the spot. Instead, I tell them I’ll price it out at the office and give them an exact cost. I found that when I gave a ballpark price, that inevitably became the price the customer expected. If the true price

was higher, it created a sense of distrust — that I was trying to profit unfairly from the change. I found myself trying to justify the new number when I shouldn’t have had to.

No Change Too Small

Regardless of how small a change is, I insist on noting it on a change order form. This may seem like extra paperwork, but it will protect you in the long run.

For example, we include a list of paint colors in the project specs and sometimes a client will want to make a change. “We were at the house over the weekend and we noticed the painter has not yet painted the master bedroom. Could we change that wall color to linen white?”

I make a note of the conversation and write a change order; it’s my only proof that we ever had that conversation. If

Use a change order form to track schedule delays (left) as well as cost variations (right). And make sure to get it signed by all parties.

PROJECT: Williams

LOCATION: 898 Sound Avenue
Caldwells, N.Y. 11931

CHANGE ORDER NUMBER: 3

DATE REQUESTED: 1/10/04

SUBJECT: Weather

DETAILS: Due to the January 10th snowstorm work was delayed for 4 days.

SUBCONTRACTOR: N/A

DELAY: 4 Days

BASE CONTRACTOR AMOUNT: \$743,290.00

COST CHANGE: \$0.00

REVISED CONTRACT AMOUNT: \$743,290.00

* Note: No cost weather delay

CONTRACTOR: _____ DATE: _____

OWNER: _____ DATE: _____

ARCHITECT: _____ DATE: _____

PROJECT: Smith

LOCATION: 828 Main Road
Southold, N.Y. 11971

CHANGE ORDER NUMBER: 8

DATE REQUESTED: 3/2/04

SUBJECT: Flooring

DETAILS: Homeowner requested the interior wood flooring be upgraded to 2/4" clear red oak. (Price reflects difference between allotted cost and new cost)

SUBCONTRACTOR: J & A Flooring

DELAY: 0 Days

* Note: No delay due to material delay

BASE CONTRACTOR AMOUNT: \$465,381.00

COST CHANGE: \$2,652.00

REVISED CONTRACT AMOUNT: \$468,033.00

CONTRACTOR: _____ DATE: _____

OWNER: _____ DATE: _____

ARCHITECT: _____ DATE: _____

the clients later decide they prefer the original color, it's nice to have a record in case they forget the conversation.

Get a Signature

This is the most important rule. I never execute a change without first giving the client a written change order form with both the cost and the schedule delay clearly outlined. Otherwise, if you make a change and the client thinks it cost too much, you may never get paid. I don't accept a verbal okay, either. I wait till the change order is signed by the client (and architect if necessary) and has been returned to my office.

Note Delays With Change Orders

Not all change orders involve cost; some involve only delays. Last winter, I was doing a renovation for a client who was intending to move in at the beginning of the summer. Every time we had inclement weather, I noted it in a change order and had it signed by the homeowner. When it dawned on the homeowner that the project wouldn't be completed by Memorial

Day, he wanted to know why. When I reminded him of the weather delays, he couldn't remember that many bad days. It was not until I pulled out 12 change orders totaling 45 days of weather delays signed by him that he realized I was right. Without those signed change orders, the outcome would have been much different.

It's important to make homeowners aware that certain delays may also affect other subs. Delaying the plumber by changing a bathroom layout can affect when the insulation contractor can get started. That can create a snowball effect if not managed properly.

Predicting Change Orders

The timing of a change order can be critical. Obviously, the sooner the change, the easier and less costly the job will be to complete. I try to stay ahead of the client and anticipate future changes. For example, I recently built a house in which the architect had shown a vanity in the powder bath. Although it seemed to work on paper, I knew the bath was

going to be too crowded. Before plumbing rough-in, I suggested to the homeowner that she might want to change the vanity to a pedestal sink. She agreed. Because the vanity hadn't been ordered yet and the plumber didn't have to open the walls to accommodate a pedestal, we avoided a large change order.

When to Say No

One of my goals as a custom builder is to give homeowners exactly what they want. But sometimes it's too late to execute a change order, even if the homeowner doesn't care about the expense. Change order requests must be reasonable; when they're not, you have to tell the homeowner that the change isn't possible at this point. You can't be expected to remove and replace the kitchen tile floor at the very end of the job because the homeowner doesn't like the color. It can be tough, but you have to know when to say no.

Fred Seifert and his brother John operate Seifert Construction in Mattituck, N.Y.

Good Advice for Young Companies

by Patricia McDaniel

Rome wasn't built in a day, and my company didn't get to where it is overnight. I still wouldn't be anywhere without ideas and strategies that I've gleaned from other contractors over the years. My goals for the company have grown and changed over time — today we're implementing practices that were too complicated even to consider in the beginning. What I'm offering here, however, are my *basics* for moving yourself up the contracting food chain. You don't want to be a bottom feeder forever.

1. No whining. If you're not happy in this business, either get out now or change your approach. Whining is not a solution (though it probably is a symptom), and it will bring you and the people around you down. Lord knows, this is a business that will kick you around. You need to be able to bootstrap yourself up.

2. Respect others. This is basic stuff. Clients can't always judge your technical ability, but they can (and will) judge your behavior. Be on time. Call when late. Return phone calls. Don't promise what you can't deliver. Just say no to jobs you don't want or are too busy for. Keep your job sites clean.

3. Respect yourself. Hey, you are your own best resource. Step away from the tool box and send yourself to school. Get away to conferences and conventions and classes. Yeah, I used to use that "too busy" excuse myself. You wouldn't keep cutting with a dull saw blade, would you? And on the subject of respect, how about paying yourself what you're worth? At a minimum that should be the sum of what someone else would pay you to do what you do now, plus a return on the investment in your business (i.e., cash, vehicles, tools, that second mortgage you

took to pay the vendors) and a return on the risk you're taking.

4. Have a plan. As the Cheshire Cat said to Alice. If you don't know where you want to get to, then it doesn't matter which way you go. Put a plan for yourself on paper. My first attempt at this was only a page long. Today our business plan runs to 20 pages. At a minimum, include the number, type, and dollar value of jobs you plan to sell in the next year; how you will find your clients; your annual sales volume; who will get the work done; and what your assets are (your cash, tools, office, trucks, and so forth).

5. Show me the money. This one goes hand in hand with item 4. You must charge what you are worth (unless, of course, your plan is to work yourself to the bone and then go broke). Or you can try what I said the first time I was counseled to raise my prices: "No, you don't understand. We are getting to build these really incredibly beautiful houses with just exquisite workmanship." As if the karmic reward justifies doing charity work for people who have more money than you do. To charge what you're worth, you will first need a budget so you can see what your costs are.

6. Hire great people (and compensate them fairly). If you're a control freak (go ahead, admit it — you're among friends), doing everything yourself will come naturally and you will resist delegation. Some of us (not you, of course) reinforce our belief that we are the one and only by hiring people who just aren't skilled enough. Then we give them about half the info they need and are disappointed when we don't get the results we could have if only we had done the job ourselves. In the very short run, you get to pat yourself on the back — "I knew I was smarter than that

guy" — but in the longer run, you're the idiot that hired him. Let it go. Find the very best people. Figure out what they need to know and tell them. Compensate them (including benefits) in such a way that they won't leave. Yes, this is expensive (see items 4 and 5 above). If you don't want to run with the big dogs, stay on the porch.

7. Follow the recipe. It's not just sticks and bricks anymore. There are all kinds of high-tech and low-tech manufactured projects out there, and guess what — they all come with directions. Rest assured that if you don't read the directions, your educated client will. (After all, the directions for most products are available on the Internet.) You absolutely don't want to give your clients an opening to believe that they are smarter than you are. Once that happens, they will want to instruct your every move. So get the instructions, and, for crying out loud, read and follow them.

8. Get a life. This is not an easy business. Don't fall into the trap of ignoring your life to make your work work. Keep things in balance. Be happy.

9. Join a peer group. The first eight rules *sound* easy, but truth be told, this is not an easy journey to take by yourself. It's hard to hold yourself accountable for some of these steps when there are phones to answer and Junior's basketball game to get to. A peer group is a tremendous help. Its members will not just make sure you follow the rules, they will actually help you. And it's perfectly acceptable to find a kindred spirit and use his or her business plan as a guide to write your own.

Patricia McDaniel is owner of Boardwalk Builders in Rehoboth Beach, Del. She is also host of the Exterior Details forum at jlconline.com and a frequent speaker at JLC Live.

When the goal is reliable reports and estimates, too much detail can hurt you. There's a natural tendency to make reporting forms highly specific — people figure that if a reporting form has lots of precisely defined labor codes for workers to pick from, fewer

thinking, "I haven't used that in a while" or "I really should have spent more time on that." And when everything is spelled out, too many tasks are excluded: If there are lots of narrow categories, any task that doesn't quite fit tends to get dumped under the category "Other" if that choice is offered. One contractor's data-entry person told me that "Other" was the company's most popular labor category. Obviously,

The more practical approach is to create a reasonable number of labor codes with clear titles but leave the categories broad enough that your field personnel can make useful judgment calls. For example, it might work better to have Exterior Painting Prep and Exterior Painting as categories,

rather than Fill, First Sanding, Prime, First Coat, Second Sanding, Second Coat, and so on. If some related item like power washing only happens occasionally, it will still drop readily into the broad Exterior Painting Prep category — and it won't end up in the mystery grab bag of Other.

Melanie Hodgdon is a business systems consultant for builders in Bristol, Maine.