

To Live and Die by Change Order Management

Presented by

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- Participants are in a listen-only mode.
- To ask a question during the event, use the chat feature at the bottom left of your screen. Technical questions will be answered by ReadyTalk. Questions for our speakers can be asked at any time and will be answered during the Q&A at the end of the session.
- Visit construction business owner.com in the coming days to access the recording of the webinar or download the presentation.





Gregg Schoppman Principal

As a principal with FMI, management consultants and investment bankers for the construction industry, Gregg specializes in the areas of productivity and project management. He also leads FMI's project management consulting practice.

Gregg has served as a senior project manager for a general contracting firm and holds a Florida General Contractors license. He has completed complex and sophisticated construction projects in the medical, pharmaceutical, office, heavy civil, industrial, and manufacturing markets.

Gregg holds a bachelor's degree and master's degree in civil engineering from the University of Florida and a master's of business administration with a concentration in international business from the University of Tampa.







"No work shall be done without a written, signed and approved change order..."





Common Issues With Change Orders?

- Timely approval
- "The negotiation"
- Details
- Ambiguity
- "The pass through"
- Labor productivity
- The real costs (and what isn't charged or collected)

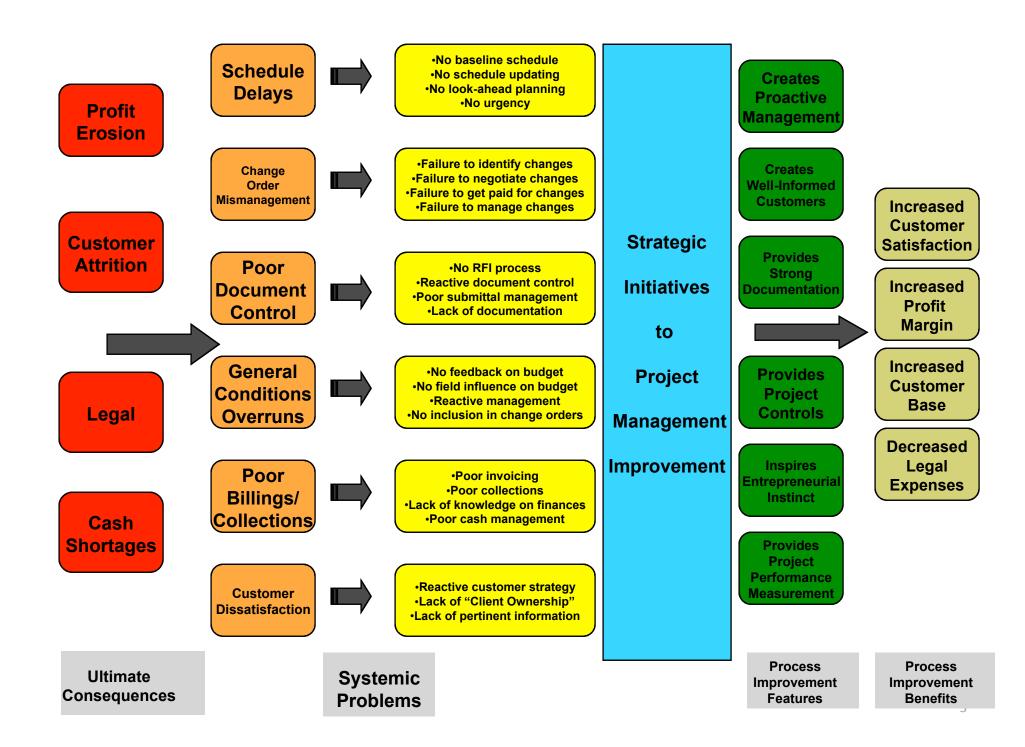






- Improvements We are collecting better than before
- Declines We are seeing our collections on change orders get worse
- No change





Change Order Management (1 of 2)

- Huge profit leak for most contractors
- You rarely get paid for the complete costs of a change
- Great change order management begins in pre-job planning
- Negotiate change order limits
 - Establish dollar limits for unresolved changes that trigger forced resolution
 - Know the contract
 - Know the scope





Change Order Management (2 of 2)

- When do you have the most leverage to negotiate a fair resolution?
- Documentation is critical
- If you are adding changes quicker than you are resolving them...you are headed for a problem
- Quantifying the cumulative impact of change orders is difficult...but doable
- Make the first change a credit
- Track costs incurred on unapproved changes





Steps to Successful Change Order Management

- A Process is Essential (The XYZ Way)
- The Right Tools
- Alignment with The Firm's Strategy
- Accounting for ALL the Costs
- Proactive in Nature





The Process

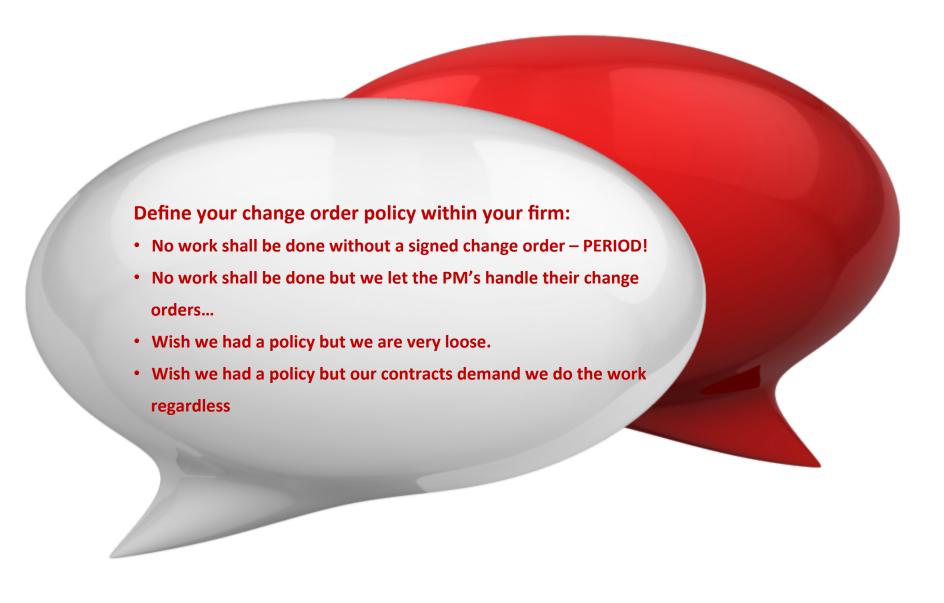
Change or Unforeseen **Defining the** Condition Identified White Space · What happens in the process that creates the controversy? Who is responsible for the process? **Change Order Submitted** What level of escalation is created when a component of the process is not done? · Is there a way to streamline the process to improve the efficiency? **Change Order Approved Change Order** Process

Questions for the firm:

- Does everyone use the same form?
- Who defines the level of risk you take?
- How proactive is your process?
- Speaking of process, what is it?









Dealing With Controversy Two Perspectives

CHANGE ORDER PROPOSAL EXAMPLE #1

MECHANICAL - Change Units

TOTAL COST = \$16,500

NOTF -

Keep in mind the specified product will result in extending the schedule by 3 weeks due to production.

CHANGE ORDER PROPOSAL EXAMPLE #2

MFCHANICAL

Provide two additional HVAC units (20 tons) to meet the City of Anywhereville mechanical codes (See Exhibit A) and letter provided by Arthur Dumore (See Exhibit B), Engineer of Record. The roof plan is attached to show the location of the units. Below are three options to aid in the decision process:

ExpenseAire Units (10 Year Warranty)

(Per Specifications)

MATERIAL COST = \$15,000

PROFIT = \$1,500

TOTAL = \$16,500

Middleburg Cooling Units (5 Year Warranty)

MATERIAL COST = \$10,000

PROFIT = \$1,000

TOTAL = \$11,000

CheapieAire Units (6 Month Warranty)

MATERIAL COST = \$5,000

PROFIT = \$500

TOTAL = \$5,500



Dealing With Controversy: Two Perspectives

Time & Material Change Order – Over Excavation of Lot 13

Projected Value (Proposed Change Order 7) = \$25,000

Commencement Date - 12/01/14

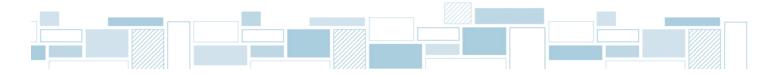
| UPDATE | Current Labor Spent to Date | Current Equipment Spent to Date | Total Costs to Date | Anticipated Cost at Completion | Projected Overrun | Discussion |
|--------|-----------------------------------|---------------------------------|------------------------|--------------------------------------|----------------------|--|
| 12/5 | \$2,500 | \$2,000 | \$4,500 | \$25,000 | \$0 | |
| 12/12 | \$5,000 | \$5,000 | \$10,000 | \$27,000 | \$2,000 | Lot 14 included per John Smith direction |
| 12/19 | \$12,000 | \$7,000 | \$19,000 | \$30,000 | \$5,000 | Rock formation at Station 100+10 |





Frequently Overlooked Change Order Costs

- Additional time
- Consumable supplies
- Small tools
- Clean up
- As-built drawings
- Bond
- Project management time
- Overtime
- General conditions
- Lost productivity
- Drawings





Alignment With the Firm's Strategy

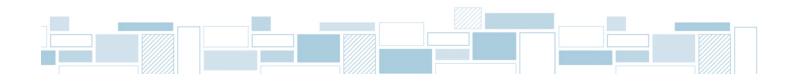
- Misalignment breeds frustration Mixed messages
- Lack of consistency

Misalignment Examples



- Aggressive Change Order "Policy" but "Customer-centric" Philosophy
- Loose cash collection process with risk-prone customers
- Detailed projects and/or customers with no control systems
- Sophisticated systems with no training/education





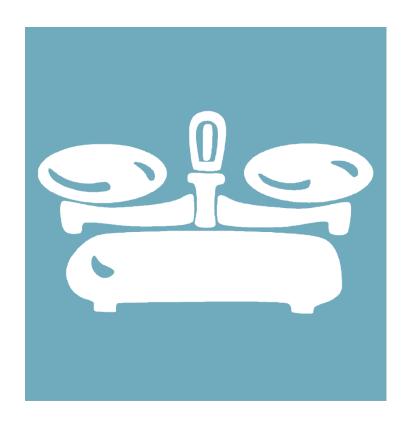






Metrics

"That which is measured is taken seriously."







Project Controls

Understanding the Readings on the Dashboard

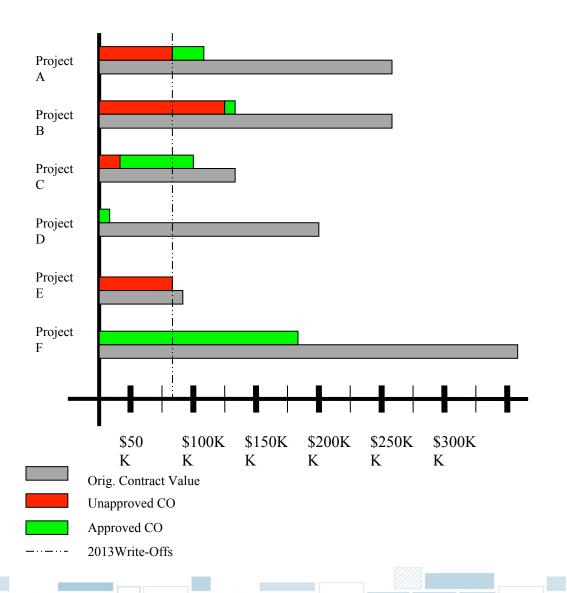


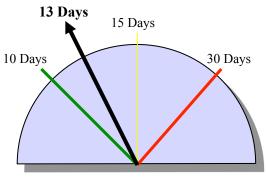
Change Order Collections



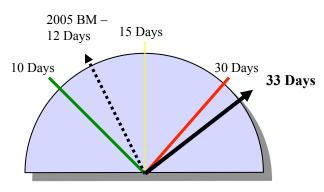


Project Performance and Firm Performance





Everglades Office Project
Current CO Approval Rate = 13 Days



ABC Drywall Inc.Firm CO Approval Rate = 33 Days



Change Orders – Are They Bad for Our Business?

- Change Orders are inevitable but not necessarily bad
- Strategies to maximize the benefit of changes and minimize the number of claims or their effects on a project:
 - Build creditability: critical to maintain a good working relationship with all parties
 - Get ahead by getting ahead: the sooner the work is done, the better, usually
 - Document, document, document!
 - Work to mitigate the problem
 - A claim is always a last resort





Change Order Process - Summary

- If the field manager does not know the scope, they will not recognize a change
- Documentation and notification is critical
- Time is no on your side!
- People tend to delay the things they like to do least and avoid conflict
- Remember...update "budgeted costs" and "budgeted hours" as changes occur
- Know your style of negotiating and your opponents' style as well. Use that information to your advantage





About FMI

Knowledge • Expertise • Relationships

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Founded in 1953 by Dr. Emol A. Fails, FMI provides management consulting and investment banking for the worldwide construction industry.

FMI delivers innovative, customized solutions to contractors; construction materials producers; manufacturers and suppliers of building materials and construction equipment; facility owners, managers and developers; engineers and architects; surety companies; and industry trade associations.

FMI's experienced professionals assist businesses with strategic planning, leader and organizational development, business development, research, mergers and acquisitions, peer groups, private equity placement, project execution and training.







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