

## Manage Your Change Orders So You Can Make A Profit

by Bryan L. Jeffries

It has often been said that “time is money,” and nowhere is that more true than in construction. Many unexpected situations can arise, including weather, design revisions, owner changes and material availability. These and other unforeseen circumstances can lead to change orders. Industry experts estimate change orders cost the U.S. construction industry over \$40 billion a year.

Contractors know it but seldom practice it: those who effectively manage change orders will be more profitable, help keep a project on schedule and greatly reduce the likelihood of claims and legal disputes. Unfortunately, too many contractors do not have a process in place for managing change orders. As a result, they – rather than the owner – end up paying for additional work beyond of the scope of their contracts. So how can you ensure this does not happen to you? You can ensure this does not happen by managing the entire change order process.

### You Need a Process

Just like you have a process for job turnover, payroll and accounts payable, you need to have a written company policy that establishes the process for accepting, pricing and managing change orders.

The process will differ from company to company, but should always include: (1) who on a project is authorized to commit the company to perform additional work; (2) what paperwork is required on the project; and (3) who can approve changes for the owner.

Here are a few suggestions that you can implement today:

- You must know the construction contract. You cannot identify a change unless you know how a new task differs from the previous plan. The rules for processing change orders are in there as well.
- Identify potential changes early on. Review the plans and specifications before the job starts and notify the owner of potential issues. When potential changes are identified during the job, discuss them with the owner or general contractor before they result in a delay.
- Encourage communication and accountability. The terms of the contract should be communicated to, and shared with, all members of the team, especially those involved in the day-to-day operations. Do not assume that the owner or general contractor knows about delays or disruptions. They do not like surprises any more than you do.

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- Communicating *in advance* will allow enough time to work out solutions that satisfy everyone involved.
- Keep better and more accurate records. Keep track of delays and disruptions caused by other contractors. You need to do this to properly evaluate the effect on your costs.
- Do not give up your leverage. Once the additional work is done, it is too late. Get a written change order before you do the work

When documenting substantial changes and associated costs, include an explanation of how the changes will affect the entire schedule and the delivery date. Also include an activity for the change on your updated schedule. A system of documenting changes will aid you in court or in arbitration if you have to make a claim down the road.

### **You Can Use Software to Manage Change Orders**

Scheduling and project management tools can help you track change orders. If you have not already done so, establish a change order reporting system using software designed for this purpose – or at least an up-to-date spreadsheet program.

If you can successfully manage the change order process, you will improve both your company's efficiency and profitability. Not only will you save money, but you also will provide a higher quality service to the owner.

### **Do Your Best to Minimize Change Orders**

Meeting a budget and staying on schedule begins with proper planning. As the project moves forward, other elements come into play, including consistency and accuracy of scheduling, anticipating obstacles, managing the budget and effectively communicating with the team.

Here is a brief list of what contractors can do to minimize change orders:

- Include delivery dates as a reminder to the owner for any material, equipment or furnishings you expect him or her to provide.
- Review drawings and specifications and resolve any conflicts or omissions.
- Always be available to the owner or general contractor for quick processing of information. If you will not be available, make sure a go-to person can take your place.
- Seek input from other contractors and vendors when creating your schedule. It is imperative that they buy into the schedule from the onset of the project.

Remember, with every change order comes a change in the scope of work or time spent on the project. Get paid for the extra work you do and document changes.

*For questions related to the various provisions contained in a subcontract agreement, or advice on other construction issues, please contact [Bryan L. Jeffries](#), chair, Construction Law Practice Group, at 614.564.1449, or [bljeffries@eastmansmith.com](mailto:bljeffries@eastmansmith.com)*

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