



Change Orders Made Simple



Change Orders Made Simple

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Agenda

- Potential Change Orders Background
- Current Process
- Why It's Broken
- How Can We Improve
- What We Should Expect of Our GCs and Owners

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Background

PCOs, T&M Tags, Field Work Orders, Extra Work Orders...

- Mandated by contractors because a need to execute work prior to the time-consuming process of a negotiating and issuing change orders.
- Completed by subcontractors on the assumption and expectation of a fair and equitable compensation for the costs and resources expended.

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Background

BUT, a process with significant negative impacts*

- 88% of contractors wait 30+ days for payment
- 46% of contractors tap a credit line to float payments
- \$40bn estimated impact on the industry for carrying forward the fees and costs of slow payments.
- 70% would offer a discount for net 30 payments
- 3.3% of total project costs are finance charges and expenses from floating payments

*PWC "Working Capital Report 2017/18"

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Current Process

1. Tickets must be handwritten in the field to document the work.
2. Supporting narratives and descriptions must be included to explain what work took place, why it was needed, who instructed it and what resources were involved.
3. The ticket must get reviewed and verified in the field.
4. The ticket must find its way from the jobsite to the offices of both sub and contractor.
5. The contractor must then confirm that the work was in fact not part of the base scope.
6. The genesis of the work must be understood and explained to the owner to justify the additional cost.
7. Tickets must be priced, with all the necessary back up documentation provided.
8. The data must be digitized, entered into logs, systems, workflows, platforms, spreadsheets and all manner of "tools" for documenting the work.
9. Eventually, the scope is captured in a change order, a subcontractor can include in a payment application, and be compensated

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Why It's Broken

- The problem with this over simplistic representation of the workflow is that current practices for time and material (T&M) tracking are defined by delay, inefficiency, waste and, ultimately, the opportunity for subcontractors to not be fairly compensated for work executed.

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Subs Hate It

- Unplanned extra work that impacts other activities
- Have to float the bill for the work done until payment
- 30-150 days for payment (avg time = 88 days)
- Bad / lost documentation = lost revenue
- Lower trust with GC - can be used by GC as negotiating leverage

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GCs Hate It

- Little to no visibility into additional costs
- Takes a lot of time/effort to collect and process
- Costs that can go unchecked
- Additional cost to explain to owner
- Lower trust with subs think they may be trying to make money off extra work

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How Can We Improve

- More trust – digital, sharing, transparency
- Faster approval – accurate documentation done sooner and approved sooner with a system like Rhumbix T&M Tracking
- Faster payment – digital field T&M tag records get into Change Order processing system like Textura faster

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What We Should Expect of GCs / Owners

- NOT...
 - Having late payments be standard
 - Making excuses for late payment
 - Early payment programs that aren't better than the legal requirements

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What We Should Expect of GCs / Owners

- Be transparent about what is expected,
- Be committed to a reasonable payment cycle is,
- Share where outstanding payments sit in the process, and
- Make a commitment to paying subcontractors in a timely fashion.

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Conclusion

Equitable and timely compensation is key to driving improvements in the industry. By digitizing T&M tickets from the field, via easy to use tools and recognizable interfaces, data related to issues, such as change orders and payment applications create a quick and reliable path to increased productivity and cash flow.

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Questions?

Don't forget...

- 9:00 am – 1:00 pm – NECA Show
- 1:15 pm – 2:30 pm – Closing General Session with Jon Dorenbos
- 7:15 pm – Closing Celebration – Foreigner

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