

Change Orders Made Simple

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This session is eligible for 1 Continuing Education Hour

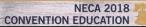
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- Fill out the online evaluation for this session: www.necanet.org/neca2018

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Agenda

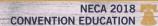
- Potential Change Orders Background
- Current Process
- Why It's Broken
- How Can We Improve
- What We Should Expect of Our GCs and Owners



Background

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

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



Background

BUT, a process with significant negative impacts*

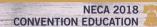
- 88% of contractors wait 30+ days for payment
- 46% of contractors tap a credit line to float payments
- \$40bn estimated impact on the industry for carrying forward the fees and costs of slow payments.
- 70% would offer a discount for net 30 payments
- 3.3% of total project costs are finance charges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

*PWC "Working Capital Report 2017/18"

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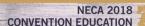
Current Process

- 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.
- 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



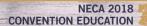
Why It's Broken

 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.



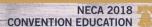
Subs Hate It

- 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



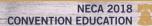
GCs Hate It

- 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



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



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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