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Change Your Approach to Change Orders

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Retired remodeler David Lupberger once had a job in which his client requested 40 separate changes. During the process of accommodating all of these requests, he learned that change orders can take a lot of time and cost a lot of money. He also learned that if you let them, customers will make an infinite number of changes.

“I hated change orders,” says Lupberger, now the resident home improvement expert for [ServiceMagic.com](#), a Denver-based contractor referral service Web site. “They took the project out of my control, so I always tried to avoid them.”

Unfortunately, change orders for remodelers are unavoidable, according to Atlanta-based remodeler Neal Creech, president and CEO of Creech Custom Builders. “You can’t have a project without change orders,” he says. “You just won’t be able to satisfy your customers without them.”

Just because change orders are necessary, however, doesn’t mean they have to harm your bottom line. With the right policies and procedures in place, you can make change orders work for your clients and your checkbook.

Identify Threats and Opportunities

Because change orders are inevitable, controlling them requires understanding them, according to Lupberger. “Change orders are very expensive because of how disruptive they can be,” he says. “Remodelers must help their clients understand the effects of change orders and their cost.”

Change orders can be a builder’s biggest problem, Creech echoes. Not because they’re unexpected, but because they often require buying extra materials and extra labor beyond the original scope of the project. If they’re not carefully managed, change orders can therefore liquidate a remodeler’s profit margin, and can even cost him or her other jobs due to the extra time that they often add to a project’s timeline.

For the same reasons they can hurt builders, however, change orders can help them, says Indianapolis-based remodeler Steve Gray, president and CEO of Steve Gray Renovations.

“There will always be change orders in a project,” he says. “And you know what? They actually help my bottom line.”

Because Gray markets his business on the premise of quality and craftsmanship first, he’s able to charge a premium on change orders.

“Price affects quality,” Gray says. “You can’t have a top-quality project if you’re looking for the cheapest person in town to do it. We welcome change orders because they have a higher profit margin, because of the extra time and materials. Our customers understand that, because we add value by focusing on quality over price.”

- See our article: [The Art of Negotiation](#) for information on maximizing profit with change orders

Establish Win-Win Policies

To make sure your customers understand it, too, Creech recommends creating a set of strict change-order policies that protect your customers’ interests as well as your own.

“If you don’t have a system in place, change orders will definitely hurt your bottom line because you’ll end up spending more of your own time and money to satisfy the customer,” he says. “If you have a system in place, you’ll still be able to satisfy your customer, but you’ll also be able to make the money you need to make in order to justify the time and effort you’re spending on your projects.”

To maximize the pros of change orders for your customers, and minimize the cons for your business, consider the following tips:

- **Plan in order to prevent:** In order to minimize change orders from the outset, Gray avoids giving homeowners allowances and asks them instead to make all their materials selections as early as possible. He also creates a detailed project plan with specifications and drawings so that homeowners know exactly what they’re getting. When there are gray areas in your plans, he says, that’s when homeowners are most likely to poke holes in them with change orders.
- **Charge for change orders:** When Lupberger was a remodeler, he learned to control change orders by charging administrative fees for them. In his contract, he stated clearly that every change order carried a \$175 service fee. Although he gave his clients five change orders free of charge—save for time and materials—he found that budget-conscious clients were far less likely to request changes if they were going to cost extra.
- **Control change orders directly:** Creech keeps change orders in check by forbidding his customers from interacting with subcontractors. When they’re allowed to engage subs, he says, they will make on-site changes that the builder never even knows about, which hurts the project’s quality and adds surreptitiously to its cost. According to his policies, therefore, all change orders must go directly through him.
- **Speak in terms of time and money:** In order to watch your costs while also looking out for your customers, Lupberger recommends keeping budget and schedule always top-of-mind. When a customer requests a change, he says, they may reconsider it when you make it a point to explain clearly how it will impact the project’s cost and schedule.
- **Get everything in writing:** In order to protect himself and his customers, Creech gets all change orders in writing. His customers must submit change requests to him by e-mail and must sign a written change order—as well as a check for the extra work—before any change is made.