Lessons Learned: Not Getting Paid for all the Work Done

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Lessons Learned: Not Getting Paid for all the Work Done

Introductions

Leslie Shiner
• Owner of The ShinerGroup
  – Financial & management consultant for over 25 years
  – MBA in Accounting and Finance from U.C. Berkeley
• Certifications
  – QuickBooks Advanced ProAdvisor
  – Sage Certified Consultant
• Author:
  – A Simple Guide to Turning a Profit as a Contractor

Annie Kendrick
• Owner of Kendrick Business Services
  – Over 20 years experience in construction accounting
  – B.S. University of Utah
• Certifications & Software
  – QuickBooks Advanced ProAdvisor
  – Developer Method CRM for Solar
• Business Development Programs
  – Port of Portland Mentor Protégé Program contracted trainer since 2012 for Estimating and Construction Accounting

From the Blog: Lessons Learned – Not Getting Paid for all the Work Done

• Where the Sun Always Shines Solar
  – Blair was an excellent project manager with rave reviews
  – Gary was a good sales person and sold a job for difficult clients including a large cushion as a ‘difficulty’ factor
  – Blair started the job, but the clients asked to change the location of the panels, requiring a redesign
  – Blair agreed to make the change assuming the cushion should cover any additional costs
  – When he added money to the final bill instead of getting a signed change order, the client refused to pay and trashed the company on the web

Read the blog at: https://insider.energytrust.org/programs/solar/business-development/#lessons-learned
What Did Blair Do Wrong?

What should have been done differently and when should it have been done?

Change Order Management

• What are your change order policies and procedures?

Go ahead and do the work and I will be sure you get paid

Does this work?
Start the Job of Right – Sales Process

• Clearly distinguish between the “Job Budget” and the “Client Proposal”
  – Create a proposal for the client
  – Create a budget that will be the basis of all job cost reports
    • Budget never includes overhead or profit
• Clearly state the scope of work in the contract
  – Define the process for changes
  – Prepare your client for change orders

What is Negotiable?

<table>
<thead>
<tr>
<th>Profit</th>
<th>Negotiable</th>
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<tbody>
<tr>
<td>Overhead</td>
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Direct Job Costs
- Labor
- Materials
- Subcontracts
- Equipment

Non-negotiable without change of scope
Budget vs. Proposal

Budget
- Your costs
- Used to compare estimated costs to actual costs

Proposal
- Your revenue, your client's costs
- Includes markup

Direct Job Costs
- Labor
- Materials
- Subcontracts
- Equipment

Profit
- Overhead

Manage Change Orders

- Are you consistently going over budget?
  - *Could it be that there is more work done in the field than in the original scope of work*

If you are already doing the work…
Why not get paid?
Create a Process for All Changes

- Create field documentation
  - Change order work authorization form
  - Filled out on the job
    - Manually or electronically
  - Three part form for 1) client 2) field 3) office
  - Not necessary to include pricing
  - Get signature from client
- Make the process easy for your field crews
  
  Too much paperwork may mean more free work

Communicate the Budget with the Field Crew

- Provide hours estimate to field crew based on scope of work
  - At the start of the job!

- Field crew can then track their own time against budgeted time based on the project scope
  - The field crew may be more aware of changes than the project manager
  - The field crew can identify possible change orders sooner rather than later
Monitor Costs Throughout the Job

• Be sure that Project Manager is comparing actual costs to estimated costs, not actual costs to the total contract price

• Compare actual costs to estimated costs regularly
  – Cost overruns could help identify potential change orders

• Compare actual hours to estimated hours regularly
  – Additional time could help identify potential change orders
  – Or help the estimator for future projects

Type of Change Orders

• Create process for each type of change order
  – Client directed
  – Unforeseen circumstances
  – Equipment availability
  – Price increases
  – Redesign requiring equipment upgrades or modifications
  – Weather
Be Honorable

• Don’t sell the job just for the change work

• You can’t improve profits with angry clients!

Time is Money!

• There are additional costs for doing change work other than additional materials and labor

• How much time does it take to manage the changes?

• Are you tracking every one’s time for the changes?
### Change Orders add Money and Time

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<tbody>
<tr>
<td>• Significant change order work should be accompanied by additional contract time to complete the project</td>
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<tr>
<td>• Include time delays on all change order documentation</td>
<td></td>
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<tr>
<td>• Time delay has a dollar value</td>
<td></td>
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<tr>
<td></td>
<td>Additional project management time</td>
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<td></td>
<td>Additional overhead for longer projects</td>
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<tr>
<td>• Set expectations with clients</td>
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### Stop Losing Money on Change Orders

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<tr>
<td>• Review past jobs</td>
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<td></td>
<td>Did change orders cause slippage in estimated gross margin?</td>
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<tr>
<td>• Create zero dollar change orders</td>
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<td></td>
<td>Even if you don’t want to charge for the work, create a change order to provide to client</td>
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<tr>
<td>• Turn change orders into “Profit Center”, not administrative nightmare</td>
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Change Orders – Pricing

• Determine pricing of change work as part of contract
  – *Who is your competition?*
  – *You can charge different overhead and profit rates for change work*
  – *You can charge different rates for increase/decrease in scope of work*

• Determine pricing for change work
  – *Flat price vs. T&M or cost plus*

Do You Charge a Fee?

• Your expertise and additional time has value!
  – *Change orders should always include additional project management!*

• Consider including a processing fee
  – *Change order flat fee*
  – *Percentage for increased job management*
  – *Charge for additional time in research, coordination*

• You can always waive the fee if you want
  – *But be sure to show it, and then you can waive it*
### Change Orders – Communication

- Set the expectations with the client right from the get go!
  - *Teach clients and employees about process*
- Make sure that all personnel know who is authorized to approve change work
  - *Prior to starting the project*
- Document discussion with owners, engineer, designer and all parties involved

### CO’s – the Ever Changing Budget

- Track two components of change work
  - *Adjustments to contract price*
  - *Adjustments to budget*
- Revise project budget to reflect change work
- **BEBO** – Bill Early, Bill Often
  - *Early invoicing of change work (even partially complete) keeps the change from being forgotten*
Summary

- Analyze completed jobs to review change order process
- Create a clear Scope of Work document and share with PM, field crew, and client
- Create and follow process for all change orders
- Document all changes to the job, even if no increase in price

Thank You

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Business Development Program

- Blog Posts and Webinars
- QuickBooks Assessment or Re-assessment
- Ongoing help with QuickBooks Desktop and business questions
- Remote CFO Meetings

Lessons Learned – Blog and Webinar Program

- Six blog posts and webinars
  1. Project Controls
  2. Internal Controls – When you make a profit you should get to keep it
  3. Labor Controls – My jobs look profitable so why is my business losing money
  4. KPI’s – Making decisions based on false profits
  5. WIP – Paying too much in taxes
  6. Project – Not getting paid for all the work done

- Check the website for more information

Learn more about other Lessons Learned at:
QuickBooks Assessment

- Analyze current business processes and compare to best practices for the solar industry:
  - Chart of Accounts setup and reporting
  - Project set up for tracking profitability – estimate vs actual
  - Project set up for managing projects and change orders
  - Use of cost codes for the solar industry
  - Entering of transactions associated with production and overhead
  - Best use of time tracking
  - Handling of inventory stock for job costing
  - Use of the matching principle
  - Accuracy of posting procedures
  - Many more review items summarized in 35-40 page report
  - Suggested improvements checklist
  - Follow up with meeting to discuss findings with key team members and outline for assistance

$500 after ETO match

Ongoing Help with Your Business

- Assistance with…
  - Payroll for good job costing set up
  - Forecasting and budgets
  - Labor burden calculations
  - Asset and Loan setup
  - 3rd party program integration and implementation
  - Work in Progress Reports
  - Tracking key performance indicators
  - Much more, just ask

$100 per hour after ETO match
Remote CFO Meetings

Potential topics:

- Analyze trended Profit and Loss Statement
- Evaluate profitability, gross, net
- Evaluation overhead and markup
- Review fully burdened labor costs
- Review process for job costing
- Analyze business plan, mission statement and vision statement
- Perform ratio analysis
- Create Key Performance Indicators (KPI) metrics for your company
- Review internal controls
- Create and manage a cash flow projection
- Investigate productivity reports and charge-out rates
- Reconcile your books to the latest tax return

Pre-requisite: file assessment and clean up

$300 per meeting after ETO match

How to Get Started

Complete the participation agreement and send to Jeni Hall at Energy Trust of Oregon. Jeni.Hall@energytrust.org

- Once approved you will be directed to Survey Monkey to answer a few questions about your business and then you will be contacted to set up your first meeting

- You can also contact Annie Kendrick at Annie@AnnieKendrick.com or 541-926-6438 and she will help you navigate the start up process
Thank You

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