

Building Blocks

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SUMMER 2003

Managing Project Contract Changes

by Vito G. Loisi

Contract changes are part and parcel of the contracting business. How well you monitor and manage contract changes can determine whether a project makes or loses money.

Types of Changes

Common contract changes include:

- Change orders
- Extras or additions
- Back charges
- Claims and disputes
- Incentives and penalties

Strategies for Managing Changes

There are steps you can take to identify and control the different types of contract changes that may occur during the course of a job.

Understand the Contract.

Your on-site supervisors should be aware of what is and what is not included in the contract. If your customer wants changes made midway through a job, your supervisors should follow a series of pre-established steps to first get the changes

approved and then to make sure the changes will be billed.

Communicate Changes.

Your workers should communicate any unanticipated changes they need to make to the customer for approval before going ahead with them. If there are no notification procedures outlined in the contract, you and the customer will need to openly negotiate a method that you both find acceptable.

Watch Pricing.

In cases where the contract does not specify a method for pricing changes, you should factor in more than your direct costs. Include indirect costs for things such as additional project management and the time it took your staff to compile and bill the changes.

Resolve Changes Quickly.

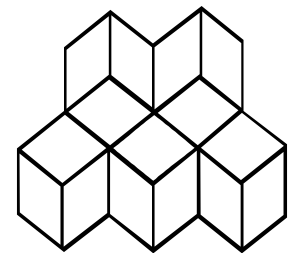
Don't wait until the end of the contract to resolve changes. Any delay in resolving changes simply increases the chance that the changes will be disputed. You have limited bargaining power once the contract is completed. The key is to always resolve changes as soon as you can after they are made.

By following these simple strategies, you will be more likely to manage project contract changes to your customers' — and your own — satisfaction.



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Tackling the Rise in Liability and Worker's Compensation Insurance Costs

by Karen A. Courney

Contain Costs.

Look into whether you can obtain healthcare and workers' compensation policies from the same insurer. The reason? The insurer may be able to apply the same type of cost-control methods to workers' compensation costs that it uses to control medical claims.

Next Step?

Contact us. We can work with you to devise a variety of strategies to help control your insurance costs.

Builders nationwide are reeling under the burden of huge increases in the costs of liability insurance. Premiums and deductibles have risen significantly and exclusions are increasing. Many insurers, for instance, are issuing policies that no longer cover mold or terrorism. At the same time, coverage limits are much lower than in the past. Moreover, coverage for attached projects is becoming increasingly difficult to find.

Similarly, industry analysts predict that workers' compensation premiums will rise significantly in 2003, a trend that's likely to complicate matters further for builders. The losses experienced by insurers related to the September 11th terrorist attacks, increases in state-approved rates, rising medical costs, broadened coverage, and the growth in the number of cases of claims

fraud are combining to push workers' compensation costs upwards. Here are some steps that builders and contractors can take to fight back against the rise in the costs of liability and workers' compensation insurance.

Controlling Liability Insurance Costs

Ensuring that your business continues to obtain liability coverage may require you to take these steps.

Document Claims Prevention Efforts.

You may be able to negotiate better premiums if you can show the insurer that you are making a serious effort to prevent claims. Consider putting your designs through peer review. A different set of eyes may be able to identify potential problems before they become significant issues. If you construct homes, for instance, create a maintenance manual for homebuyers that clearly outlines their responsibilities in performing routine preventive maintenance.

Approach the Construction Process Differently.

Consider increasing the number of on-site inspectors. Look into hiring third-party inspectors on all jobs, including open space. Reexamine your designs to increase ventilation in attics and roofs and allow buildings to breathe. Offer alternatives in known problem areas, such as potentially mold-producing tiled bathtubs and showers. Whether your focus is commercial or residential, it may be worth your while to consider basing management bonuses on

survey scores from your customers regarding the quality of construction and the level of customer service they received.

Increase Deductibles. If faced with a sky-high premium increase, negotiate with your insurer to increase your deductible. It's not the best alternative, but it may be necessary to retain affordable coverage.

Controlling Workers' Compensation Costs

There are a variety of steps you can take to help control rising workers' compensation costs. Look into applying some of these strategies.

Check Premium Calculations.

Insurance firms examine several variables when they compute premiums — a business's history of past claims, the size of its payroll, and its job classifications. Each job classification is assigned a distinct rate. Be sure to check your billing statement and policy declarations carefully for any errors. A mistake in classifying a job, for example, could push your premiums up.

Focus on Safety.

You may be able to reduce your premiums if you introduce an ongoing employee safety incentive program. Consider using prizes and bonuses to encourage employees to implement ideas that increase workplace safety.

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Every Contractor Needs a Business Plan

by Russell L. Romanelli

If you're dreaming of expanding and want to turn those dreams into reality, you need a business plan. Trying to move your contracting firm to the next level without a well-thought-out business plan is a little like trying to reach an unfamiliar destination without a map — you'll be directionless.

A business plan helps you define your goals, clarifies the steps you need to take to reach those goals, and provides markers along the way to help you measure your progress. A business plan is also critically important in obtaining financing. Most lenders will want to review your plan before they will entertain a loan proposal.

Key Elements

There are several elements that every successful business plan should contain.

Executive Summary: This is simply a summary covering the major points in each of the planning areas that follow.

Mission Statement: A mission statement summarizes your contracting firm's purpose and goals and helps communicate your business's objectives to employees and customers.

Company Synopsis: This section gives an overview of your company, including a description of the type of work performed, a list of major



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customers, and the regions where you currently do business. It also presents your organizational structure, often in the form of a chart.

Work Acquisition: This part of the plan provides an overview of your marketing and sales strategies. It should include information about how projects will be estimated and your company's plans for pursuing other work if your primary sales and marketing strategies don't meet expectations.

Company Image: This is your opportunity to describe what makes your contracting firm different from your competitors. If your firm offers a satisfaction-guaranteed promise or stresses quality workmanship, experience, quick completion times, or competitive prices, then your business plan should also describe how you intend to get this message out to the marketplace.

Work Execution: This section allows you to discuss the actual execution of projects. It should address safety, quality control, schedule compliance, and customer satisfaction matters.

Management and Organization: You'll want to identify the key players who will help turn your mission statement into reality. Describe your management team's experience in this section and include an outline of your management reporting structure.

Financial Projections: You'll be in a stronger position to develop financial projections if you have done some market research. Projections should be prepared for a period of five years and should include realistic assumptions about revenue growth, estimated operating costs, working capital, and an outline of the sources and uses of cash flows.

Timeline: You need to develop a comprehensive action plan for implementing the goals outlined in your business plan. Then, assign responsibilities and set deadlines for completing your key objectives.

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Developments in Tax and Business

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Push for More Energy Efficient Buildings

The trend towards designing more energy efficient buildings may pick up pace as a result of a recent agreement signed by the Department of Energy (DOE) and the American Institute of Architects. The agreement expands existing efforts to promote energy efficiency by focusing on smarter designs for new buildings. The DOE notes that the energy expenses of commercial and residential buildings can be reduced by 25% to 30% by using the best technologies and practices.

Realtors Launch Housing Opportunity Program

The National Association of Realtors® recently launched a new program designed to encourage the nation's 800,000 realtors to promote the construction or rehabilitation of affordable housing projects in their communities. The program provides resources that help realtors work with other housing industry interests and policymakers to find effective solutions to the lack of affordable housing.

Fall in Consumer Sentiment

The Index of Consumer Sentiment was 80.6 in October 2002, down from 86.1 in September and 96.9 in May, according to the University of Michigan's Surveys of Consumers. The decline in consumer sentiment may indicate difficult economic times ahead for contractors. Declining consumer spending could cause businesses to put off expansion plans



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