Design/Scope Changes

"Scope creep" is a phrase that describes how projects grow incrementally every time someone reviews the plans. The size of the work just gets a little bigger, and a little bigger until suddenly it's a whole lotta little bigger. This is evident in a design/construction project, but how could that occur in other contracts, like a cleaning or food service contract? Perhaps your cafeteria contract was bid to serve an average of 200 people. Over a period of time word got out that the food was good, well at least better than packing bologna and cheese everyday. Soon they were serving 210, 225, 240 people on average. Doesn't seem like a big deal, but that's a 20% increase; while there may be some volume savings, it may be enough of an increase to require hiring extra personnel, or other costs.

What about design changes? Maybe you have a warehouse with 120,000 SF of space. You have a project that will add 20,000 SF to the warehouse, and check with your security firm who handles the patrols and cameras. Not a big deal. But then you decide to move the addition around the corner instead of at the end of the building. Now this causes problems, because not only does the security company need to add additional cameras, but you have cut off access to the back side of the building. Suddenly it is a big deal. The scope of work didn't really change but the design did.

It is generally in your best interest, as was mentioned earlier, to make sure all details are worked out ahead of time, and as many potential problems are addressed as possible. Otherwise, you are sure to get bitten by a "gotcha", and those can hurt.

Billing problems

So how do you pay a contractor? Are you set up on a periodic basis, or on a lump-sum payment, or some sort of progress payments? If you have a lump-sum payment at the end of the contract, or you pay a fixed percentage periodically, reviewing the invoices is not as critical as if you are paying based on the amount of work. A contractor will typically try to recover as much of his up-front costs as possible, so he may try to over-bill the early invoices. This is often called front-end loading. The company needs to carefully review invoices to make sure that this isn't happening. Aside from the time-value of money issue, if a company overpays a contractor, the company could be left with less money than is needed to finish the contract should the contractor default on the contract. Some less-than-scrupulous contractors may try to bill for work that is not yet complete, or has been completed in an unsatisfactory manner. These should be addressed firmly with the contractor.

Default
So what's the worst that could happen with a contractor? Probably defaulting on the contract, leaving you in a lurch. But how could this ever happen? You did your homework, the contractor is a reputable company, and has good references. Well, even the best can go sour. Perhaps there were extenuating circumstances that cut into the contractor's resources. Maybe his bookkeeping wasn't as good as his reputation. Or maybe he was venturing into an area where he had no experience or trained help, but thought he could get by. This is where you, as the company's contract representative needs to be keeping an eye on how he operation is going before it goes completely bad. How do you get out of it? You may need to terminate the contract while you can still salvage something good, and cut your losses. Otherwise, if it gets to a contract default by the contractor, you will probably be left with a legal battle where only lawyers win.

Summary

This lesson was a little long, a little rambling, and a little vague, but hopefully it made you think of some of the situations you've been in, or prepare you for what may lie ahead. Our intent, oh so many paragraphs ago, was to help you become aware of some of the issues that may fly up in your face if you are the administrator of a contract. Or if you are not so blessed, what issues someone else may be dealing with while you are trying to keep your widgets coming off the assembly line. Perhaps you will be able to cut her a little slack when you know what "challenges" she is facing along with your demands.