

# BUSINESS



## Work Scopes, Designs, and Contracts A detailed scope of work makes for a stronger contract and a smoother job

BY KYLE DIAMOND

I am a second-generation builder and remodeler, and the co-owner of the family business my father, Dale, started. Over the past few years, I've been working to take our company to a new level by developing systems for the business. I've created forms, job descriptions, policies, and standard operating procedures that help to organize and focus everyone's activity in the company, including my own.

One reason for all this effort has been to change my own role in the company. I've hired two lead carpenters to take over most of my day-to-day job-supervision duties, and an office manager to take over some of my management duties, so that I could focus on

strategy, networking, marketing, and sales. I presented an overview of this company transition in *JLC* last year (see "Getting Out of the Field," May/17).

In this story, I look at one business system in particular: the routine process we use to arrive at a project-development agreement, or a work-scope agreement, with our company's clients. The idea is simple. In return for a small fee based on a total roughly projected, or "ballpark," contract price, I create a scope of work that breaks out the cost of each phase of the project in precise detail. I present this information in a structure that follows the critical path of the project—that is, following the job progression, or build order, from start to finish.

Photos by Tim Healey

There are two versions of this process (see flowcharts at right and on the facing page). I use our standard “Work Scope Agreement” for simpler jobs that I can easily design in-house or for jobs that don’t need any significant design work (for instance, a bath makeover that consists of simply updating existing fixtures). Our slightly more complicated “Project Development Agreement” is for more-extensive jobs that require professional design by an architect or interior designer; in those cases, once the client signs the agreement, I’ll bring in the design professional and manage that person’s involvement. In exchange for the project-development fee, I’ll hand the client a stamped set of plans along with the detailed scope of work.

In one sense, these two agreements are just standard forms. But there’s much more to this method than just having a paper form. These agreements, and the detailed scope of work that goes along with them, play a key role in the jobs we do. They help structure our whole interaction with the client, from the first phone call to the final walk-through.

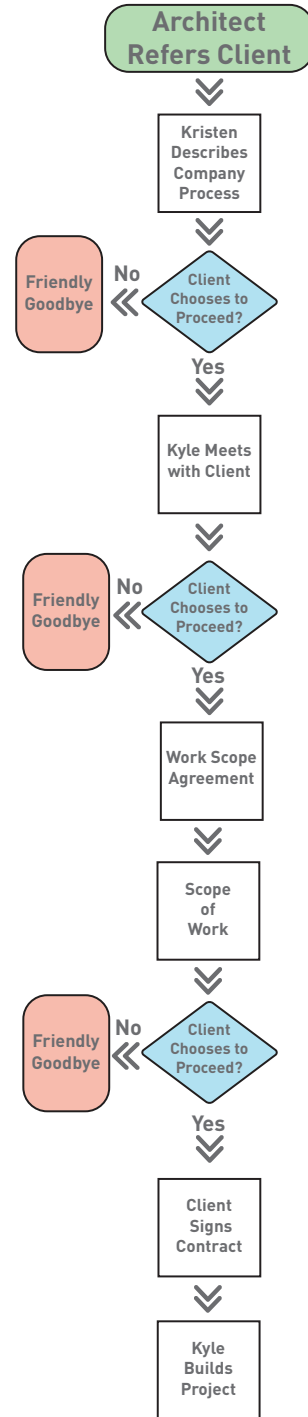
**SCOPE OF WORK VERSUS PROJECT DEVELOPMENT**

Whichever path we choose—the project-development agreement or the simple work-scope agreement—that document precedes the actual contract we sign to do the job.

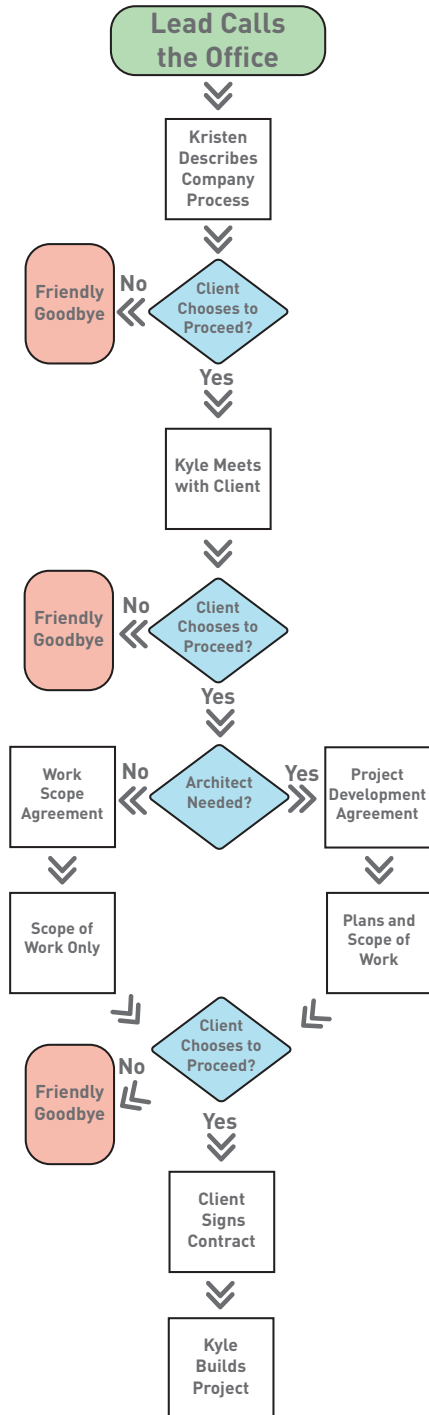
In the case of the work-scope agreement, the clients pay me a fee of 2% of the anticipated project cost to create an item-by-item description of the project from start to finish, with dollar costs presented in lump sum. In the case of a project-development agreement, our initial fee is higher—in the range of 7% to 9%—because it includes the cost of an architect’s work to draw complete plans the cost of my time to create the scope of work.

The clients pay that cost in advance. Then when we’re done, we hand our product to the clients. They get the drawings (if any) and the scope of work. At that point, they can choose to have us go ahead and do the construction (in which case we’ll sign a contract for the job, at the price called out in the scope of work), or they can choose to bring the drawings and the work scope to some other contractor.

Asking our clients to commit to this process in advance screens out clients who aren’t a good fit with our company, or who aren’t serious about building, or who are just shopping on price. When a client does elect to have us build the job (as they usually do), having a detailed work scope makes the whole job easier to manage; it clarifies our communication with the client, it makes design and production more efficient, and it helps us stay on schedule.



When an architect refers a client, the author’s company applies the same process as for any other lead, creating a scope of work before entering into a contract.



For most job leads, the author assesses the complexity of the proposed project before offering the client either a work-scope agreement or a project-development agreement.

Crafting a complete scope of work is good discipline for everyone. It eliminates the “mutual mystification” that plagues many negotiations in life, when neither party tells the other side its true intentions or capabilities. It establishes a basis for trust and accountability. It forces the clients to make up their minds about what they want us to build, and it forces us to be clear and precise about what we’re going to charge for each aspect of the job, before the work starts. So we all have to come to grips with the important decisions and with a full awareness of the dollars required—all in advance of either signing the contract or building the job.

### FROM LEAD TO CONTRACT

We start focusing our potential clients on a work-scope agreement as soon as a lead comes into the office. Kristen Detheridge, our office manager, handles most incoming calls. In her first conversation with the caller, she works from a script that prompts her to explain our process. This script reads: “We take the time and effort to create an accurate, clear scope of work for our clients. It shows what is included, what is not included, as well as selection of materials and finishes based on your preferences and budget ... We will come to your property to evaluate your project and to see if we are a good fit for each other. We will give you a ballpark number and schedule an appointment to draft up a work-scope agreement (WSA) for you. The WSA service is approximately 2% of the overall projected budget. If you go with us, we will credit back half the cost of your WSA to your contract price. Is this something you would like to explore with us?”

If the answer is “No,” Kristen thanks the caller for their time, wishes them the best, and says goodbye.

But if the answer is “Yes,” Kristen sets up an appointment for me to meet with the client at the property. At that first meeting, I learn enough about the clients’ expectations and budget to arrive at a ballpark number for the project cost—either on the spot, or after a few hours of research. If the clients sign the WSA (and pay my fee in advance, based on 2% of the ballpark cost), I go back to my office and create the scope of work for the job. If not, we shake hands and part on friendly terms.

There’s another possibility too, of course. Sometimes, as I discuss the job with the clients, I realize that they actually can’t get what they have in mind without spending more money than they are intending to spend. In that case, I explain the reality to them, wish them the best, and go on my way—saving everyone a lot of grief.

If I see that the job is going to require an architect—either because we need stamped drawings to pull

a permit or because the work is too complicated for me to design without professional help—then I offer the clients a project-development agreement, which includes professional design services. If they agree, I call in an architect or interior designer, and the design process becomes a collaboration among the clients, the architect, and myself.

Typically, the architect will come up with three or four different concept sketches, which I will often present to the client to consider. On more complicated projects, where the interaction between design decisions and pricing is crucial, the architect and I will meet with the client together to present the choices. It may take several conversations to settle on the general approach, or they may just pick one and say “go with it.”

Once the clients choose, the architect will then produce a full set of drawings. Concurrently, I’ll produce the scope of work for the job. As with our basic work-scope agreement, this work occurs only after the clients have signed the agreement and paid the fee in advance (or, for larger jobs, in several installments).

### THE DESIGNER’S ROLE

Ten or 15 years ago, our company got almost all our work from architects. In those days, it was usually the architect who had the primary relationship with the client. Architects would meet a client, learn all about their dreams, turn their dreams into drawings, and put the projects out for bid to three or four contractors, including us.

Sometimes we got the job, and sometimes we didn’t. We definitely wasted a lot of time working up bids for projects we weren’t selected to build. All too often (and I’m sure we’ve all seen this), everybody wasted their time, including the architect, the client, and all the other bidders on the job—because when the dust settled, all the bids were roughly the same, and all of them were for much more money than the customer was willing to spend. In those cases, the architect at least would get paid—but who wants to design things that never get built?

Our process avoids all that wasted time, because I make sure that the customer’s budget is enough to build their dream before anyone commits. And I think I’m in a better position to play that role than just about any architect. I’m the one who has been ordering and paying for materials and labor for my whole working life, which puts us in the best position to predict the job cost.

I also believe that, even when the client has more than enough money to spend, our process is more efficient than a designer-driven interaction. For the customer, finding an architect, meeting with them, waiting for them to complete their drawings, waiting for contractors to bid, choosing a contractor, and then finally starting the job can take so long that some customers are already tired of the whole thing before the work even starts. Our way of doing things gets results quicker, and it’s better for everyone involved.

Architects aren’t a big source of jobs for us any more. These days, our marketing program generates leads from a variety of sources. Most of our work comes from referrals by satisfied clients. Repeat business is the second-biggest source of leads. Net-

working with people in the community—real-estate brokers, construction-related business colleagues, and so forth—is also a good source of referrals.

The internet—our website, our Houzz page, our Facebook page, and the like—brings in a few leads, although the quality of those leads is inconsistent.

And architects still bring us job leads, too; but like internet leads, architect referrals now make up only a small percentage of the total. Architect referrals, however, are good leads. We know the

**“Given a choice, I would prefer to be the one taking the first call from the client.”**

customer wants to build something. Commonly, the architect has already met the clients and drawn up some plans. The clients may be ready to pull a permit. Even so, we handle that lead the same way we would handle any other client: Kristen answers the phone, describes our process, tells the clients about the work-scope agreement, and offers to set up a meeting with me. If they say they’re interested, I meet with them and ask the same questions I would ask of any client. I need to find out whether their budget will cover what’s in their blueprints, and I need to be clear with them about things that will affect the project cost. Occasionally, a set of plans is too ambitious for the client’s budget; I’ve had to give clients the bad news that in reality, their budget can’t cover the cost of what their architect has drawn.

If the client’s budget does match the scale of the project, however, the scope of work is still a crucial piece of the puzzle. After years of fitting people’s desires to their budgets, I’ve become aware that product selection is a huge factor in project cost. But architects don’t tend to explore that topic in depth with clients. Many architects have a style they like, and they tend to draw that style. For instance, they may specify clear cedar siding even though the customer may want paint. Some clients care a lot more about interior details than exterior details; some clients care about both. But to find out, you have to ask. And managing product and material choices is an important factor in making sure you can hit the bottom-line budget number. All those decisions are made explicit in my scope of work.

Given a choice, I would prefer to be the one taking the first call from the client and be the one bringing the architect into the process, rather than the other way around. It’s simply more efficient for everyone to have the plans drawn up *after* the clients have come to grips with their budget and their choices, rather than before. The plans by themselves can’t serve as the basis for a good contract, unless they’re much more detailed than most drawings I usually see. And when I discuss the options with the clients, their choices often change—which means that we need to mark up the plans for the benefit of my construction crew. This can cause



complications and delays on site when construction starts. Bottom line: It serves everyone's best interest for me to work all those details out with the client, either in collaboration with the architect, or in advance of the architect's work.

### HANDING OFF THE JOB

The scope of work becomes the basis for the contract—the specifications in it are the product we promise, and the costs that are called out in it make up the contract price. At this point, I can pass the job along to my production team. Kristen can handle ordering and purchasing materials for the job in a timely way, working from a rough schedule I create. My lead carpenters, Ryan Labrenz and James Curtis, can build our jobs from the plans, without much input from me. I may have to step into either the jobsite or the office situations occasionally, but because all the important decisions are already made and agreed on, I don't have to continually manage the job.

There's one more major advantage to structuring things this way: It draws a clear boundary for change orders. Change orders in the middle of a job can be disruptive, and in my experience, the problem occurs if the client thinks that what you are calling a change was included in the original price. That conversation used to go something like this. Client: "I think that should be included in the price." Me: "Why do you think that?" Client: "Well, because I'm paying you a lot of money."

But if I've already created a detailed scope of work that is part of the contract, I can say: "Well, yes, you are paying me a lot of money. But do you see this item you are requesting anywhere in the scope of work?" And that ends the discussion before it can turn into an emotional argument. Once we understand that this new idea involves a change order, the clients can decide whether they want that change enough to pay for it. And we can handle the change in accordance with our change-order process, which I had already explained to the client before we signed the contract.

I have a lot of reasons for believing that focusing my process around the detailed scope of work is advantageous to everyone involved. And the best evidence for that view might just be the way we get our job leads. As I mentioned, our biggest source of job leads is referrals from satisfied clients; our second biggest source of work is repeat business. Evidently, the way we're doing business keeps our clients happy. To me, that means the process is working; and as long as it keeps working, I'm going to keep doing it that way.

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A detailed scope of work helps the author focus both the architect's creative process (1) and the construction process on site (2), reducing wasted time and effort.