



The Scope and Warranty Cost Guide

Change orders, trip charges, and callback reserves are three places a contracting business quietly loses (or overcharges) money if they are priced by feel instead of by the numbers.

Three costs are easy to underprice because they feel like small add-ons to a bigger job: a scope change mid-project, a truck rolling out for a service call, and the ongoing risk of a callback after the work is done. None of them are small once actually calculated.

Change orders, priced properly

\$400 in added material and 6 hours of added labor at a \$26.00 loaded rate is \$556 in base cost. Add a 10% admin fee for the disruption of reworking an in-progress job, \$611.60 total cost. Priced at a 30% target margin, the change order should be \$873.71, not the \$556 an owner might quote by just adding up material and labor and forgetting both the disruption fee and the margin.

Trip charges, priced properly

A 40-minute round-trip drive, 20 miles, with a 30-minute minimum labor charge for the visit itself: drive time costs \$17.33 at the loaded rate, vehicle cost is \$14.00 at \$0.70/mile, minimum labor is \$13.00. Total recommended trip charge: \$44.33, before a single tool comes out of the truck. A flat \$25 service fee, a common round number, undercharges this call by very nearly half.

Callback reserves, and a surprising direction

At a \$2,000 average job, 300 jobs a year, and a 5% callback rate averaging \$180 per callback, the math calls for a \$9 per-job reserve, 0.45% of job revenue. A business currently setting aside 2% (\$40/job) is not under-reserved, it is over-reserved, by \$31 a job, \$9,300 a year across the full job count, money that could be priced more competitively or simply kept as margin instead.

The assumption that callback reserves are usually too thin is not automatic, run the actual numbers rather than assuming the direction of the gap.

Key takeaway. Change orders and trip charges are usually underpriced when estimated by feel. Callback reserves can go either way, some businesses are over-reserved, not under, calculate rather than assume.

Assumptions

- The worked examples use a \$400/6-hour change order, a 40-minute/20-mile service call, and a 300-job/year, 5% callback rate business, all illustrative.

Frequently asked questions

Why does the change order need an admin fee on top of material and labor?

A mid-project scope change disrupts sequencing, re-mobilizes the crew, and adds coordination overhead beyond the material and labor themselves. The admin fee prices that disruption explicitly instead of hoping the base margin absorbs it.

Is a \$25 flat trip charge always wrong?

Not always, a very short drive with a low-cost vehicle could legitimately cost less than \$44.33. The point is calculating the actual number for your typical drive time and distance rather than defaulting to a round number that may not reflect it either way.

How can a business be over-reserved for callbacks?

By setting the reserve percentage based on instinct or an old rule of thumb rather than the business's actual callback rate and average callback cost. If the real callback rate is lower than assumed, or callbacks are cheaper to resolve than assumed, the reserve set aside can end up larger than the actual risk requires.

Should the callback reserve be a separate savings account?

This guide covers how to size the reserve as a percentage of revenue, not how to hold it operationally. Some businesses fold it into general working capital, others set it aside explicitly, either way, the sizing math is the same.

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