



Home Builders Network

Making a difference in the housing industry

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LESSONS *from the* Real **World**

**What home builders can learn
from the world of industry**

Presented by Al Trellis



Lessons from the Real World

Studying the world of industry can provide powerful lessons for homebuilders on what to do, and what *not* to do. Obviously a home building company is a very different animal than the giant behemoths of business such as General Motors, IBM, and AT&T. Yet their failures and successes provide insights into the American economy and consumer behavior.

Like every business, home builders exist to make a profit. They do this by serving the needs of buyers, and providing better products and services than their competitors. There are, however, unique aspects of home building. Because of the nature of housing, each home is built on a specific piece of land, and is therefore unique. This fact has kept the home building

business primarily a locally oriented, fragmented market. Even the largest builders have a tiny market share when compared with major manufacturers such as General Motors. It is also a highly customized market, with each buyer modifying the finished product to match his or her particular needs.

Because builders are often protected from national competition by the fragmentation of the marketplace, they often fail to grasp the lessons that the history of business can provide. That's why we created this program -- so that builders can take the appropriate lessons from industry, and improve their own productivity and profitability.

Lesson 1: Supersizing at McDonald's

If you really want to learn about the art of pricing – go to McDonald's. If you order a large value meal, the chances are they will ask “Would you like to supersize that?” For an additional 39 cents, you can get a *super-size* order of fries, and a *supersize* drink. Why would McDonald's sell you nearly twice the amount of fries, and twice the soda for only 39 cents more?

That's because the only additional cost to McDonald's is the material cost of a little more soda, some ice, and a few more pieces of potato. The material cost is only a small part of the total cost. All the other costs; labor, rent, utilities, advertising, etc. remain the same. Of those 39 cents, perhaps 25 cents represent pure profit – over and above their costs. If 40% of the customers supersize, multiplied by 25



cents per customer, times 25,000 (the number of McDonald's restaurants), times 1,650 (the average number of McDonald's visitors per day), times 365 (days in a year), you arrive at the astronomical figure of \$1.5 billion dollars. Pure profit, just from asking "Would you like to supersize?"

Supersize options are priced attractively to increase the number of people who say yes. In addition, supersizing creates the perception of increased value for all buyers, whether they supersize or not. Remember, unless they buy the meal, they can't supersize.

Lessons for Builders

Homebuilders have a similar opportunity to increase their profits by supersizing their homes. For homebuilders, supersizing means giving buyers additional items at prices that make it hard to say no. The name of the game is to maximize revenue from your existing overhead and customer base. While price is important to many buyers, value is even more important.

What does it cost you to bump out the family room by 4 feet to create a "supersize" family room? If you look at hard costs alone, it probably adds only \$25-35 per sq. ft. If you assume that your overhead

remains the same, and that you can charge an additional \$60-70 per sq. ft. for the supersize, the incremental profit margin can be 40-60%. And the customer feels great since the extra space is priced substantially less than what they paid for the base house.

But supersize profits aren't like ordinary profits. Since your overhead is already covered, they're *net* profits. So even if your profit margin on these items was lower than your gross profit margin on the rest of the house, it's still increasing your overall profits since it goes directly to the bottom line.

You could supersize the master suite by adding an additional closet, a sitting area, a morning kitchen, or a super master bath. Look around your current homes and ask yourself—how could I supersize this plan? How about adding an indoor/outdoor package that includes a super deck, outdoor lighting, and a gazebo? How about a supersize closet option, that increases the closet sizes and adds closet organizers throughout. Even though builders aren't selling hamburgers, whether you're selling a 99¢ burger or a \$199,000 new home, the principles remain the same. The more perceived value you can create in the mind of the buyer, the higher your sales and profits will be.

Lesson 2: Updating Old Ideas – Volkswagen and the PT Cruiser

Sometimes the best ideas aren't new ideas – they're old ideas that have been reworked to fit today's needs. A classic example of this is the new VW Beetle. The original Beetle was the original reverse snob car. It was cheap, durable, and economical to run. During the 60's it became the most successful import car in America, and created incredible loyalty in its owners. Its famous "Think Small" campaign defined the way owners felt about their car. Then VW started introducing new models that tried to compete against other niches in the market, and fell flat on its face. In 1971 VW had a 35% import market share with just one model. By 1979 they had five models, and a 12% share. It never could seem to create a new car that captured the hearts and minds of its buyers.

In 1999, VW came up with a new idea – "Let's reintroduce the Beetle" – only updated for today's market. The new car looks like the old Beetle – it still has the curved silhouette, but everything else about it is better – better engine, better heating, and higher price. People of all ages were drawn to it – partly out of nostalgia, but also because the car had character – it wasn't your typical, humdrum, middle of the road car.

In a similar vein, one of the outstanding success stories of the recent auto market was the Chrysler PT Cruiser. In trying to spiff up sales for its anemic Neon line, Chrysler took a small, boring car and gave it a new shape. It borrowed heavily from the 40's and 50's hot rod style – with a small truck body, round headlights, distinctive 40's grill. And even though the car could use more power, and handles poorly, it's been selling like hot cakes.

No one understands this phenomenon better than Walt Disney. At the heart of every Disneyland is a recreated



Main Street – right out of our imagination of what small town life must have been like at the turn of the century. We are charmed and we are captivated, and we gladly part with our money to soak in this immersion from our past.

Lessons for builders – Get Creative

One of the traits that separates truly successful builders from their competition is creativity. Whenever successful builders see a problem or an opportunity, they develop creative solutions. Notice that we said creativity, not originality. Creativity is applying a new solution to a problem. It may not be original, but if it works, it's creative. Creativity takes the known and familiar and applies it in new ways. Creativity can be applied to every aspect of the building business – especially product design, management, and marketing.

Product design

One obvious application for creativity is in house designs. Look yours over. Are they tired plans from the 1960s and 1970s? Are your competitors providing more of the features buyers want? Is there a demand in your market for a first-floor master bedroom design? Offer one. Does your competition offer better moulding details or better flow between rooms? You can add similar features to your houses without copying your competitors. (Remember: Direct copying is illegal.) It's ideas you want – the way something works. How you apply the idea is the measure of your creativity.

Americans have always been very traditional in their housing styles. But in the 50's and 60's many production builders stripped down many of the design details that made those traditional homes so popular. The

result was a bland amalgam that no one was particularly fond of, but which continued to sell because of price.

Now buyers are becoming more discriminating, with more disposable income. And what they want is more style—more traditional detailing—more focal points and elements that make homes and spaces memorable. Traditional styles like Craftsman are undergoing a renaissance in buyer demand. But buyers want those old ideas updated to the way they live today, with more open interiors, low maintenance exteriors, and a 3-car garage.

The solution: give them what they want. Look for those old ideas—those old design details such as bead board wainscot, fireplace details, and fancy newel posts, but find a way to add them cost-effectively. People are willing to forego high vaulted ceilings and huge rooms to create smaller more intimate spaces that are loaded with character and visual appeal.

Management

Originality says that you have to create every form letter and every management procedure from scratch. Creativity says to find the best letters and forms available and then adapt them to your needs. Creativity can also help you use your subs and suppliers in new ways—empowering them to solve minor prob-

lems for you on the spot and then let you know what they did. It allows you to treat employees and outside businesses as collaborators who contribute ideas as well as labor.

Marketing

Who says you have to spend big bucks on brochures and media advertising to have effective marketing? The most effective marketing is word of mouth. Use your creativity to “create” word of mouth through an active referral program with past clientele. If you just call one or two every day and ask for a referral, your sales will increase and it will cost you almost nothing.

Creativity could also mean having a designer develop a strong visual identity and using it again and again in all your marketing efforts. Creativity means finding the right message and hammering it home.

What can you do if you don't feel you're creative? Find people who are and work with them. Recognizing other people's creativity is as important as being creative yourself. Remember: it's the results that matter, not the originality. By being creative you can build on the ideas and accomplishments of others, adapt them to your situation, and create higher profits and productivity for yourself.



Lesson 3: Increasing the Speed of Business – Absolutely, Positively FedEx

When Fred Smith first proposed the concept of FedEx in a business management class, his professor gave the paper a C. He said that the idea was impractical – that people simply wouldn't pay additional money for speedier delivery. What Fred Smith knew, that the professor did not, was that life – both in business and private life – was speeding up. Beginning with the telephone and the fax machine, instant communication became a way of doing business. (As one humorist put it, the problem with instant gratification was that it took too long). People were no longer willing to wait days for answers, and businesses discovered that the faster they were able to move good and services, the more they could accelerate their revenue stream.

Speed of course, was only part of the story. The other was absolute reliability. FedEx knew that other companies would try to offer competitive speedy delivery. But what set FedEx apart from all the competition was their obsession with 100% reliability. They weren't just selling overnight delivery – they were selling absolutely positively overnight delivery – and people were willing to pay extra for the assurance that their package would be there the next day. Their slogan became “When it absolutely, positively has to be there overnight.” That positioning drove their awareness and sales at an accelerating pace.

Overnight delivery was only the beginning of the speeding up of business. Email was even faster than FedEx (and practically free). With a touch of a few keys, you could send messages instantly to hundreds of people. They could respond with a few sentences, and there was a written record of what was communicated.

Why move pieces of paper, at great cost, when you could simply move a few electrons around the

world, instantaneously?

Car companies found that the faster they could speed their design to manufacture cycle, the more competitive they became. What once required 4-5 years, and a great deal of inter-department coordination, became streamlined and could be accomplished in 30 months.

Lessons for builders

Create a sense of urgency

As we work with principals of building companies, I can't help but notice how often they are frustrated by the unwillingness or inability of subordinates to push hard toward the speedy achievement of specific goals and tasks. In the end, management is about what you can accomplish, and a sense of urgency is a powerful tool in getting things done.

Here are four reasons that a corporate sense of urgency is so critical to your success:

Credibility

Consistently delivering goods and services on or ahead of schedule is the foundation of a company in which customers can believe. Some companies take this the extra mile and create corporate legends based around performance. Once it becomes part of your corporate culture, it becomes a powerful incentive to maintain performance.

Opportunity

Many times, outstanding opportunities are lost for lack of prompt action. Opportunities are time sensitive. If

you don't seize them, companies that are driven by a sense of urgency will. The difference between Microsoft and Digital Research was that



Microsoft had a sense of urgency about delivering an operating system for the new IBM PC. Microsoft became the dominant software system, and Digital Research became a footnote in computer history.

Lost Profits

The difference between acceptable profits and outstanding profitability is the last small increment of volume after the overhead has been paid. A sense of urgency allows the company to reach the profit potential of the last dollar of volume.

Pride

Teams that produce more and better work products than the competition are proud of who they are and what they can do. This “Team Esteem” is critical to creating an organization that thrives on challenge and is capable of overcoming obstacles.

How to create a sense of urgency

Motivating employees to “hustle” and be highly productive starts with the right people – people who want to succeed, who understand teamwork, and who are capable of change. We have the responsibility as managers to motivate our associates through reward (praise and financial compensation) and education (providing the tools and skills to become better). Once you have people who respond to motivation, here are some ways to create a sense of urgency:

Lead by example

Unless you demonstrate a sense of urgency, no one else will either. The trick is putting on the pressure without turning everything into a crisis and wearing everyone out. Urgency means setting priorities. When everything is a four-alarm fire, people quickly learn to treat real four-alarm fires as if they’re routine. If you expect your people to perform, then *you* have to perform. If you’re out playing golf every afternoon, don’t expect the staff to feel an overwhelming need to finish *now*!

Set specific deadlines

Some people work better under a deadline. It communicates more urgency when you say, “I need this

done by 3:00 pm on Thursday” than if you say, “Get this done as soon as possible.” Keep your deadlines short but reasonable.

Raise the bar

Sometimes people don’t perform to their potential because no one expects them to. By requiring your people to find effective solutions and praising their performance, you set new standards and reward the behavior you’re trying to instill. Let them know that *they* are responsible for results, and they’ll respond accordingly.

Encourage efficiency

Often the real time-savers and creative solutions come from the staff, not from the top. But unless you encourage new ideas, they’ll never surface. Rules aren’t made to be broken – they’re made to be rewritten. When people see that their solutions are accepted and implemented, you’ll be amazed at how creative they’ll become.

Make urgency fun

There’s a fine line between a dynamic, action-oriented workplace and a stressful, ulcer-producing one. That difference is rooted in management’s attitude. People *do* miss deadlines, especially when you’re asking them to do more and to pick up the pace. Accept human limitations, while at the same time encouraging results.

If your employees are operating from a healthy sense of urgency, and they know they’re allowed to make mistakes while getting results, they’ll be more productive. And you’ll be more profitable.

Reducing Cycle Time

While the homebuilding industry does not live (or die) on the accelerated schedule of the Internet world, there is still a tremendous competitive advantage for builders who learn to increase their cycle time, and reduce the amount of time it takes them to complete houses. The following rules for cutting cycle time were initially presented by Chip Vaughan at the 2000 Custom Home Show.

Ten Rules for Cutting Cycle Time

Cutting cycle time can improve your profits by increasing production capacity, and lowering your overhead burden per house. While faster construction can be a part of reducing cycle time, this is often secondary. Primarily you want to reduce lag time between projects, and reduce the amount of time a house sits without being worked on. Here are ten things you can do in your own company to improve your efficiency.

1. Control the customer

Customer can cause delays in construction by changing their minds about what they want in the house, or by not making decision in a timely manner. You need to control the decision making process by clearly communicating their responsibilities in the process, and by facilitating communication throughout the project. This begins with the initial interview, where you discuss your building process. Explain when they have to make decision, and the consequences (money and time) if they delay. Have a specification checklist form to systematize gathering material and component information. Determine a cutoff time for changes, and explain why changes later in construction cost much more than changes made early on. And learn to say NO—firmly and politely, without alienating the customer. One way to do that is to let their pocketbook say no for them. (Although as one builder told me, “I’ll accept any change order, as long as a big enough check is attached to it.”)

2. Control the product

When you’re building a house you’ve built before, or a modification of that house, you know what to expect. It’s always easier to start from an existing plan than to start from scratch. You need to know the costs of the basic house so that you can easily price any modifications you make to that platform. Using the same architect whose work you trust and who knows how you work, can also simplify your life.

Create a standard set of specifications that serves as a starting point for all your work, and then modify your specifications based on the specifics of each design.

3. Control the regulatory process

Most construction requires a permit. However, you can usually submit a permit application well in advance of when you plan to begin construction, in order to avoid delays. In fact, you should have your permits pre-approved for you next project before the current project is finished.

Waiting for inspections can also lead to production delays. Some localities only schedule inspections on particular days, or require a certain advance warning. So take these factors into account in your production schedule. Of course, if you fail an inspection this leads to even longer delays since you must have a new inspection before proceeding. So do a pre-inspection walk-through yourself to catch any items that might fail.

4. Never wait for yourself

It’s bad enough waiting for subcontractors and inspectors. But waiting for yourself is even worse. If you’re the type of person who loves to procrastinate, you need to build in systems to compensate for that tendency. Delegate the responsibility for tracking the schedule to someone else in your organization who doesn’t share your tendency. If your field people always tell you there’s lots of time left in the schedule, that doesn’t mean that you’re operating efficiently. Remember that slack time is built into the schedule to compensate for unavoidable delays (weather, etc.), not to give your people time to wait around for the next milestone.

5. Shorten the estimating process

If you have your platform home well estimated, it shouldn’t be that difficult to estimate the incremental cost of modifications. By shortening the estimating process, you shorten the purchase decision time—and you let your buyer know you have your act together. Even if this is a purely custom home, it’s important to return estimates in a timely manner. Potential buyers use the estimating time as a indication of your professionalism. Returning the estimate in a timely manner means (to them) you’ll build their house in a timely manner also.

6. Create concurrency earlier

In order to reduce cycle time, all the players (subs, suppliers, superintendents, and clients) have to buy in to the importance of reduced cycle time, and be willing to work together to reach that goal. Get them all together early in the process and make sure that everyone understands their responsibility, and are all on the same page. Make sure everyone agrees on specs and plans, and how and when their particular responsibility fits into the tasks of others. Once construction begins, there are more resources in play, and it can be harder to get everyone to agree.

7. Maintain some kind of schedule

The kind of scheduling tool you use isn't as important as having a schedule, and sticking to it. At Vaughan and Son, we use a simple scheduling program. It's not that sophisticated in resource leveling, but it does the job, and everyone can follow it. We hold weekly production meetings to ensure that everyone is staying on schedule, and send email or fax updates to the schedule between meetings.

If you have the same subcontractors serving more than one superintendent, you have to make sure they understand that they can't play one superintendent against the other in terms of schedule. Each superintendent is rated independently on his efficiency. A subcontractor can't tell one superintendent that he'll shift extra resources to the other superintendent now, and make up for it later. That's called competing against yourself. You almost have to treat each superintendent's projects as if they were a separate company, with its own schedule and financial goals.

8. Change order price requests take priority

Change orders have the potential to really mess up a schedule. Since the change order can't be implemented until it is estimated and signed, it can effectively put a stop to construction. That's why change order price requests must take priority over other estimating work, and why you need to schedule other work around them where possible. If your subs are pricing the change order, they need to have the same compelling urgency that you do to get the change orders priced and implemented.

9. Construction is not purely sequential and must have overlap

We generally tend to think of construction as a sequential process, where you do task A before you do task B. However, it's quite possible and even desirable to have multiple crews working on the house at the same time. The main rule here is to have crews working on the outside and inside the house at the same time. There's no reason that the siding or roofing can't be going on while the electrical and plumbing work is being done inside. As long as contractors aren't getting in each other's way, have as many working simultaneously as possible.

10. Monitor resources and have back ups

Things will go wrong. But you can't do anything about it unless you know they've gone wrong, or are about to do so. That requires a good monitoring system, and a contingency plan in case things go wrong. One builder sends an email of the schedule to subcontractors and suppliers at the beginning of the job, and then every week thereafter (two weeks in advance of the tasks). He also sends a revision whenever there are any changes to the schedule. If a subcontractor has any problems following the schedule, they need to contact him ASAP. If there is a conflict, he can assign another subcontractor or supplier to that task, in order to keep the job on schedule.

This requires having at least one backup subcontractor and supplier for each part of the process. While these backup contractors may not be your first choice, you never want to be at the mercy of a single source. Having more than one source at your disposal keeps them both honest and motivated.

While many people and organizations have to work together to build a home, it's the builders responsibility to control the project and ensure timely completion. The reward in increased profits, and productivity, lower overhead, and improved customer satisfaction makes the time and effort well worthwhile.

Lesson 4: Selling the Romance – Hallmark Cards and Kohler

Buying a home is a highly emotional, complex decision that takes many factors into account: location, type of home, design, neighborhood, price, and amenities. It is part product, and part service. And unless the builder hits the right note on every one of these factors, they can fail to make the sale.

Builders, on the other hand, are often uncomfortable with the emotional aspects of the buying decision. They would like the process to be rational, logical and straightforward. They seem to feel that emotion is the monkey wrench that gets thrown into the gears of a smooth running machine. But pretending the process is rational doesn't make it that way.

Buying a home *can* be a functional and financial decision. Some people actually buy a home because they need a new home, or they've outgrown their old one. But *where* they buy a home, and whom they choose to build their home is an emotional decision. It can masquerade as a financial decision (This house will appreciate faster), but don't be fooled. What you're really selling is the emotional appeal of status, comfort, ego satisfaction, and family values. These are powerful motivators of human behavior.

When it comes to selling romance, no one does it better than Hallmark Cards. Founded in 1910, it controls 42% of the U.S. greeting card market, owns Binney & Smith (Crayola-brand crayons), and has its own television production company. Its *Hallmark Hall of Fame* television series, begun in 1952, is the longest running TV drama show, and has won more Emmy awards than any other show. Hallmark's ads are noted for their "Hallmark moments," tiny little dramas where someone (often a young child), expresses their love

or appreciation for another through the gift of a Hallmark Card. Despite their sentimentality, they still bring a lump to the throat, even after you've watched them many times.

The Emotional Message of Kohler

One of the best practitioners of selling emotion within the building industry is Kohler. For years it has maintained its market leadership through product innovation and its marketing campaign "The Bold Look of Kohler." For Kohler, a toilet or a sink is more than merely a utilitarian plumbing fixture—it's a work of art. Home buyers equate the Kohler name with prestige and design consciousness, and add value to the home,

**It's like falling in love
all over again**

Remember when you fell in love for the first time? Something about the way they looked, the way they made you feel comfortable, the way you knew you wanted to spend time with them. Walking into a Pinnacle home in Vance Farm brings back those memories. With heartwarming exterior design, comfortable spaces for living and interaction, and the promise of years of pride and enjoyment for you and your family.

The finest homes begin with the best neighbourhood
It's not just the homes you'll fall in love with. The neighbourhood of Vance Farm has everything you and your family would wish for... Large, two acre estate lots in a lovely setting. A short commute to high tech employment centers. It's a place you'll want to come home to.

What are you waiting for?
The sooner you call Land Ark Homes, the sooner we can meet you to discuss your needs and desires, and the sooner you can start living the lifestyle you deserve.

How to get to Vance Farm
3 miles north of Alameda, turn right on Second Line Road, Vance Farm is one mile on the left.

613 - 836 - 9805

LAND ARK

even if the builder chooses the low-cost Wellworth line. Of course, if the customer wants the more luxurious lines, the builder is more than willing to increase his profits by providing them.

Lessons for builders

While selling houses is different from selling greeting cards, many of the same rules still apply. You still have to create your own “Hallmark moment,” a subtle form of seduction where the potential buyer begins to fall in love with the concept of living in a home you build. You have to provide emotional reasons to fall in love, and the rational justification to allow them to make that leap. You have to provide specific concrete examples to give credence to those emotional reasons. And you have to do it in a way that gets around their resistance to manipulation.

Use specifics to create credibility

The danger of using emotion to sell is that many people do it badly. They make unsupported claims such as “We’re the best,” or show pictures of happy families interacting in their new home. These are known as “glittering generalities.” For any claim to be believable, even emotional ones, you have to provide specific details. These can be anecdotal or testimonial, or they can be concrete, but they should always paint a vivid word picture for the potential buyer. In a recent brochure for a client we wrote:

“The quality of a Pinnacle home is evident in the attention to detail and the finishing touches that make every room a special place. The warmth and texture of natural wood and stone, window placement to take advantage of the scenic vistas, built-ins that give the room a focal point, all of these whisper “this is where I want to live.”

It’s about them, not you

Builders feel they have to explain to the buyer who they are. But it’s not about you. It’s about their needs, their wants, and their egos.

Have you ever been to a dinner party where one of the guests wanted to talk about himself all evening. Did you think “how fascinating” or were you bored stiff? Yet how many builders start off their marketing brochures telling about themselves, their years of

experience, and their accomplishments.

If you talk about the wants and needs of buyers, you’ll find that you’ll have plenty of opportunity to talk about you, and how you can best meet those needs and wants. Instead of talking about your years of experience, tell them how your years of experience contributes to their peace of mind, knowing that there home will be built right. For example:

Peace of mind

Every Pinnacle home comes with something you can’t get from any other builder – the peace and mind that comes from living in a home built by Hometown’s leading builder. The maintenance free exterior construction and the sterling reputation earned from years of customer satisfaction will help you sleep better at night in a Pinnacle home.

Use imbedded questions to overcome resistance

Buyers have developed a strong resistance to sales pitches. They don’t like being told what to think. An imbedded question is a statement, put in the form of a question. Asking the question “Wouldn’t you love to live in a Pinnacle home?” is much more effective than making the statement “You’d love to live in a Pinnacle home.” To the second question, their answer might be “Says who?” But the answer to the first question is “Maybe they’re right. I hadn’t thought about it.”

An imbedded question doesn’t even have to take the form of a question. “Go ahead, you deserve the best” is actually an imbedded ego appeal (“Don’t you deserve the best?”) followed by its response. It’s imbedded because it’s impossible for the buyer to disagree with the statement. What are they going to say – “No, I don’t deserve the best. I’m just an average guy, and I deserve second or third best.” The other reason why this is such a powerful statement is that it implies that you’re the best, without having to actually say so. It’s similar to Hallmark’s statement, “When you care enough to send the very best.” And as you know, no one sells emotion better than Hallmark.

Lesson 5: Competing against the big boys – Hertz vs. Avis

When you're a small builder, sometimes you find yourself competing with builders many times your size. At times, it may seem unfair, but the history of industry is littered with stories of the little guy who survived, and even triumphed when faced with a bigger competitor. Starting with David and Goliath, these stories have entered into our mythology, and are a part of the American psychology of rooting for the underdog.

A classic example of this was the story of the advertising battle between Avis and Hertz for the rent-a-car business. Back in the 1960's Hertz was five times the size of Avis, and had five times the advertising budget. Avis had lost money for 13 years in a row before Robert Townsend was made president. He went to Doyle Dane Bernbach and asked the magic question: "Since our competitors have five times as much to spend on advertising as we do,

how do we get five times as much impact from the advertising dollars we spend." The answer was the famous "We're number 2. We try harder," campaign.

At first, neither the ad agency, nor Avis, was thrilled with the campaign. It didn't give a compelling reason why car renters should switch. But it did position Avis against its competition, and it engaged the empathy of the reader, who identified with Avis and its position. Avis distributed millions of the "We try harder" buttons, and started making money. Hertz continued to run its anemic ad campaign "We put you in the driver's seat" and lost market share.

Did Avis crush Hertz and become number 1? No. And that's the whole point of competing against a bigger competitor. You don't necessarily need to crush them to win – you only need to survive, and increase your market share and your profits.

When you're only No.2,
you try harder.
Or else.



Little fish have to keep moving all of the time. The big ones never stop picking on them.

Avis knows all about the problems of little fish.

We're only No.2 in rent a cars. We'd be swallowed up if we didn't try harder.

There's no rest for us.

We're always emptying ashtrays. Making sure gas tanks are full before we rent our cars. Seeing that the batteries are full of life. Checking our windshield wipers.

And the cars we rent out can't be anything less than lively new super-torque Fords.

And since we're not the big fish, you won't feel like a sardine when you come to our counter.

We're not jammed with customers.

Avis is only No.2
in rent a cars.
So why go with us?



We try harder.
(When you're not the biggest, you have to.)

We just can't afford dirty ashtrays. Or half-empty gas tanks. Or worn wipers. Or unwashed cars. Or low tires. Or anything less than seat-adjusters that adjust. Heaters that heat. Defrosters that defrost.

Obviously, the thing we try hardest for is just to be nice. To start you out right with a new car, like a lively, super-torque Ford, and a pleasant smile. To let you know, say, where you can get a good, hot pastrami sandwich in Duluth.

Why?

Because we can't afford to take you for granted.

Go with us next time.

The line at our counter is shorter.

Lessons for Builders

If you find yourself competing against an 800 lb. Gorilla, here are some marketing do's and don'ts that might help you even the odds.

1. Attack their perceived strengths, not their weaknesses

The fact that they're big is something they perceive as a strength. You can get around that by stressing both your competence and your attention to customer needs. ("We're big enough to meet your needs, and small enough to care.") If you attack a weakness, they could say "They're right, we should change that," and get even tougher.

2. Never attack them by name

Never attack them directly. (Why give them free advertising?) It's not that they're bad—it's that you're better. Negative advertising usually leads to negative sales, both for you and your competitor.

3. Stress your "home team" advantage

If you know the market better than your competitor, use that in your marketing ("We make our hometown a better place to live.")

4. Stress your market advantages

If you give more personalized service or a higher level of custom design, let your potential customers know. ("Cookie cutter homes are fine for average people. But what happens if you're not average?")

5. Relieve their anxiety

One of the reasons people build with a bigger builder is that they feel (rightly or wrongly) more comfortable with what they get. It's the same reason people eat at McDonald's. It may not be the greatest food, but at least they know what to expect. People are often afraid of the complexity of the custom home process. Relieve that anxiety by showing how you simplify the process to make it manageable.

6. Find your niche

Because Gorillas need large market segments, they often try to be all things to all people. When they do that, they can't be as competitive as someone who really understands and specializes in a particular market segment. In determining your niche ask—is it large enough for you to serve profitably, but small enough not to attract Gorillas? Does it take advantage of your particular expertise? Remember to look for style and lifestyle niches, not just demographic ones. You may find that you're the only builder in town who builds craftsman style low-maintenance homes for empty nesters. But that could be a very profitable niche.

7. Form alliances to create market advantages

Alliances are a way for you to have some of the advantages of bigness, without all the disadvantages. If you have several smaller builders in your market that build a similar quality product for different market segments, you can combine your efforts and resources and compete more effectively against bigger builders. Builders can form alliances to purchase land in larger parcels (and at lower costs), to increase sales velocity, lower risk, increase purchasing power, and share marketing and developments costs. We call this multi-builder partnering.

8. Get better or get beaten

In the end, you will only succeed against an 800 lb. Gorilla if you *deserve* to succeed. You must have a better product, a stronger message, and greater value, or the market simply won't care that you're a smaller builder and a nicer guy. Fortunately, the things you need to do to compete against Gorillas are the same things you should be doing now to increase your sales, productivity and profit margins. Don't wait for the Gorillas to come to town. Keep them away by being a better competitor yourself.

Lesson 6: Don't wait to innovate – Wards vs. Wal-Mart

In the news recently was the story of the imminent demise of Montgomery Wards, once one of America's leading retail chains. Montgomery Ward is an interesting lesson in business history, one from which builders can learn and profit.

Founded in 1872 by Aaron Montgomery Ward, Ward's was not only the first mail-order catalog company, but it was the first to offer a one-price strategy, so consumers didn't have to haggle over prices. In 1875 they offered the first "Satisfaction or your money back" guarantee. But by 1900, Montgomery Ward had fallen behind Chicago rival Sears in sales. After World War II, Sears expanded rapidly. Wards president Sewell Avery predicted the country would undergo a recession, and canceled expansion plans. Wards lost its momentum and its place in the heart and mind of America.

In the 70's and 80's Wards struggled to reinvent itself and escape its second string reputation. But by then new competition had arrived. "Big Box" specialty stores such as Linen and Things and Toys R Us were making inroads into America's buying habits. Sam Walton's Wal-Mart stores had expanded aggressively, adding their own innovations, including the Wal-Mart Supercenter and Sam's Club discount warehouse. Wal-Mart was the first chain to test UPC scanning equipment, and to create its own computerized supply chain system.

Despite huge infusions of cash from GE Capital and renovations of its stores, the innovations Wards tried to implement were too little and too late. Ward's lost \$1.2 billion in 1997, declared Chapter 11, and closed 100 stores. They closed more stores in 1998, and finally threw in the towel in 2000 after 128 years in business.

Wal-Mart has been accused of driving small retailers out of business. Sam Walton refutes this in his autobiography *Made in America*. "The truth is that a lot of those folks just weren't doing a very good job of taking care of their customers before we, or somebody else, came in and offered something new," he wrote. "The small stores were just destined to disappear, at least in the numbers they once existed, because the whole thing is driven by the customers, who are free to choose where to shop."

Ironically, Sears was once accused of the same crime. A century before Wal-Mart, Sears had reinvigorated retailing, driving many smaller competitors out of business.

"Our business has been built up to its present size as a result of the fairest and most liberal policy known to the Mercantile World," Richard Sears wrote. "We have sold good goods at very low prices, saved money for thousands upon thousands of people, and in the process of doing this a few merchants have been compelled to ask smaller profits than they otherwise would ask, in order to meet our competition. . . . The merchants have brought this case, not the people. The People are our Friends."

History does repeat itself. The innovators of one age often become the hidebound dinosaurs of another age. Companies that start out as innovators, such as Sears and Montgomery Wards, must continually innovate to keep in step with their customers and ahead of the competition. In the long run, what kind of company would you rather own – a Wards, or a Wal-Mart Supercenter?

Lessons for Builders

The lessons for the building industry are easy to see. Just look around and you can tell which builders are still building the same old tired floor plans year after year. The builders who still don't know whether or not they made money on a job until after the job is completed. The builders who run around putting out one fire after another, instead of fixing the problem once and for all. The builders who are afraid of new technology, until everyone else in the business have adopted it.

While you don't need to adopt every new fad that comes down the pike (builders who do this often get burned) you do need to innovate in terms of what your customers want, and how you do business. Markets change, and people's expectations change. The way you did things five or ten years ago may not be as successful today.

Even if you stay the same, your competition may not. They can adopt new strategies to create buyer appeal. They can find ways of simplifying their business operations to reduce overhead and increase their efficiency. They can then pass some of those savings back to the customer in terms of price reductions, and still make a higher profit.

Set Yourself Apart

Competition in the home building industry is getting tougher every day. For your business to survive and grow, you must stand out from the competition. Unless you are somehow different from the other builders, you'll have to go head to head with them on price, which ultimately leads to lower profits.

Here are five ways to set yourself apart from the competition. You should be using several, if not all, of these strategies.

1. Better design

No matter how good your construction quality is, if the house doesn't meet the prospects' physical and lifestyle needs or capture their imagination, they're not going to buy. Good design shouldn't cost more to build than mediocre design. In fact, it should cost less. Good design should be easier to build, in addition to living well and having curb appeal

2. Better location

To make the most of value and consumer demand, choose good quality and premium lots without overpaying. A beautiful house in a bad location is still a bad location. But if you've got the house with the lot on the golf course, and that's what the buyer wants, then you've set yourself apart from the competition. Even at the bottom of the market, avoid low prices that could tempt you into deal-killing negatives such as power lines and noisy roadways.

3. Better value

Notice: I did not say lower price. Value is determined by the benefits divided by the costs. Just as most of your buyers do not drive the lowest priced car, they also don't want the lowest priced house. Look for ideas you can add to your houses that increase the value without greatly increasing the cost. Avoid expensive materials and features that may, or may not, increase value in the prospects' eyes.

4. Better service

You should make buying or building a house with you as easy and pleasant as possible. Streamline your financing and selection procedures. Improve the response time on customer service requests. Return phone calls promptly. If the answer is no, then say no, but say it quickly. And always go the extra mile to make sure realistic expectations are created and met.

5. Better marketing

After you've done all these things to set yourself apart from the competition, make sure you let your prospective buyers know about it. But don't rely on marketing alone to show your distinctiveness.

In setting yourself apart, don't try to be different just for the sake of being different. Remember: A difference, to *be a difference*, must *make a difference*. But if you set yourself apart and provide real benefits to your buyers, you'll survive and thrive when the competition gets tough.

Lesson 7: Keep it Simple – Southwest Airlines

Twenty nine years ago, Herb Kelleher started a new airline with three planes serving three Texas cities. Today, it has 300 planes, flying to 55 cities. It is the fourth largest US domestic airline, with over 60 million passengers annually, 2,700 flights a day, and the only airline that has turned a profit for 28 consecutive years. It is the safest airline in the world and rates number one in the industry for service, on-time performance and low employee turnover.

How do they do it? More than anything else, it's their attitude of keeping things simple. They only fly one kind of airplane, the Boeing 737. They don't have reserved seating – instead they have reusable plastic boarding passes. In the beginning, they only had four passengers on a flight, so reserved seating was

laughable. But today, Southwest has one of the highest occupancy rates in the industry and the tradition continues because it allows them to turn planes faster at the gate.

They don't serve fancy meals – in fact, they don't serve meals at all. Instead they serve Peanuts and raisins. Herb Kelleher named these "Frills" because he was tired of hearing Southwest Airlines described as having "no-frills."

Their idea of keeping things simple allows them to solve problems in direct and cost effective ways. "When Southwest started," Herb Kelleher wrote, "we used cash register tickets that looked and felt very much like bus tickets. Customers wrote and complained that 1) They threw them in the trash by accident because of their insignificant appearance; 2) their pets ate them; 3) they washed them into oblivion with their jeans. A proposal was made to install a multimillion dollar computerized ticketing system to rectify the problems. During the discussion, one of our vice presidents suggested that we simply modify the cash register machines to print "THIS IS A TICKET" across the top of each piece of paper issued by the cash register machines – and so we did. The problem was solved."

Lessons for builders

Building homes can be a complicated business, with hundreds of decisions to be made over months of construction. Anything you can do to simplify that process, both for you and your clients, makes it easier to control your profits.

Simplify the process for your customers

People want choices, but they don't want unlimited choices. They don't want to feel overwhelmed by the process. Smart builders

**WE'D LIKE TO
MATCH THEIR NEW
FARES, BUT WE'D
HAVE TO RAISE OURS.**

No matter what the competition may come up with, Southwest Airlines' everyday low unrestricted fares are still lower than the Big Three. That's a fact that can save you a lot of money every day. And unlike our competitors, with our low unrestricted fares, we don't charge you a penalty when your plans change. Which makes our fares the smart choice for you and your company. Always have been. Always will be.



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understand that anxiety, and manage the number of choices they need to make. Two ways to do this are preselecting and bundling.

Preselecting consists of determining the most cost-effective choice for the buyer, and providing this as the default choice. This could mean choosing Andersen Windows, Kohler fixtures, and Corian countertops, and explaining to the buyer why you chose those selections (quality, warranty, brand-name awareness, etc.) If they like those selections, many of their decisions are already made.

Bundling is the process of grouping options into a predetermined package. For example, an upgraded lighting package could include a predetermined number of additional downlights, plus a lighting cove in the dining room. Now, instead of making five or six choices, buyers only have to make one. In addition, they know that the options are designed to work together.

Simplify the process for the builder

Management control systems that try to control every aspect of the home building business are often more complicated than they need to be. It sometimes takes six months or more for a builder to truly master the system and adapt it to their method of operation. Then they find themselves buried in a mass of data that may, or may not, be useful in managing their profits.

That's why so many smaller building companies have adopted QuickBooks Pro as their financial accounting system. Despite its limitations, it has the virtue of being easy to understand, learn, and use. Other builders have adapted the Microsoft Office software programs to their business, including Access (data base), Excel (estimating), and Word (word processing).

While these programs don't have the total data integration you will find in a program like BuildSoft, builders often find that the complexity introduced by the integration isn't worth the extra effort. Builders can do a simpler estimate, using Excel, and then import the estimate figures into QuickBooks to form a project budget. They manage the schedule separately using MS Project, and don't try to make Project manage cost controls.

Management by Exception

The most important philosophy behind simple management is the idea of Management by Exception, made popular by Peter Drucker. Drucker got the idea from Alfred P. Sloan, the legendary manager of General Motors. It is based on the idea that more than 90% of all management decisions are routine. Set up systems to take care of the routine tasks and focus on the exceptions.

The easiest way to find the exceptions is through variance analysis. Set up a project budget in your accounting system based on your estimate. Then track your expenses on a monthly basis. When costs exceed expectations in any one category, determine why the cost overrun occurred and determine what you can do about it. By looking only at the variances, you can save a great deal of time and effort, and focus your energy on those problems that need your attention.

Management by E-mail

One builder uses the concept of "management by email" as a simple way to keep track of what's going on in the company. Once a week, every project manager sends a simple email report to him that states what tasks were accomplished that week, what problems were encountered, what tasks are projected for the next week, and what resources (if any) are needed to accomplish them. He finds that he can read all the emails and respond to them in only a few hours. He can quickly determine what problems he needs to focus on, and can shift resources within the company to keep the project on track.

Lesson 8: Get Focused – Stay Focused

GE and Jack Welch

In 1981 Jack Welch took over as CEO of General Electric with one mandate to the company: “We either have to be number one or number two in every market we serve, or we get out of the market.” And he meant what he said. Divisions that were underperforming were either sold or eliminated, earning Welch the nickname of “Neutron Jack.” New divisions were created or acquired by the hundreds. He rewarded and promoted people who got results, and eliminated those that didn’t. Twenty years later, the value of GE stock has climbed from \$12 billion to nearly \$372 billion. During that time, no one, not even Bill Gates, has created more shareholder value than Jack Welch. And he did it by creating a single minded focus for an entire company.

No one accuses Jack Welch of being a shrinking violet. He manages, it seems, through the sheer force of personality, imprinting his style on the entire organization. He minces no words in communicating his pleasure or dissatisfaction to all levels of the organization. He believes strongly in the power of his people to solve whatever problems they face. He focuses on details that most CEO’s wouldn’t bother with, and he never gets hung up on the formalities. Everyone in the company, from secretaries to factory workers calls him Jack. He loves to make surprise visits to plants and offices, and sends countless handwritten notes to GE people at all levels. And he holds everyone in the company accountable for results, with no excuses allowed.

“The one unacceptable comment from a GE leader in ’98 will be ‘Prices are lower than we thought, and we couldn’t get costs out fast enough to make our commitments,’” he said in a meeting in 1998.

“Unacceptable. Unacceptable behaviour because prices *will* be lower than you’re planning so you better start taking action this week.” Within days of the meeting, hundreds of copies of the

videotape of the meeting are distributed throughout the company. No one can accuse Jack Welch of not letting people know what his expectations are. On the other hand, he’s quick to reward people for a job well done. Even though GE set an overall salary target in 1997 of 4%, based salaries can rise by as much as 25% without a promotion. Stock options are given to over 27,000 employees. “It means that everyone is getting the rewards,” he says, “not just a few of us. That’s a big deal.”

Decision making within GE is also focused. When Welch gets involved, he’s rarely indecisive. It’s either yes or no, but never maybe. If something isn’t working, he doesn’t hesitate to pull the plug, and try something else. It’s all about limited resources; time, people, capital, and where to best apply them to get the results he wants. Above all, business is a fascinating game, filled with challenges and opportunities, with lots of rewards to those who play to win.

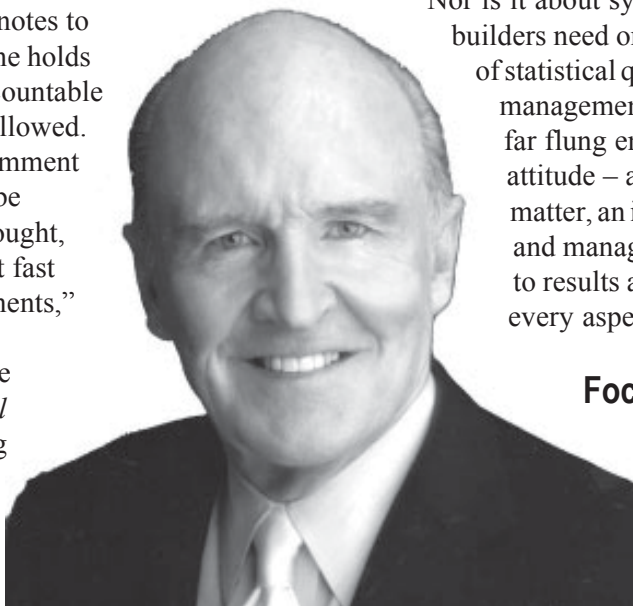
Lessons for Builders

How Jack Welch was able to transform an old-line industrial giant into a highly competitive global profit machine has direct implications for the building industry. It’s not about size – most building companies aren’t multi-billion dollar multi-national conglomerate.

Nor is it about systems or resources – few builders need or want to implement the types of statistical quality control or information management systems that integrates GE’s far flung enterprises. It’s more about attitude – a focus on the things that matter, an informality of communication and management styles, and a dedication to results and improvement that drive every aspect of the business.

Focus on results

Businesses live or die based on the results they generate. Sales volume, production, inventory turnover, return on investment, all of these are



indicators of the health of the organization. But the numbers are only part of the picture. “You can’t grow long term if you can’t eat short-term,” Welch says. “Anybody can manage short. Anybody can manage long. Balancing those two things is what management is.”

You can’t focus on results if you don’t know what your results are. It’s easy to get lost in the details of management data. Builders need a good management system that gives them a quick snapshot of where they are, and they need to constantly monitor those results. But aggregate data can often hide a myriad of problems. That’s where a variance report comes in, reporting discrepancies between expected and actual performance values.

Once you know what your results are at present, you need to communicate what you expect those results to be in the future. Don’t be afraid to challenge your people to exceed their current levels of performance. But don’t set your goals so unrealistically high that you discourage your people when they prove impossible to meet, or burn them out in a futile attempt to achieve them.

Communicating expectations and results throughout the company can be accomplished through a series of informal mechanisms. A simple weekly report from each manager can report past achievements, problems encountered, and goals for the coming week. The report should be able to fit on one page. At least once a month financial reports should be generated that communicate sales, costs, profits, and variances. A monthly managers meeting should discuss these results, find solutions for problems identified, and set goals for the upcoming months. Every quarter, each employee should be evaluated in terms of their goals and accomplishments. And every year, a company retreat should celebrate achievements, set future agendas, and distribute rewards.

Focus on products and services

In the end, builders succeed because they deserve to succeed, because their products and services best meet the needs of their buyers. However, you have to realize that a home, especially a custom home, is a

complicated product. It’s not simply sticks and bricks. It’s about location and community. It’s about the process of design and building, and whether or not that’s a positive experience for the buyer. It’s about the perceived value of the product, and whether the home is within the financial means of the intended buyer. It’s about the design of the home, the livability of the spaces, and whether the home meets the needs of the buyer, including needs for space and status.

No matter how good your product is, buyer needs are constantly evolving, and your products must evolve with them. It’s a constant process of continual improvement.

Focus on people

The only way to get the results you want is through other people. That means employees, superintendents, subcontractors, and other professionals. And in order to get results, you have to motivate them. If you can’t motivate them, you replace them with people who can be motivated.

Motivation is accomplished through carrots and sticks. Jack Welch uses both of them effectively. The stick, of course, is the knowledge that underperformers are simply out of a job. Tolerating underperformance from others (and especially from yourself) sends a message through the entire company that mediocrity is acceptable.

You really turn people loose, however, when you reward them based on their performance – not based on position or longevity or professional status. And it doesn’t have to be a formal reward system. Once that first employee gets an instant bonus based on contribution to results, the word spreads through the entire company. Once people understand that ideas can come from anywhere in the organization, and don’t have to be filtered through the hierarchy, be prepared to deal with an influx of suggestions and improvements that can have a significant effective on overall productivity and profits.

While you want individual responsibility for results, most profit-oriented results require a team approach to truly make a difference. So an individual’s reward should be based



on team performance as well as individual effort. While construction may not have a direct impact on sales volume, both have a direct impact on profits. While rewarding both team and individual effort, you keep individuals focused on the big picture of profitability, without creating dysfunctional territoriality.

Focus on creativity

Sometimes the best solutions to problems are those that step outside of the box called “the ways we do things.” Let your people know that while they aren’t allowed to “break” the rules of company procedures, they may be able to “change” the rules by finding other ways to accomplish the same goal. People are immensely creative, but normally turn it off when confronted with a rigid rule-bound structure. Turn them loose by telling them “what” you want to accomplish, but not telling them “how” to accomplish it. For example, if you want to decrease warranty repair costs, you can accomplish this by improving the pre-walk through inspection, by

creating a separate warranty repair division, or by rewarding buyers who tend to minor repairs themselves by refunding part of their warranty costs at the end of the warranty repair period. Let your employees figure out the most cost-effective and trouble free strategy.

Focus on profits

The ultimate focus, that one that results from all the other focuses, is a focus on profits. The reason Jack Welch focused so single-mindedly on market share was that for national companies market share has a direct correlation with profitability. This is not necessarily the case for builders. Builders sometimes lower prices and profits in an attempt to increase market share, with the vain expectation that this will lead to higher profits sometime in the future. Smart builders, however, can sometimes decrease sales and increase profits at the same time... by increasing their margins and appealing to different markets. It’s the profits, not the sales volume, that ultimately matters.