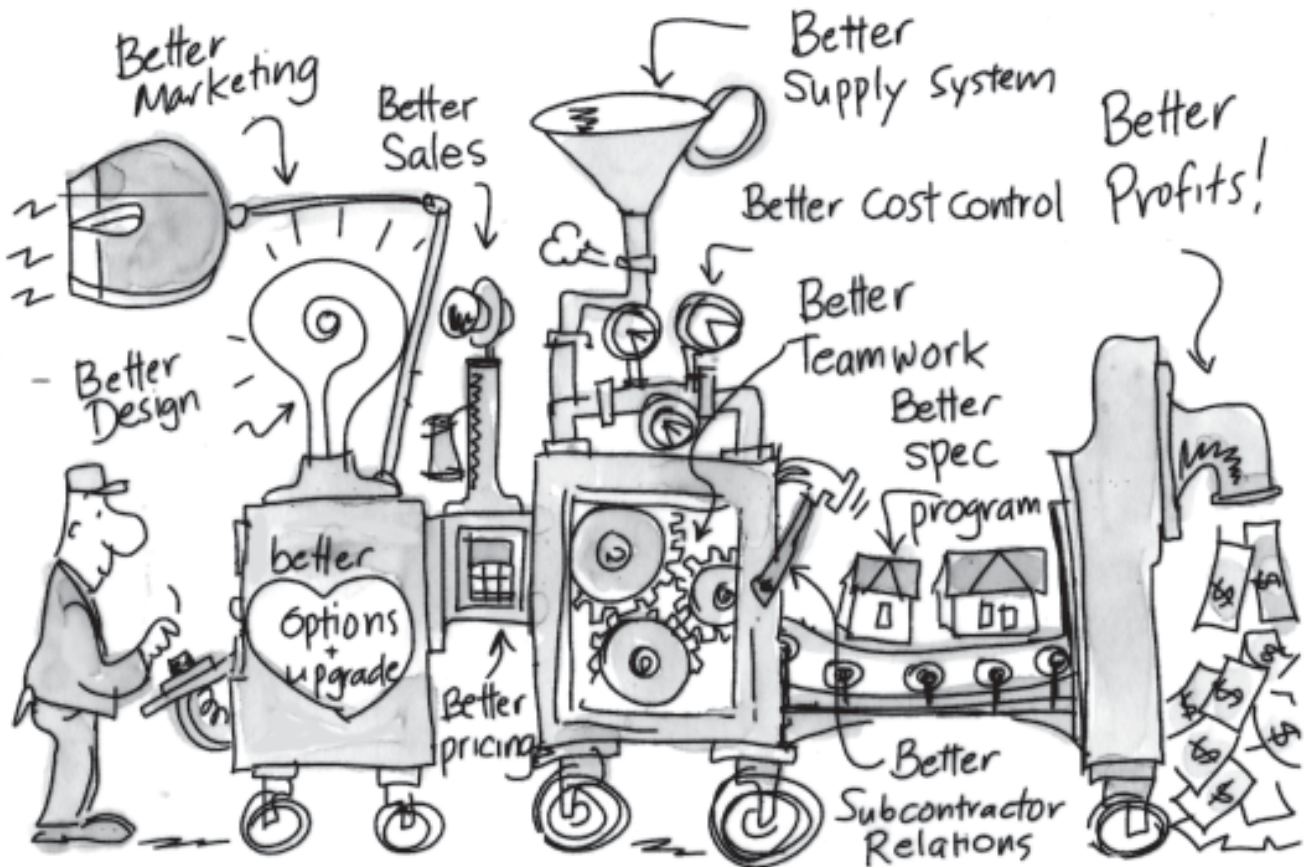




# *The* **NEW** **BUILDER** **MONEY-** **MACHINE**

10 ways for builders to increase their profits

Presented by Al Trellis



# The New, Improved Builder Money-Making Machine

Builders don't build houses for the exercise. They build them because they enjoy doing it, and because they can make money doing so. There are a lot of steps that go into the process of building a home, and a lot of places where builders can lose money if they're not careful.

That's why we developed this program. We wanted to identify steps a builder could take that would have the greatest impact on profits, outline a plan of action for taking those steps, and calculate the cost and benefits of those changes. Until the builder looks at the costs, and calculates the benefits, he can't intelligently decide where he should put his time and management effort.

There are numerous areas where builders can improve. However, for the sake of this analysis we chose twelve that consistently turn up in consulting with builders.

The twelve areas we decided upon were:

- Better designed homes
- Better pricing on houses and lots
- Better options and upgrades
- Better spec house program
- Better marketing
- Better Realtor and sales training programs
- Better pre-construction cost controls
- Better staffing
- Better subcontractor relationships
- Better supplier relationships

In each of these areas we identified several strategies you could implement in your company.

## The power of Excel

To analyze the impact, we put our assumptions of the costs and benefits of these strategies into a Microsoft Excel spreadsheet. We wanted to quantify as much as possible the benefit/cost trade-offs so you could play with the numbers

and devise your own strategy. Spreadsheets are marvelous analytical tools. But they're only as accurate as the underlying assumptions behind them. The costs we applied to these improvements will vary with the builder and their situation. You can input your own values for a more personalized analysis.

Improvements are cumulative. For example, Improving the design can increase sales volume, but it can also increase the sales price you charge. Improving scheduling and cycle time can reduce construction costs, but can also reduce overhead per house by increasing the number of homes built in a given time.

## How to make improvements

The first step is to determine how your company is actually doing in each of these areas. Obviously, those areas where you need the most help will also show the greatest profit potential once they're fixed. Second, look at your company's limits of time and resources. Pereto's Law also applies to profit improvement – 80% of your improvements will come from 20% of your efforts. Time is our most limited resource – you can do anything ... but you can't do everything. Third, look at your company's ability to absorb change. Make incremental improvements (one or two at a time), rather than trying to reinvent everything at once. Finally, get outside expert help where you need it.

We hope you find this information beneficial and practical, and that it helps you perform your own analysis, identify those areas you need to improve, and develop your own program for increasing your profits.



Al Trellis

# What's limiting your profits?

In an ideal world, a builder can sell all the houses he can build, at a price that guarantees a good profit. Unfortunately we don't live in an ideal world. Many things limit how much profit a builder can make.

## Demand

Within any given market, there are only a certain number of homes that can be absorbed in any given price range. But since there are often several builders in each price range, the question is often how do you increase demand for your houses, at the expense of your competition. Several factors go into the relative demand for a particular builder. The first is value perception: What's the bang per buck? How much quality does a buyer get divided by the price he has to pay. You can increase the value perception by either increasing the quality perception or by lowering the price.

Lowering the price is a tricky proposition, since lowering the price has the nasty side effect of lowering profits. In addition, buyers have a particular quality expectation they're looking for in buying a home (the quality threshold). If the builder doesn't exceed that expectation, the lower price doesn't matter. The second element of demand is awareness. No matter how great a home you build, if people don't know about you, they won't buy.

## Production Capacity

The capacity is the number of homes you can build, given your present company structure. You can only close the number of homes you can build. Increasing demand without increasing capacity won't increase your volume. On the other hand, increasing capacity without increasing demand doesn't increase your volume. It usually leads to excess inventory, lower prices, and increased costs.

You can increase capacity in a number of ways. You can hire more superintendents and increase the number of homes you can build simultaneously, or you can decrease the turnover time per house. You could also increase superintendent efficiency by hiring assistant superintendents, or by simplifying the management process.

Generally builders either have excess capacity or excess demand. You have to determine what the constraint is in your particular case, and address that problem first.

You can measure demand as a function of the backlog of homes you've sold, but haven't been able to start. The longer the delay between sales and construction start, the greater the excess demand.

Your production capacity is a function of the number of homes you can build simultaneously times your turnover ratio. The turnover ratio is the number of working weeks in a year divided by the number of weeks you take to turnover a home.

If you find that you have excess capacity, then you need to increase demand through better marketing, better design, better pricing, or better sales programs. If you find you have excess demand, you can increase capacity through better construction management, better spec house programs, and reduced turnover time, or decrease demand through higher prices.

## Production Cost

Production costs are a function of material and labor. You can lower production costs by substituting cheaper materials, but only at the risk of lowering the quality perception. On the other hand, some costs can be reduced without a perceived difference. Building your homes on two foot modules can minimize material waste. Eliminating excessive spans can minimize oversize (and expensive) beams. Carefully purchase materials to take advantage of quantity discounts and avoid duplications.

The other aspect of production cost is efficiency. If your production personnel are laboring under an antiquated management system you may also be hiding cost overruns that can eat into your profits. Review and improve your current management systems, review your supplier relationships, and institute a purchase order system.

## Overhead Costs

The other area of cost is overhead. Overhead is usually a function of productivity. Overhead is usually a fixed expense, and you can lower overhead per house by building more houses with the same staff. However, some items of overhead are a one time expense, such as redesigning your house plans, or hiring an outside consultant to help with your marketing materials. The advantage of one-time expenses is that you continue to reap the benefits in subsequent years without the additional cost.

# 1. Better designed homes

Often builders justify their current design by saying “That’s what sells in this market.” Sometimes that merely means that everyone else’s plans are as mediocre as yours, and the buyer doesn’t have a choice. If you’re in a healthy market, but find there’s too much price competition, then the problem may be that your product design is not as exciting as it could be. Creating or finding exciting designs that meet buyer needs and wants, and are cost-effective to build, is one of the most challenging aspects of the building business. It is also an area with a very high rate of return. You have three options here:

## Architectural review of plans

Go over your existing plans, discard the worst plans, and make improvements to four of the remaining plans. This should result in an increase in both sales volume and sales margin. The volume increase comes from the improved marketability of the plans. The margin increase comes from value engineering the homes to make them easier and less costly to build.

## Create a new plan

Once you do level A, level B consists of creating a new plan to add to the portfolio, and developing 4-6 new elevations to go with the floor plan. By using multiple elevations, you increase the sales volume by appealing to a wider group of buyers. You also have a margin gain by building the same floor plan more often.

## Develop a new line of homes

This is the ultimate design solution. You repeat level B over an entire portfolio of homes (4 plans), all with multiple elevations, and all designed to hit buyer’s hot buttons. This solution should give you the nicest plans in the community, and increase your competitive position. Since the homes are all value engineered, it should give you additional margin benefits over your entire product line.



## *Things to think about:*

### Different strokes for different folks

Every market segment has different needs and wants. The home that works for a growing family may not work for empty nesters. As lifestyle, income, and ages change, needs and wants also change. Remember, the product must be tailored to the needs of a particular market group, and (for custom builders), to the particular individual. Custom home buyers aren’t cookie-cutter people. So don’t give them cookie-cutter solutions.

### How do you find good plans?

Builders often use the same plans over and over simply because they haven’t found a good source for new design ideas. Sometimes builders try to act as their own designers, without the necessary skill or talent. This is particularly dangerous with exterior details and elevations, where first impressions are critical. Don’t hesitate to obtain the services of serious design professionals.

### Finding a good designer

Good local designers are not only sources of good design, they’re sources of good clients. If the designer is approached by a client directly, they often recommend a good builder. Make sure the architect is easy to work with, understands cost-effective construction, and has experience in the housing market you specialize in. It’s better to find a national designer who knows good design, than settle for a mediocre local designer.

### Pay a little more for good design

Just as you don’t want your buyers to make purchase decisions based solely on price, you don’t want to evaluate design based solely on its cost. Paying a few thousand more for good design can lead to many times that amount in profit improvements.

**Good design may cost a little more up front in design fees and the added cost of appealing details, but it saves many times that additional cost through good market appeal and cost-effective construction.**

## 2. Better pricing on houses and lots

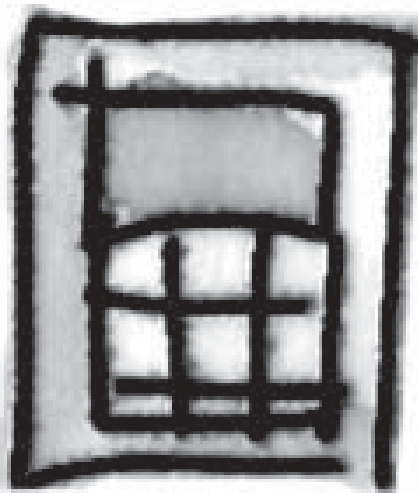
Nothing is more critical to success in a free market system than the prices we choose to place upon our products. Price, in effect, becomes a shorthand for the value we perceive in a product. If we price too low we leave money on the table and may actually lower the perceived value of the product. If we price too high, we may find ourselves undercut by a more value-conscious competitor. Pricing can be used in one of two ways:

### Evaluate pricing program on houses

Your houses should be competitively priced based on their perceived value. If your houses are perceived as better than those of your competition, you should be able to charge a price premium, without suffering a volume decrease. If your houses are perceived as a lesser value, it's usually better to improve the value perception than to lower the prices. You may want to hire a consultant to assist you in this process. Through proper price differentials between homes we can motivate buyers to purchase the products which offer us the highest gross dollar contributions, and increase dollar volume.

### Evaluate pricing program on lots

Every lot in a development is different. However, if they all have the same price, the better lots will sell quickly, leaving the less desirable ones to slow sales at the end. Go through all your lots, and place the largest practical premium on the best lots and smaller premiums on about half the lots. Use at least part of the extra revenue to lower the base price on the least attractive lots. In general, try to create many different prices on your lots, even if the price differential is only \$500-\$1,000. This will lead to increased volume due to value perception and sense of urgency that the "best" lots (either best quality, or best price) will be gone.



### *Things to think about:*

#### Use market-based pricing, not cost-based pricing

Market based is pricing according to the perceived value of the product. Cost-based pricing is based on what it cost you to build. But the reality is that the public doesn't really care what the product costs to build ...they care about what the product will do for them. If you use better design and efficient production to increase your product quality, people are willing to pay more, despite your lower cost.

#### Use price to create a product line

A good product line has three to five specific home types, each tailored to a specific buyer profile. Thus, if a neighborhood calls for houses in the \$150,000 to \$175,000 range, you should have a model for a family with two professionals that includes a study and an option for an extra bedroom or office; a model for a family with two or three young kids (four bedrooms, master bedroom up); and one for a slightly older buyer with teenage kids and bad knees (master bedroom down). The market today demands responsiveness to what each buyer *needs* and *wants*.

#### Price below psychological barriers

Since it's usually easier to sell up than down (although it's best to do both), make sure to have models priced at important psychological barriers. For the case described here, models at \$149,900, \$159,900, and \$174,900 would be ideal. A traffic generator at \$139,900 might be great, depending on the area and market perceptions. It might not be your best seller, but it will bring in people for your sales force to close.

**The purpose of using price points, product mix, and lot premiums is to stimulate strong buyer interest early and build critical mass for the project as quickly as possible. Use buyer perception of value to help create that demand.**

## 3. Better options and upgrades

Providing people with choices is a powerful marketing concept. Remember, buyers always have a choice. They can choose to buy, or not buy. They can buy from you, or from someone else. To get them to buy from you, you have to give them the choices they want, in a way that they like.

Secondly, most builders have a higher profit margin on upgrades and options than on the house itself. The more options they put into the house, the more money the builder makes. Unfortunately, most builders do a very haphazard job of presenting the options and making it easy for the buyer to upgrade. Here are four things you can do to improve your profits in this area:

### Review and revise present option program

Go over your present options and upgrades, and make sure that they are priced profitably. Are you offering enough options? Too many? Get rid of those options that people rarely select. This gives you increased volume due to increased number of options, and increased margin due to the higher margin of the options.

### Develop new options and upgrades

Go through your existing plans and see where you can add additional options and upgrades. Concentrate on low-cost options that add “wow” to specific rooms. Some of those options may require additional design (such as built-ins, room expansions, etc.)

### Bundle options into style and function packages

The third step is to take your options and upgrades and bundle them into lifestyle and theme packages. You will probably want to hire an interior designer to help you with the selections. Have the designer prepare attractive option boards for the sales office.

### *Things to think about:*

The correct solution is to try to give the buyer the right number of choices, organized in a way that makes it easy. The key is to break the decisions

into “bite-sized pieces,” and simplify the decision-making process. Three ways to do this are preselecting, bundling, and customization.

### Preselecting

This consists of determining the most cost-effective choice for the buyer, and providing this as the default. 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

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 professionally designed to work together.

### Customization

Customization (as opposed to pure custom) presents buyers with a home plan and allows them to make incremental changes in room size and usage. Instead of starting from a blank sheet of paper, their choices are manageable.

### Consider a design center

While a design center is a high overhead item, it can add additional volume and can assist in greater sales. However you should only attempt this if you have sufficient volume to justify the expense. You need to decide whether the design center is integrated into your sales office, or is created as a separate entity. Creating a design center can make a major improvement in upgrades and option profits.



## 4. Better Spec House Program

Some builders are strictly production builders. They don't want the hassles of custom building. Others are custom builders – they don't want the risk of building on speculation. However, even custom builders should consider building at least some of their houses as spec houses. The trick is to structure your mix of houses in order to gain the most benefits, with the least risk.

### Cut lead time between houses by 4 weeks

Cycle time is not only the time it takes to build a house – it includes the time that elapses between selling one home, and having the next one ready to go. You can reduce cycle time by having designs pre-selected, by having permits issued, and by lining up subs. The next house must be ready upon sale. Many builders find that by cutting cycle time, they can fit another house into production every year, without a corresponding increase in overhead.

### Increase number of specs in inventory

The number of specs you have in inventory at any one time is a measure of the risk you take. A modest increase in inventory may be a manageable risk. However, you need to look at production capacity to see if you can handle the increase without increasing staff, and you need to look at the market to assure yourself that the risk is reasonable. However, since the margins on specs are often lower than those of custom homes, you may see a slight decrease in overall profit margins. Look at the overall profit gain, not just the profit margin.

### Things to think about:

**1. Know your market.** Know what people want to buy, what they're willing to pay, and where they want to live.

**2. Always spec on a desirable lot in a desirable neighborhood.** Why risk building a nice house in an area where people don't want to live. You can't pick up and move the house, if the neighborhood isn't right.

**3. Build for your customers, not for yourself.** Don't put things into a home that you might like, but that your buyers aren't willing to pay for.

**4. Never spec the most expensive house in a neighborhood.** If you can, spec the least expensive since it will appreciate the most in value by being next to the more expensive homes.

**5. Separate yourself from the competition,** through more interesting design, unique lot or special features, and through better perceived value.

**6. Select designs that are exciting but still functional and efficient.** You *can* have both. Avoid complicated roofs, chopped up interiors, or details that are expensive to build.

**7. Everything in moderation** (not too many "too's").

- Number built - Not *too* many
- Price - Not *too* expensive
- Design - Not *too* busy or *too* personal
- Decorating - Not *too* busy or *too* personal
- Features - Not *too* few, and not *too* many

**8. Spec houses are supposed to be easier than custom houses.** Make all selections before you start, finish the house completely, and learn from each one.

**9. Spec houses are about velocity.**

Price them to move and be prepared to start another the instant one sells.



## 5. Better Marketing

Think of your marketing materials as tiny salesmen that can be in many places at the same time, convincing buyers that they want to buy from you. Without them, you have to rely on your personal marketing skills, and your time is limited. You can only be in one place at a time. You want to spend your personal marketing time closing the sale, not generating interest.

Good marketing materials create instant credibility for you, and establish you as a market leader. They don't have to be outrageously expensive or ornate, but they do have to present your message and your benefits in a memorable way.

### Redo marketing brochure

The most important part of your marketing effort is your message. A simple four to six page brochure with a strong message is one of the most effective marketing tools you can have. You can then reuse that message in all your other marketing materials. If you have to scrimp, scrimp on printing, not writing or design.

### Create or redo web site

The Internet is becoming a much more important form of marketing, and can deliver full-color marketing materials at no charge to any interested buyer. Being on the web is no longer an option for upscale builders. Your web site doesn't have to be elaborate, it more a method of letting people find you than a complete marketing system. Use the main message of your marketing brochure as the basis.

### Total marketing makeover

Once your marketing brochure and web site are done to your satisfaction, look at all your marketing materials, include product sheets, community sheets, option sheets, display advertising, and signage. Look at your logo and graphic identify – maybe it's time for a new look.

### Increase market exposure

You should consider increasing the frequency of your marketing effort (ads and direct mail) only after completing all previous steps.

### *Things to think about:*

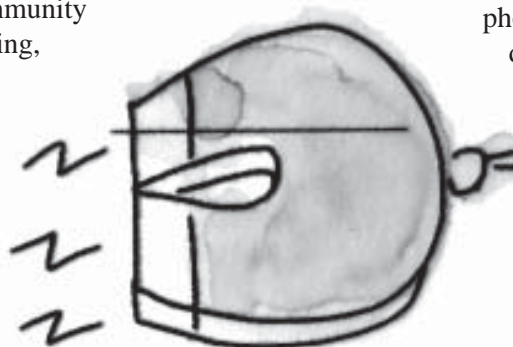
#### Get professional help

Initially, you'll want to hire a marketing professional to create your company identity and your benefit brochure. A smart way is to find a marketing design firm or freelancer to create your materials. Creating publications electronically is much faster and easier than creating them manually. Make sure you get the publication in electronic format, as well as camera-ready form. Design elements such as logotypes should be available as electronic files. That way you can drop your logo into materials that you create in-house, using your word-processing or desktop publishing programs.

Avoid the temptation to create expensive, inflexible materials that you will have to replace later. Start with a simple two-page or four-page flyer, using full-color photographs of your work. Avoid the temptation to print more copies of materials than you think you will use in a year. Even though the cost per piece goes down as the quantity goes up, there's nothing worse than throwing away out-of-date material. No matter how good a marketing piece is, as soon as it's printed you'll think of a way to make it better.

### Get good pictures

If a picture is worth a thousand words, then use lots of pictures to convey your message. Hire a photographer to take pictures of your work. Don't show pictures of empty houses, or homes under construction. People want to see a finished product. You may be able to convince recent buyers to let you photograph their furnished and decorated home. Don't scrimp on photographic quality. A lousy photo conveys an impression of poor quality. Always use captions with the pictures.





## 6. Better Realtor and Sales Program

Once marketing brings people in the door, sales converts them to buyers. You need well trained and motivated sales people, assisted by an effective Realtor outreach program to bring new buyers to you.

### Profit targeted compensation program

Before you even begin sales training, you need to develop a targeted compensation program. Compensation should not be based purely on sales, but on the corresponding profits that ensue to the builder. There are two ways to look at this. First, if the sales people are offering price concessions in order to increase sales, you need to tie the salespersons compensation to the profitability of the builder. A \$2,000 price concession on a \$200,000 house can lower the net profit by 20-25%. Here's how such a program should work. Pick a sales point 1% below your full-sales price (\$198,000). If the sales person sells at that price they get full commission. If they sell it at \$200,000, they get full commission *plus* 25% of the difference between the cutoff point and the sales point. If they sell for below the cutoff point, their commission is reduced by 25% of the difference. If they brought you a contract for \$20,000 less than the sales price, they'd get no commission at all. (You may want to limit the downside risk to 50% of commission.)

The second way to look at this problem is break even. If the builder needs 36 sales to break even for the year, and the salesperson makes 35 sales, the salesperson made a lot of money, and the builder lost money. So the compensation program should be targeted so that the salesperson doesn't make as much money on sales below a target, and makes more money on sales above the target.


### Institute a Realtor Sales Program

Realtors can be an important adjunct to your regular marketing program, bringing you additional sales that you might not otherwise have. The biggest barrier to Realtors in selling new homes is the

complexity of the sale and the length of time it takes to get paid. With existing homes, the buyer either likes or doesn't like the house, the sale is made, and the agent is paid. Instituting a Realtor sales program can get around that barrier by informing the Realtor community what is expected of them, and how they can make an easy sale, with accelerated commissions, by bringing buyers to you. An example of a Realtor program flyer is shown below. Cost: Budget \$3,000 to promote your program to Realtors. This includes designing, printing, and distributing a Realtor brochure, as well as sponsoring special events such as open houses for Realtors, or delivering pizza or pie to Realtors offices with a "Get Your Piece of the Pie" message attached. The real cost, however, is the additional sales expense on sales generated through Realtors. Benefits: You should experience an increase in volume but a decrease in margin due to higher average sales costs.

### Ten reasons Realtors should bring their clients to Pinnacle Homes

- 1. You'll sleep easier at night, knowing we're taking care of your customers.**  
We know how important happy customers are to your future success. Happy customers lead to more referrals – both for you and for us. That's why we spell out the entire construction process from the beginning of the job, and why every Pinnacle customer gets a weekly email or fax progress report. Your customers will sleep better too.
- 2. We pay your commission faster.**  
We offer selling agent a 3% commission and pay commissions faster than other builders. You can get the first half of your commission when the contract is signed (with loan pre-approval), and the balance at closing.
- 3. It's easy to sell value.**  
Our standard features and benefits look like most builders' option lists. That means no hidden costs – happier customers, and easier sales.
- 4. We let you get on with your business.**  
For today's active families, time is at a premium. Most real estate professionals have even more demands on their time. We take care of the building process so you can concentrate on building your referral base.
- 5. We give your clients more choices.**  
We have enough standard plans, each with optional elevations and layouts to give your clients the chance to create a unique home that will meet their needs.
- 6. We care about quality.**  
We're experienced enough to do the job right, and dedicated enough to care. You don't have to worry about fly-by-night construction practices, or shaky business longevity.
- 7. Our service keeps our customers happy after the sale.**  
With our scheduled Service warranty program, you clients receive pre-scheduled visits two weeks, four months, and 11 months after the sale in addition to 24 hour emergency service.
- 8. We've got the winning team.**  
Our subcontractors and suppliers are selected based on their reliability and attention to quality. That means a smoother construction process, earlier closing dates, less callbacks and warranty problems.
- 9. We respect your relationship with the buyer.**  
Once your client is registered with us, we protect your commission. You don't have to constantly check back and make sure that things are still going smoothly, or that paperwork has been submitted.
- 10. We love paying real estate commissions.**  
Realtors are our partners in providing for the housing needs of our buyers. When we pay you a commission, we both win.



**Call 301-234-5678 today for details.**

## 7. Better pre-construction cost controls

The pre-construction process is of equal importance to the actual construction. From a profit point of view, if you fail in the pre-construction process you are doomed to failure even if you do a perfect job of construction. Great craftsmanship and a beautiful house are of little value to the builder if it's a money losing project.

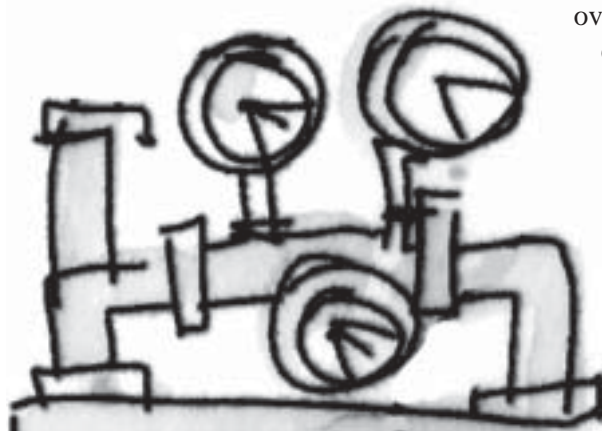
The pre-construction process is all the steps leading up to the day you break ground for the client's new house. It results in the definition of the product (plans and specifications), the establishment of the price (estimate and contract), and the creation of a foundation for the builder/client relationship. These items are among the most important contributors to profit.

### Review and improve existing pre-construction systems

Before you can improve your system, you need to understand it's weaknesses and failures. Go over the estimates and job costs for the past few jobs and identify those areas where the greatest variations occurred. Is there any pattern to those variations. Can you identify a system to reduce those variations? This will take a lot of time. You may want to hire someone from the outside to look at your systems and make recommendations.

### Upgrade estimating system

If you identified problem areas in A that affect your estimating system, you need to fix them. A computerized estimating system (using either an Excel Spreadsheet or a stand alone computer program) should increase efficiency and reduce error. While a computerized estimating program can be purchased for as little as \$500, the major expense is the time and energy it takes to learn it and adapt it to the way you do business. But if you catch just one major error, it pays for itself many times over.



### Implement computer job-cost control system

Once you have a system you're comfortable with, and an estimating program that gives you accurate and timely numbers, the next step is to integrate this into a computer job cost control system. Here the trade-off is always functionality vs. complexity. Large scale integrated programs may be too difficult to implement, and actually lead to productivity decreases. If you use a simple accounting program, such as QuickBooks Pro, implementing the job cost control program is more straightforward, but doesn't add construction management functions such as scheduling. A job cost control system allows you to integrate pre-construction with construction management, get meaningful construction budgets, and identify cost overruns early in the process.

#### *Things to think about:*

The major benefit of pre-construction is in reducing expensive construction mistakes before they happen. Money lost in the pre-construction stage can rarely be made up on the construction stage. Your client contact process should establish realistic expectations for quality and schedule, and communicate client responsibilities in the construction process. Your estimating system should be complete, organized, accurate, and timely. Scheduling systems should be realistic and clearly establish milestones for client decisions.

### Evaluation of non hard-cost factors

The hard part of estimating is the subjective evaluation of the client, the job and your need to win the bid. Here are some things to consider:

- Client personality and price consciousness.
- Location of site. Is it close to other jobs?
- Job complexity - are you getting in over your head? Do you have the expertise to do the job?
- Your availability/necessity for work, other workload, other potential contracts, general business environment.

## 8. Better staffing

No matter how much you improve your productivity and output per employee, you will reach a point where, in order to grow, you have to hire additional personnel.

The danger is in adding staff prior to demand. Creating excess capacity with increased sales only leads to increased overhead. Another danger is the tendency to hire additional support staff in order to bring functions in-house, such as marketing or design. Unless you are currently paying more in outside service fees than it would cost to hire a person inside, you're better off buying services as needed.

### Evaluate existing employees and staffing needs and upgrade

In every organization some people are more productive than others. Look at your current staffing and make sure it fits your needs. Get rid of unproductive employees, and increase the compensation of those who have made significant contributions.

### Hire assistants to superintendents

Hiring an assistant superintendent does two things: it helps the superintendent increase their productivity, and it provides a training mechanism for new superintendents. A superintendent with an assistant should be able to handle 50% more houses than an unassisted superintendent. Salaries and benefits for assistants vary with the area and the general demand.

#### *Things to think about:*

#### 1. Look for what's important

People are often hired based on their experience and education. But attitude and aptitude are much more important. What you're looking for is someone who's

willing to work and succeed and is able to learn and grow. When those two traits are present, you can provide both the education and the experience, especially when you staff from the bottom up. It's much better to mold and shape someone who is able and willing to learn than try to change or correct someone who already has set ideas and preconceived notions.

#### 2. Hire at the bottom levels

Wherever possible, hire good people at the lowest levels of your organization. For example, if your superintendent is overworked, think about hiring an assistant superintendent instead of a second superintendent.

- It costs less to hire someone with less experience.
- The existing employee feels important (the new person is someone to help him) rather than threatened (not someone with whom to compete).
- You can mold the new employee the way you want. He or she hasn't picked up a set of ingrained habits that may conflict with the way you want to do things.
- You provide an upward migration path. By hiring from the bottom, you enable people to look forward to the possibility of promotion.

#### 3. Follow your first instincts

The best time to fire (or hire) someone is usually when you think of it. People rarely change. The time to fire them is now, not six months from now, after they've made a lot of mistakes.



Hiring good people who want to work hard, finding ways to motivate them, and quickly letting go of those who don't measure up will go a long way toward making your organization stronger and better.

## 9. Better subcontractor relationships

Subcontractors account for a large part of the direct cost of building a home. They can have a significant impact on your bottom line not only through their pricing, but also by slowing production schedules and causing work to be redone. In addition, the inability to find good subcontractors can limit your ability to produce homes and thereby limit your potential profits.

### Review existing subcontractors for efficiency and reliability & replace problems

Look at your last three jobs. Were there any avoidable delays or overruns due to subcontractor error or poor scheduling? Are there any subs that consistently mess up the schedule of the other subs? Replace subcontractors. Then look at your subcontractor management system. How many of those errors were your fault? Institute a daily sub scheduling system using email or fax. You may have to pay higher prices to better subs, but the long range savings will probably be worth it due to increased margins and volumes through better production schedules, increased customer satisfaction, and reduced cost overruns.

### Institute a weekly/daily email/fax task reminder system

The time to find out that a sub has a scheduling problem is not the day he's supposed to be on your job site, but isn't. Not only does this cost you extra money for overhead and construction financing, but it can also play havoc with the other subcontractors schedules.

Once a week, email or fax (if they don't have email) a schedule of all the tasks they are scheduled for the next following week. In other words, on Monday send them the entire schedule for the week beginning the next Monday. Then send them a daily email/fax for the tasks scheduled for the next day. Let them know that if there are any problems in meeting that schedule, they are to notify you immediately. That way you can reschedule other subs or deliveries, and keep the job moving as efficiently as possible. And there are no excuses.

### *Things to think about:*

Most smaller custom builders use subcontractors to perform the majority of their work. These subcontractors become part of a team that is responsible for producing the final product. Whether you buy a 2 x 4 from supplier "A" or supplier "B" the quality of the 2 x 4 is relatively constant. Not so with subcontractors. Price is only one of many factors to consider. These factors include price, quality, reliability, timeliness, and cooperation

There are ways to use your subcontractors to reduce the cost of construction other than direct cost reductions. Since time is money, subcontractors can help save you money by helping you schedule efficiently and reduce your call back and warranty work.

### Motivating Subcontractors

In a competitive environment, motivating subcontractors isn't always easy. It requires a sense of fairness and reciprocity. In exchange for your subs' loyalty and support, you repay that loyalty by providing repeat business, referrals and prompt payment and by having reasonable quality expectations. If you are overly demanding, impossible to work for and slow to pay, they will transfer their loyalty to someone else. You won't get their best work or their highest scheduling priority. Here are three ways to motivate subcontractors:

#### **Give continuous feedback.**

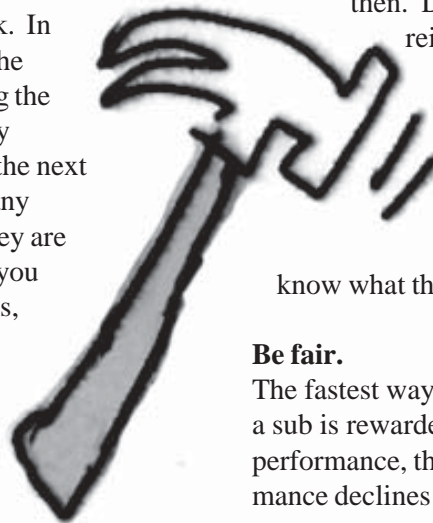
No one likes to find out he's been doing things wrong for a while. When you see a problem, address it then. Don't wait or the opportunity for positive reinforcement may be lost. Talk with your subs on a regular basis.

#### **Be consistent.**

You can't praise someone one minute and later criticize him for the same behavior. Set standards and let people know what they are.

#### **Be fair.**

The fastest way to destroy morale is to play favorites. If a sub is rewarded based on any factor other than performance, the message quickly gets out and performance declines across the board.



## 10. Better supplier relationships

Builders use a myriad of suppliers in building a home, including lumber, roofing, concrete, cabinets, plumbing fixtures, windows, doors, appliances, etc. The dollar volume of materials purchase can be a significant percentage of the sales price of a home. Sometimes a builder uses one source for most of those purchases. Or one may rely more heavily on specialized suppliers. Sometimes, especially in plumbing and electrical, the subcontractor will act as the supplier, and include the cost in the subcontract.

In addition to pricing problems, suppliers can often delay construction through delivery delays and incorrect orders. In some cases, pricing volatility and materials shortages make it difficult for builders to estimate profitably.

### Review existing suppliers for pricing and reliability and negotiate prices

If your supplier's prices or delivery times are out of line, you may need to negotiate better prices and terms, or find an alternate source of supply.

### Implement purchase order system

To keep costs under control, use a purchase order system for all outside purchases. The purchase order should specify quantities, prices, and expected delivery dates.

### Institute a weekly/daily delivery task reminder system

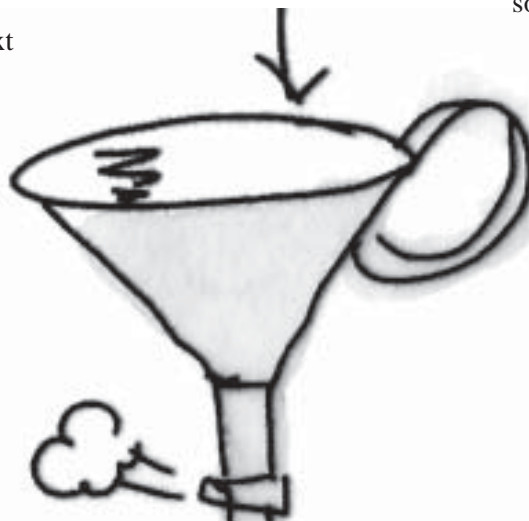
Just like you don't want to come on a job site and discover a sub not there, you don't want to find out at the last minute that the delivery you needed today won't be there until next week. Institute a weekly and daily email/fax early warning system so that if there is a problem,

you know about it early enough to plan around it. Cost: minimal. Benefits: More timely deliveries, fewer mistakes.

### *Things to think about:*

Once you're selected a supplier you can trust, with the products and services that meet your needs, you have to ask "Am I getting the best price possible?" Here are some ways to make sure the answer is *yes*.

- Does your supplier have multiple price schedules and are you on the appropriate price level?
- Do you get alternative price quotes and will your normal supplier match other prices?
- Do you negotiate price with your key suppliers?
- What price markup do you pay for special order items and can you buy directly from the sources?
- Can you buy from an out-of-state or out-of-country supplier and eliminate state sales tax?
- Can you get price protection on major items such as lumber and windows from the beginning of the job?
- If you provide enough lead time, can you get factory direct prices on such items as windows or interior doors?
- Can you negotiate a better price on shop charges such as window assembly or special millwork?
- Do you use a purchase order system or some other method of assuring that you are only billed for what was ordered and actually delivered? Example: 40 boxes vs. 40 pieces of closet shelf supports.
- What are your suppliers' policies on damaged goods, returns, and warranty work?
- How efficient are your suppliers in terms of timely deliveries, mistakes and accessibility? Is your salesperson always available to you?
- What are late charge and early payment policies?



# Self Analysis

<b>Steps to Improvement</b>	<b>Excellent</b>	<b>Good</b>	<b>Needs Improvement</b>
Better design	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Better pricing on housing and lots	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Better options and upgrades	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Better spec house program	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Better sales and Realtor program	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Better marketing	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Better pre-construction cost controls	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Better construction management	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Better teamwork	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Better staffing	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Better subcontractor relationships	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Better supplier relationships	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

What are the three areas where improvements would have the most impact on our future profits?

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What are the three areas that would be easiest to improve?

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What are the three areas that need the most improvement?

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What are the first three things we're going to improve? (High impact, easy to improve items should be your highest priority?)

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What action steps are we going to take to improve the first priority?

1. \_\_\_\_\_
2. \_\_\_\_\_
3. \_\_\_\_\_
4. \_\_\_\_\_
5. \_\_\_\_\_
6. \_\_\_\_\_
7. \_\_\_\_\_
8. \_\_\_\_\_

What action steps are going to require outside help?

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