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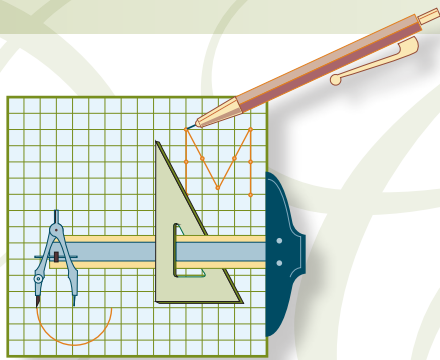
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When is a Production Home like a Custom Home?

When the homebuyer thinks it is!

BY CHARLIE SCOTT • WOODLAND O'BRIEN AND ASSOCIATES

The words “A Buyer’s Market” send shivers down the spine of veteran employees of any production homebuilding company. Today’s market definitely has *buyer* written all over it. Those that have experienced past real estate slow downs know that a buyer’s market means sellers must be more responsive to customer demands to measure up to the competition and sell homes. *Responsiveness* in the new home market is often a politically correct word for price discounting, adding additional upgraded features to the “included” package, providing below market mortgage rates, or customizing the home to a homebuyer’s desire.

Price discounting, adding upgrades and providing below market mortgage rates are easily understood and delivered. However attempting to customize a production home in a production homebuilding system can bring the homebuilder’s customer satisfaction as well as operational-tasked employee satisfaction to its knees.

When is a simple change not a simple change? Anytime a production homebuilding operation is involved.

Let’s face it, homebuilders must be razor sharp in their estimating, purchasing, marketing, sales and field operations to be able to efficiently and profitably build homes in today’s competitive marketplace. This

sharpness requires architectural drawings, purchase orders and vendor agreements calling out all the standard and pre-priced upgrades offered by the homebuilder. To accomplish these efficiencies, the homebuilder invests hundreds if not thousands of hours up front to pre-plan, pre-price and set up “choices” in the builder’s computer system. Everything runs smoothly until a homebuyer in a “Buyers Market” desires a change to a floor plan which has not been pre-planned, pre-priced and set up.

For example, let’s say a customer wants to add a knee wall to separate a kitchen nook and family room. Sounds simple, right? Not so fast. Here are all the subcontractors affected by

this request: lumber supplier, framer, electrician (code), drywall supplier, drywall installer, trim material supplier, trim carpenter, painter, flooring supplier, and the flooring installer. Each of these subcontractors need detailed construction drawings and/or the correct quantity of materials to execute this *simple* request. This burden falls on the homebuilder’s operational staff (you weren’t going to let the salesperson do it were you?) to change the “standard production package” into a “custom construction package” for eleven subcontractors. And on top of that, we have to hope these trades actually notice this change on a home they have done exactly the same way a hundred times before. The chance of eleven

well-meaning subcontractors interpreting and executing their part of the change properly is almost nil.

By the way, the average home builder will expend \$200 – \$400 in labor costs to process even a “simple” but unplanned change. To make these changes profitable, a builder would need to charge for this labor costs PLUS the subcontractor/suppliers increased labor costs and get a margin on the total costs, which could total \$1,500 just for the knee wall. However, most homebuilders will not charge the true cost for a custom change for fear of losing the sale. Isn't this then also a form of price discounting? Still want to make a simple floor plan adjustment?

Production builders can create the perception of a customized home, if they take the “Burger King” approach to customizing. Many years ago, Burger King separated itself from the front-runner competitor – MacDonal’s – by offering customers the chance to “have it your way.” But the customizing was closely defined. The jingle, “Hold the pickles, hold the lettuce, special orders don't upset us,” promoted a clearly-defined customization that could be supported even in a production environment. Could burgers be ordered medium rare or well done? Of course not. Could you get a whole wheat bun instead of a sesame-coated white one? Never. The perception of customizing was there, but the reality was that the choices were circumscribed enough to maintain quality and accuracy. Of course, building a home is a much more complex and sophisticated project than building a burger – even with fries – but you get the idea.

A well-planned and executed design center can provide the

perception of choice while still allowing a production homebuilder to reach cost and quality goals. Common structural change requests can be pre-planned and included in the customization options. The ability to select finishing features can make any home feel customized to the average homebuyer, even if the floor plan stays the same.

Both the sales team and the design center consultants will bear the brunt of customer challenges and dissatisfaction once the Pandora's box of customization is opened. There are several steps a builder can put in place to minimize the challenges, and maximize the advantages of creating a customized feel for your homebuyers.

1. Train the sales teams and design center consultants as to what can (and cannot) be changed. Salespeople can easily get caught up in making a sale and try to push the boundaries of acceptable changes. One criteria that may help in defining customization limits is to remember that the fewer subcontractors involved in a change, the more likely that the change will minimize disruptions in the production schedule or process. Fewer subcontractors also minimizes the likelihood of mistakes. For example, many homebuilders absolutely forbid any changes that would move any plumbing within a home.

2. Work with sales people and design consultants to give them a practiced response to changes that are not within the scope of your Burger King approach to customizing. The response has to be real, based on construction issues, and understandable to the homebuyer. Both the sales and design consultants also should mention that they are not able to present all the customizations possible, to prevent dissatisfaction

later when neighbors compare notes on their changes.

3. Define a Change Request paperwork and approval process, so the sales manager and the field manager can communicate with each other and agree to what the company is going to do. If your change options are strongly defined, the paperwork can be in the form of a checklist rather than notes on the change – once again minimizing the risk of problems later.

4. Determine which change areas are under the control of sales and which belong to the design centers and communicate that to the homebuyer. Make sure Sales communicates the decisions to the design consultants. That way, a *no* from sales will be less likely to prompt *try number two* when buyers reach the design center. One approach would be to have structural changes in the hands of sales, and surface changes in the hands of the design center consultants. This would define customization as the responsibility of sales, and the design center's role as personalization.

5. Train the builder's operational staff to be able to identify the subcontractors and suppliers affected, estimate the needed materials and labor, negotiate a fair price and have a means to put all this information on the construction drawings and purchase orders.

6. Have a system in place to recognize when a customization request is actually an appropriate change for all upcoming models. Your homebuyers can be a resource for improving your current floorplans. If you track the frequency of your change requests, a change such as an additional closet in the front hall might actually be an improvement on the original model. It might be appropriate to turn that customized feature into the standard approach for future homes.

Don't be alarmed! Customizing through change requests can be a successful sales closing tool if all functional areas in the homebuilding operation support the strategy. After all, the overall objective is to earn a satisfied customer, right? All it takes is one reluctant or uninformed employee or subcontractor to turn the desired customer satisfaction into a source of customer dissatisfaction. By the way, when dissatisfaction happens guess what the resolution often becomes: price discounting and/or adding custom features for “free”. Now, wouldn't you rather deal with a few changes? ■

If you have any comments or additional suggestions on customizing in a production environment, get in touch with us on our website or email editor@bdc magazine.com.

Next month in BDC Management: The challenges and benefits of being customer-focused.

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