



## 5 Ways to Create Value for Customers by Paul Sharp and Al Trellis

As we discussed in last month's issue of *On the Level*, being a value-driven company offers a builder a unique way of perceiving the challenges facing him. We discussed how the competing values of customer, employees, craftsmanship and profit can create tensions within the company that must be resolved before a true value-driven organization can emerge. This month, we would like to concentrate on the customer side of the value equation, and talk about ways to create value for this vitally important constituency.

There are five strategies builders can take to increase the perceived value of their product. They are:

- Increase benefits
- Increase efficiency
- Increase services
- Increase emotional attachment
- Lower the price

Each of these strategies offers the builder a competitive advantage. In choosing a strategy the builder needs to evaluate how big an advantage each strategy offers, how long that advantage can be maintained, and how difficult it would be

To build customer value, you must give them more (benefits, efficiency, services or emotional attachment) or lower their cost.

for a competitor to overcome that advantage.

### Add benefits and features

This is the easiest and most logical way to add value. In effect you could argue that each of the other strategies, such as increasing efficiency or services, also adds a benefit, although here we are talking primarily about product benefits.

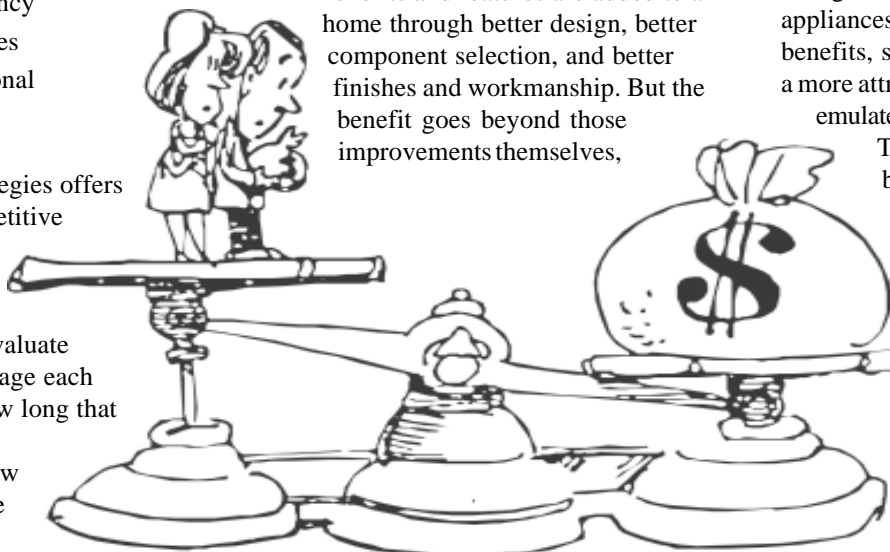
Benefits and features are added to a home through better design, better component selection, and better finishes and workmanship. But the benefit goes beyond those improvements themselves,

to the way those changes impact the lives of the buyer. For example:

- More pleasant home environment
- Better social interaction
- Durability and lower maintenance
- Special spaces (mini offices, libraries, hobby centers)
- Energy efficiency
- Latest appliances and gadgets
- Better finishes
- Aesthetic appeal (trim, moldings)
- Better neighborhood
- More status
- More luxury

Advantages: Additional benefits can make a big difference, but they are generally easy to imitate. Superficial changes, such as better materials and appliances are the easiest to copy. Other benefits, such as a better neighborhood or a more attractive exterior can be difficult to emulate.

The disadvantage of increasing benefits is that it often results in higher costs. That's why the best benefits are usually design driven – they can add value without adding cost. Benefits are not always evident unless they are pointed out to the buyer. An unperceived benefit isn't an advantage, and if it adds cost



## 5 Ways to Increase Value

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may actually be a disadvantage.

### Increased efficiency

As your company becomes more efficient, it tends to be both more productive, and better able to provide services and benefits to your buyers. Some of these efficiencies are found in internal processes, such as a better accounting system, better scheduling control, and quicker turnaround. These can lead to increased production and a reduction in overhead per house.

One of the best ways to increase efficiency is to simplify the process. Look over your management and control systems and eliminate any reporting or data collection that doesn't contribute to the bottom line or is seldom used. Simplify construction through value engineering, and eliminating unnecessary complexity in the design. Try to design around two foot modules, simplify the roof and foundation design, and keep spans under control. The danger here is that if you go too far, you could reduce perceived quality. Bland, boring boxes may be more efficient to build, but they generally fail to capture the buyer's imagination.

**Advantages:** Increased efficiency generally allows greater production and/or reduced costs. Some of these cost reductions can be passed on to the buyer, and some retained as increased profits. Efficiencies can be difficult to imitate, since the processes are generally hidden to the consumer.

### Improved services

As opposed to efficiencies, which look to the internal operations of a company, services look outside, at the way we better serve our customers. These can also have internal consequences, as better client relations can lead to smoother internal operations. The classic example of this is the client selection process for choices, options and upgrades. In some companies this can be a time-consuming ordeal, with the client having to visit a myriad of suppliers and struggle through an undifferentiated mass of decisions. Or, it can be a streamlined, organized exercise in choosing between carefully predetermined choices, selected for their value and aesthetic appeal and presented in a

visually appealing fashion. Wading through the first situation is an exercise in frustration. The second method makes the selection process enjoyable as well as efficient.

You can create a more efficient selection process by organizing your selections according to when in the construction process they need to be made. Keep a running total complete with related costs and reduce the decisions needed by pre-selecting and bundling. Pre-selecting is the process of narrowing the choices a buyer has to make to two or three. Of course, if they have their heart set on an option that is not among your choices, you can always add an additional choice. But these would be exceptions to the rule, rather than an open-ended potpourri.

Bundling is the process of linking similar decisions into a coordinated package, so that one single decision results in a multitude of related choices. For example, a lighting bundle could include ten or more recessed lights, all at pre-designed locations, for a single price. A trim bundle could include an upgraded style of crown molding, door and window trim, and chair rail at designated points throughout the house.

In addition to reducing the hassle of decision making, bundling also simplifies construction by having pre-designed options, leads to an average sale increase due to the selection of more options and lowers administration costs. However, it represents a value to the consumer because the cost of the bundle is less than the sum of the bundled items would be if offered separately.

Some builders carry the selection process to the next level, and offer an in-house design center to their clients, where professional designers can sit down with the buyer and assist with the aesthetic decisions throughout the house. While this is a service to the buyer, it can also serve as a profit center due to the increase in options and upgrades.

After the selection process, the major hassles involved in buying a home are securing financing and dealing with quality control (walkthroughs, callbacks and warranty). Builders can ease financing services by securing cooperative agreements with lending companies and pre-approving the buyer's financial situation. Quality control services can be improved by a commitment to completing

all items before the buyer walkthrough, and having an established system for dealing with problems after closing.

**Advantages:** Some services add costs through increased labor. Others reduce hassles by streamlining operations. Whenever you add services, concentrate first on those which also increase efficiency. Improved services can be difficult to imitate, since these rely on motivated employees.

### Lower the cost

Since the cost to the consumer is one factor in determining value (the other is the sum total of benefits or services), anything that reduces costs (while keeping benefits constant) will result in greater value.

One caveat, however. Lower cost is *not* the same as lower price. For certain luxury products (and most housing is a luxury product), a higher priced product is perceived as having higher status, and therefore a higher perceived value. Lower cost must be perceived in relative terms. Two houses with the same price will not necessarily be perceived of as equal value. One may have high-efficiency appliances, low-maintenance exteriors, and better financing. Though both have the same price, that house will have a lower perceived cost.

Normally, we think of costs as purely a financial consideration, based on out-of-pocket expenditures. Consumers, however, perceive other costs as well, such as the time and energy required to procure the benefit.

Here are some ways to lower the perceived cost of a product while increasing value:

- Reduce costs of production – and pass along savings (or part of them)
- Pass on savings from bundling (give them more for less)
- Reduce procedural costs by making the process fun and convenient
- Reduce overhead through increased efficiency

**Advantages:** With the rising cost of housing, anything that lowers costs can be used to either increase competitiveness or increase profits. Most cost savings are made through controlling the design and selection process.

Customers, however, perceive not only the financial cost, but the time and procedural costs as well. If you can make

the procedure (such as selections) fun and less burdensome, you have lowered perceived procedural costs. The way you make them more enjoyable is simplifying the choices and reducing the time and energy it takes to make those selections. Everyone likes picking new appliances and components for a new house, until the number of choices they have to make becomes overwhelming.

Starbucks is the best example. They offer perhaps ten different drink selections, in four different sizes, with three or four options in each selection. In the simple act of buying a cup of coffee, the customer can express their individuality through making executive decisions, without being overwhelmed in the process. They make the process fun by offering choices (usually grouped into 6-10 choices), and using different names for selections. (It isn't small, medium, large, it's tall, grande, venti).

Of course, Starbucks has the opposite problem of a builder. They're trying to take a simple decision and make it fun by complicating it. The builder is trying to take a complicated decision (all the components of a house) and make it fun by simplifying it.

### Change emotional attachment

You can also create value by shifting emotional attachment from one product to another, or by increasing the emotional attachment to a particular product. This is why the competing soft drinks and beers are constantly bombarding us with advertising, saying one tastes better, or it's "the real thing" or "it's the one beer to have when you're having more than one."

Generally, these claims are based more on purely emotional issues, such as status, group affiliation, security, or a sense of emotional well-being, than on any objective basis in fact. But emotic are powerful things. Builders can take advantage of emotional attachment in following ways:

- Establish a brand identity (what set you apart)
- Sell the emotion
- Create customer loyalty through extraordinary service

### Establish a brand identity

Why is it that we are willing to pay considerably more for a Cadillac than a Buick – even though the cost of

production is only a few hundred dollars more for the Cadillac? The Cadillac brand has higher status and prestige (partly due to the higher price).

Most homebuilders do not have strong brand identities. Partly, this is due to the fact that most homebuilders are regional, rather than national in scope. It is also due to the fact that builders compete in the areas of quality, price, and reputation, rather than recognizable style. You can look at a car and identify its maker simply by its style – you can't do that with homebuilders.

You can create a regional brand identity through the consistent application of a strong marketing message, and a strong visual identity. All marketing efforts – display ads, brochures, handouts, should have a similar look and feel. They should all stress similar themes (or variations on a theme), and should provide both emotional and rational justification for selecting your company over your competition.

### Sell the emotion

Too often builders think that what they are selling, and what the client is buying, is a physical structure. And yet there are few concepts more heavily laden with emotion than the concept of "Home." Smart builders understand this, and pitch their marketing around the emotional satisfaction that living in their homes will provide. Better family relationships, emotional well-being, pride of place, the envy of friends and relations, all these are the true reasons we select one home over another. One builder created an entire marketing campaign around the fairy tale concept of "Happily ever after."



In reality, buying a home is an emotional decision masquerading as a rational decision. It's important to convince the buyer that buying your product is a sound financial investment, one that will lead to greater security in the future. This merely provides justification for the emotional decision of "falling in love" with a particular house. Even that argument has an emotional component, the self-image of the "wise provider" who defends and protects his family.

### Create customer loyalty through extraordinary service

One emotional area where homebuilders can compete effectively is that of the customer experience. Buying or building a new home can often be a traumatic experience, with unexpected expenses, seemingly infinite number of decisions to be made, delays, and quality control disappointments. The builder who can streamline that process, reduce the number of decisions, deliver a home on time and under budget, and who can create an identity around that customer process, will have a huge emotional advantage in the marketplace.

**Advantages:** Emotional attachment is difficult to attain, but once secured is hard to break. The builder basically must provide a reason for the buyer to feel better about himself for having made this purchase. For example, the Hallmark phrase *When you care enough to send the very best*. I buy Hallmark, therefore I'm a caring person.

The values the home builder is selling are "I provide the best for my family" and "I'm smart for having made a wise investment." While the second value may sound rational, the builder is still selling the "feel-good" aspect of this benefit.

Emotional attachment arguments are easy to copy. However, once the position is established in the mind of the consumer, the copies are rarely as effective as the original.

Building strong customer values doesn't mean that the customer is always right, or that a builder must act like a doormat to make his customers happy. In fact, the more you can build perceived customer value through increased benefits, efficiency, services, and emotional attachment, or by lowering costs, the stronger the leverage you will have in dealing with those customers.

## Ask AI by AI Trellis

### In-house vs. Subs

**Q:** We would like to expand our building business, but we're in a small market and don't have access to a lot of qualified subcontractors. And when we try to bring in new subs we often find they're unreliable and not quality conscious. What can we do?  
– Need help in Nantucket

**A:** Most small homebuilders rely on subcontractors instead of having their own crews for much of the work they do for several reasons: using subcontractors lowers their overhead, provides specialized skills and expertise, increases their flexibility in scheduling and production, and lowers their risk. A builder can more easily increase or decrease subcontractor labor to meet changes in demand than he could if those people were internal employees. Subcontracting also theoretically reduces costs by allowing specialized crews to spread their work among several builders, leading to greater productivity.

In a small market, however, finding good subcontractors can often be the deciding factor in both the quantity and quality of work you do. Where there are few subcontractors to deal with, the builder has less bargaining leverage, both in pricing and scheduling and may find themselves at a disadvantage.

Some small builders are dealing with this situation by bringing critical functions in-house, hiring their own crews for framing and perhaps finish carpentry. You may find that this actually gives you greater control over scheduling and greater production efficiency. It can also lead to a competitive advantage, since you can deliver on your promises to clients and maintain more consistent quality control. This only works, however, if you have a good system for managing your production flow.

## A Pattern Language by Paul Sharp and Bill Watkins

### The Social Kitchen

Christopher Alexander wrote *A Pattern Language*, a master work outlining over 250 rules of thumb that affect home design. In this series of articles, we've highlighted some of our favorite patterns.

#### Pattern 139. Farmhouse Kitchen

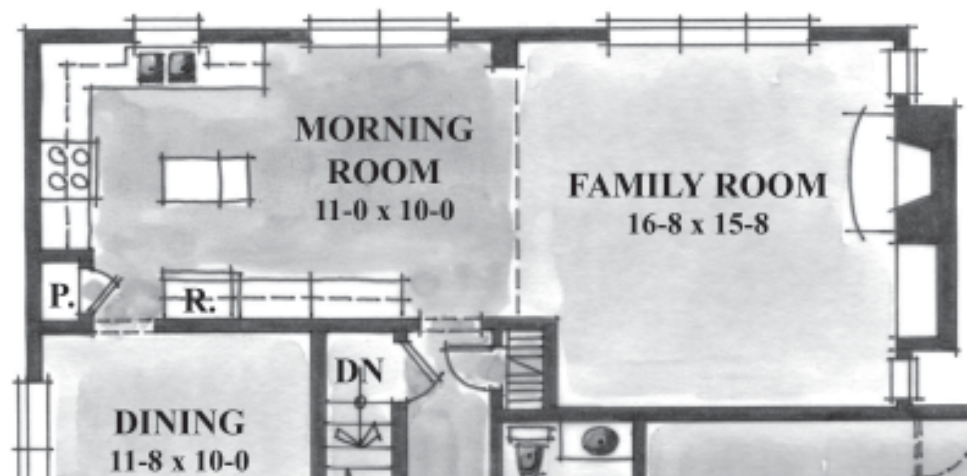
“The isolated kitchen, separate from the family... is a hangover from the days of servants. Therefore: Make the kitchen bigger than usual, big enough to include the “family room” space, and place it near the center of the commons, not so far back in the house as an ordinary kitchen. Make it large enough to hold a good big table and chairs, some soft and some hard, with counters and stove and sink around the

edge of the room; and make it a bright and comfortable room.”

The concept of the social kitchen can be accomplished in two ways, either by incorporating the informal dining space into the kitchen itself using islands or peninsulas, or by opening the space between the kitchen, morning room, and family room to create an easy flow of activity and conversation.

In the floorplan below, the combined kitchen and morning room form the social kitchen, with easy access to the family room. While openness is important, it's also important to define the spaces through short walls and floor and ceiling changes.

*House design by David Court.*



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#### Quote of the Month

“People are very open-minded about new things – as long as they’re exactly like the old ones.”

– Charles F. Kettering

#### IN NEXT MONTH'S ISSUE

**Quality Surveys.** How can you keep customers satisfied if you don't ask them how you're doing? An outside survey company can ask your clients the right questions and provide you the information you need to improve.