



The Newsletter for Profit-minded Builders and Contractors

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The Value Driven Builder by Paul Sharp and Al Trellis

The home building industry is one of the most competitive industries in the United States. Thousands of home builders vie for an limited number of new home buyers, each trying to convince the buyer that their company can best satisfy their housing needs.

In that volatile mix of competing messages, it's often hard for a builder to set himself apart, not only in his message, but in what he truly offers the buyer. The messages blur together, and builders are often chosen purely for location and personality.

While location and personality are important attributes, the opportunity exists for builders to create a strong sense of perceived advantages through the use of the principles of Value Driven. Value Driven is the concept that producers and sellers are in the business of satisfying the customers needs and wants. The producer that satisfies the greatest number of those needs wins. That means giving them what they want, where they want it, when they want it, at a price they are willing to pay.

Unfortunately, these wants are self-conflicting. The more house you provide, and the more nice things you add into a home, the higher the price. You cannot maximize all those benefits simultaneously. Value is the concept that allows you to reconcile those internal conflicts in a way that *maximizes* the total appeal to the buyer.

To maximize profits and customer satisfaction, builders must learn to balance the needs of buyers, employees, and profits.

Think of value as the sum total of the perceived benefits received, divided by the cost of receiving those benefits. In order to increase value, you must increase the benefits perceived, or you must lower the cost, or both. Notice that the benefits only count if they are perceived benefits. If you build a home with extra strapping and reinforcement to withstand an earthquake, but fail to tell anyone about it, the benefit isn't perceived until an earthquake comes along. In fact, you may have lowered value by increasing costs without a compensatory increased in perceived benefit.

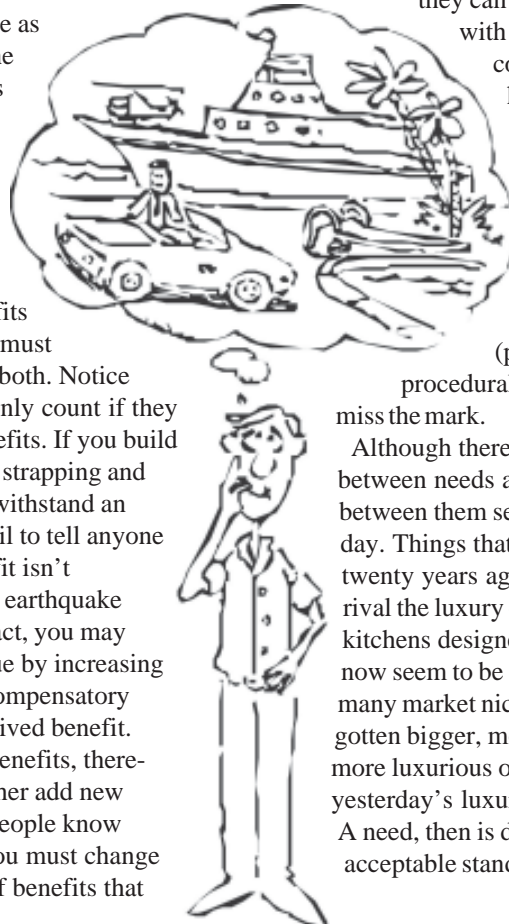
To increase benefits, therefore, you must either add new benefits (and let people know about them), or you must change their perception of benefits that

already exist, of which they may or may not be unaware.

What do they want and need?

Most homebuilders think they know what buyers want. They want a nice house in a good neighborhood, with all the latest gadgets and trimmings, at a price they can afford. The problem with this analysis, of course, is that our real housing needs lie much deeper. Any understanding that focuses on the physical, functional and financial aspects, and fails to incorporate emotional (psychological) and procedural issues, is bound to miss the mark.

Although there is a difference between needs and wants, the line between them seems to blur more every day. Things that seemed mere fantasies twenty years ago (master suites that rival the luxury of the Taj Mahal, kitchens designed for master chefs) now seem to be minimum standards in many market niches. Homes have gotten bigger, more expensive, and more luxurious over the years, and yesterday's luxury is today's necessity. A need, then is defined as the minimum acceptable standard. For example, if a



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The Value-driven builder

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family requires four bedrooms, and the house only has three, then it doesn't matter how wonderful the kitchen is, or if the master bedroom has two walk in closets. Failure to satisfy a need is a deal killer. Needs deal with function, comfort, security, and affordability. Wants, on the other hand, are those desires that go beyond the minimum, to create delight and a sense of satisfaction. These deal with status, luxury, and ease of mind. The presence of "wants," in addition to those needs, is a deal maker.

Creating a value-driven culture

Every company lives by an underlying philosophy that sets the tone for its relationships with its employees and clients. A value-driven culture (as opposed to a purely profit-driven, quality-driven, or service-driven culture) is based on providing the client with the maximum of benefits, while keeping client costs under control. In a value-driven culture, everyone in the company understands and lives by that creed, and works each day to find new values to add and new ways to reduce prices and hassles.

Very few companies ever attain the status of a "value-driven culture." Most remain mired in the mediocrity of day-to-day business, buying and selling, generating profits, but failing to achieve the kind of passionate loyalty that sets themselves apart from their competition.

Passionate loyalty, like leadership, begins at the top. The homebuilder sets the tone and the operating principles of the company. His values become the company values. His dedication to the customer, to the product, and to sound business practices becomes the standard that everyone else in the organization aspires to.

The loyalties that drive the value-driven culture are:

- Loyalty to the customer
- Loyalty to the employee
- Loyalty to the craft of building
- Loyalty to the enterprise.

Each of these are intertwined in such a way that it is impossible to separate them, and together they define what value-driven is all about. Loyalty to the customer

means that the builder provides the house the customer needs and wants, at a reasonable price, and with a minimum of hassle. Loyalty to the employees means paying reasonable wages, offering challenging assignments, and expecting honest commitment to the customer and the organization. Loyalty to the craft of building requires adhering to construction standards, sensitivity to aesthetic concerns, and constantly improving efficiency and design. And loyalty to the enterprise means running your business in a way that generates profits and ensures its survival.

These loyalties interact to define the way you do business. For example, loyalty to the customer does not mean the customer is always right, nor does it allow abusive customers to mistreat employees. That would conflict with your loyalty to the employee. That conflict can only be resolved by avoiding abusive clients, and by educating clients toward having realistic expectations in performance, cost, and delivery. Loyalty to the employee does not extend to tolerance of substandard construction practices – that would conflict with the loyalty to the craft of building. Loyalty to the enterprise cannot justify a "profits above all else" mentality, which sacrifices employee compensation, construction quality, or customer satisfaction to short-range greed. It is the tension among, and the resolution of these conflicting loyalties that defines the successful value-driven culture.

Steps to creating a value-driven culture

If you decide that you want to create a value-driven culture within your company, here are the steps you need to take to implement your decision:

1. "Catch" the values
2. Hire the right people
3. Understand the customer
4. Institutionalize value
5. Start small

Catch the values

In order to instill values in others, you first have to believe them and experience them yourself. You truly have to believe that putting the customer experience foremost not only results in happy customers, but also higher profits. You need to understand that the reason you provide employees with opportunities to grow and share the profits of the company is to keep the employees that make it possible to succeed, and ensure higher performance throughout the company. "Quality construction" can't simply be an empty advertising slogan, but a dedication to making every house better than the previous one – better designed, better suited to the market, and more cost-effective to build.

Once you have internalized all these values for yourself, you can begin to inculcate them throughout the company. The final value, loyalty to the enterprise, is an outgrowth of the previous three values. If you do the first three, your company will produce a product with a higher perceived value, command a price premium, and have a more effective and motivated workforce. This inevitably leads to increased volume, and higher profits. It will also be more fun, and fun and profits is what homebuilding should be all about.

According to an old joke "Insanity is hereditary – you catch it from your children." Well, values are also hereditary

– but the employees catch it from the leaders on the top. Values can't be taught – but they can be caught. When employees see an internal consistency between the



actions of company leaders and their stated beliefs, they begin to change their own perceptions, and internalize those beliefs themselves. When they see that rewards – promotions, praise, bonuses – are given to those who exemplify those values, they will have an incentive to change.

Hire the right people

Some people are more susceptible to value change than others. In fact, the easiest way to build a company that embodies particular values is to select for those values in hiring. If you want a company based on honesty and loyalty, you should hire people who strike you as loyal and honest.

That's why we always tell builders to hire based on attitude and aptitude, rather than education and experience. 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.

Understand the customer

In order to design a company and a process that brings value to the customer, you have to understand what the customer really wants and needs. In the United States, the housing market is not a monolithic entity, with identical needs and expectations. Each region is different, and each region is subdivided into smaller niches based on demographics (population, income, family size, stage of life, and lifestyle.)

In the auto industry, the major car producers try to satisfy the entire range of needs by having a wide product line. General Motors builds everything from the tiny Aveo to the Cadillac Escalade. And yet, even a huge behemoth like GM has difficulty making a profit trying to satisfy every niche.

If a huge company like GM can't succeed in pleasing everyone, it is pure folly to suppose a small to midsize building company, based in a regional market, will succeed where they have failed. The only viable strategy for the builder is to concentrate on a narrow market range,

where they can hope to understand the particular motivating factors of their potential buyers.

Suppose, for example, that your company decides to concentrate on first and second time move-up buyers. The values they embody – good neighborhoods with good schools, room for family activities, attainable mortgages – will determine the type of house produced, where it is built, and how it is promoted. Selections and procedures will be simplified due to limitations on their time and disposable income.

Even within a given niche, needs and wants will vary widely by individual. One of the easiest ways to understand an individual's value system, is to see how that value plays out in other purchases. The second largest purchase they make is the automobile. The car they choose to drive can tell you a lot about what they are looking for in a home. The person who drives a Cadillac DTS has a different value system from the one who drives a Lexus, even though they may be from the same age and income demographic. The Cadillac driver values size, space, and status. The Lexus driver also values status, but is more sensitive to design, efficiency, and trade-in value. Do you build a Cadillac oriented house or a Lexus oriented house? That depends on your buyers. Keep in mind, however, that the Lexus has ranked #1 in customer satisfaction according to JD Power and Associates for five consecutive years.

Institutionalize value

To institutionalize values you have to embed them in the procedures and principles of the company. Many company procedures are undertaken to satisfy some internal function, (accounting, supervision, or simply "the way we do things") without regard for how they affect the customer or the employee. How many of the reports and forms your company now has are truly needed? What would happen if they were simplified or eliminated?

The airline industry is a perfect example of how these procedures can get twisted around. How many of you have traveled halfway across the country to an airline hub, simply to turn around and fly back in the same direction to get to your destination. In homebuilding, how many customers are turned loose to visit dozens

of suppliers in order to select the components that will go into their home, rather than have the builder steer them through a more limited range of options that are pre-designed, pre-priced, and organized for value

If you value your employees, why not institutionalize it in a system of profit-sharing, and frequent recognition and celebration programs?

If you value the craft of homebuilding, why not institute a system of design review to fine-tune plans for curb appeal, livability, and value-engineering? Why not develop a system for pre-inspection that eliminates 98% of walk-through punchlist items? Or a system that rewards subcontractors for error-free work?

Start small

If you're going to try to implement a value-driven culture throughout an organization it's best to begin small and introduce it through incremental measures. Company cultures often have a difficult time in absorbing massive dosages of change. If you try to bite off too much at one time, you may fail in certain elements, and those failures then become barriers for future changes.

For example, you could begin the implementation in the customer selection process. Revamp your procedures, and then celebrate your success by adding an employee profit share program. Then apply those insights to a design review reorganization, and once successful, celebrate again. Once you have one or two victories under your belt, you can present the big picture to the company – where we were, where we are now, and where we want to go. At that point, let their history of success and the built-in incentives to achieve take over and allow the excitement of creating a truly great organization build within the company. When you feel that you've almost reached your goal (in a truly value-driven company you can never fully stop improving), then pull out a full-out celebration. Take them on an adventure everyone will enjoy – a fun-filled day at an amusement park, or white-water rafting. Something that employees and families will talk about for years.

The improved profits and productivity will more than pay for the celebration several times over. Besides, it will be fun. And as we keep saying – fun and profits are the reason you build houses.

Ask AI by AI Trellis

Dealing with Growth

Q: We built a lot more houses last year than the year before, and frankly we are inundated. How can we effectively grow the company without killing ourselves?

– Swamped in Seattle

A: As Mae West once said, "too much of a good thing is wonderful." It all depends on how you deal with it. Having more work than you can handle gives you several options.

1. Raise your prices. Since classic economic theory says that raising prices should lower demand, this is the easiest way to get things under control while increasing profits.

2. Be more selective in accepting your clients.

The nicest clients always seem to be the most profitable, and also make life easier to deal with. If you have more customers than you can handle, say "NO" to the ones you're not sure of.

3. Increase your capacity.

Obviously, if you expect this increased demand to last, hiring more staff and lining up more subcontractors can enable you to increase volume. But unless you can maintain the same profit margins and keep overhead under control, it may not lead to higher profits.

4. Streamline your operations.

Increasing your efficiency not only allows you to do more with less, but makes the process better for you and the clients. This should always be something you undertake – whether conditions are improving, or turning down.

5. Narrow your focus. Not all parts of your business are equally profitable. If you have more work than you can handle, drop the least profitable components, and concentrate on those areas where the greatest potential profits are found.

A Pattern Language by Paul Sharp

Entrance Room

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 130. Entrance Room

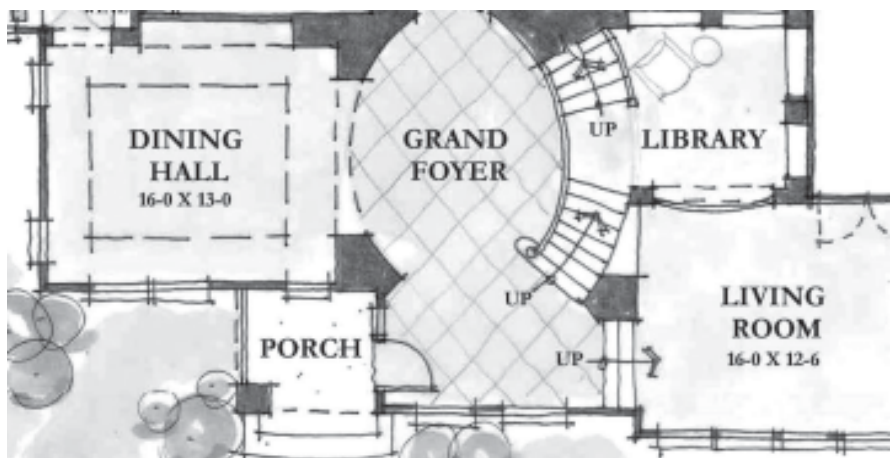
"Arriving in a building, or leaving it, you need a room to pass through, both inside the building and outside it. This is the entrance room. Therefore: At the main entrance to a building, make a light filled room which marks the entrance and straddles the boundary between indoors and outdoors, covering some space outdoors and some space indoors..."

How many homes do you go into where the entrance opens immediately into a living

area? What is needed is a place of gradual transition, where people can be met and greeted, where coats and umbrellas can be divested, and which provides access to the major traffic avenues throughout the house. While a mudroom performs this function for family and informal guests, you also need such a space for the formal entrance.

The outdoor part of the entrance room is equally important. A porch, a roof overhang, or an indent to the building envelope creates a transition space that is both outside and inside, and welcomes the visitor. While the Grand Foyer in this house is quite elaborate, it sets the tone for the entire house.

House design by David Court.



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Quote of the Month

"The aim of marketing is to know and understand the customer so well the product or service fits him and sells itself."

– Peter F. Drucker

IN NEXT MONTH'S ISSUE

How to Increase Perceived Value. If you are trying to create a value-driven company, your first step is to increase the perceived value of the product. To do that you need to increase benefits, efficiency, services, or lower the perceived cost.