



STRUCTURAL SHIFTS:

BUILDERS RESHAPE COMPANIES TO SURVIVE

EVEN AS THE INDUSTRY CONTINUES TO REEL, BUILDERS and their trade partners are trying new ways of doing business that might change the shape of home building.

Tom Hoyt, co-founder and president of McStain Homes, has remodeled his company in innovative ways as he tries to weather the storm.

“Honestly, when I take my home building depression hat off and put on my future hat, we’re pretty excited about some of the things we are doing,” he says. “They are going to point to a better way of doing business.”

While many builders have left the market, others are seeking reorganization through bankruptcy court and some are just laying low, key industry players are looking at the opportunities that the downturn provides.



BY REBECCA CANTWELL

“I believe that we will continue to see a reduction in the number of builders operating in Colorado,” wrote Matt Mandino, Colorado division president of Pulte Homes and Del Webb, in response to questions from *Home Builder*. “While this is painful for the industry, it does present an opportunity for the builders that are able to navigate through this difficult time. I believe that the publicly traded builders with strong cash positions will increase their market share over the next five years.”

Some of the ways builders are surviving include outsourcing certain functions, centralizing support activities and making fundamental changes in the way they structure their operations.

McStain has taken the innovative step of converting to a “virtual” office environment. With employees down from a peak of 120 three years ago to about 20 today, Hoyt says streamlining the company made sense. “It was a way to make the company more project focused and less central office focused,” he says. “In cutting our overhead, office expense was one of the biggest we had.”

The company closed its central office and consolidated its computer operations so that no matter where McStain employees are working, their smart phones, laptops and desktop computers all can talk to one another through the same software.

McStain, like some other metro Denver builders, ditched its design center, but kept the employee who was operating it and the key software.

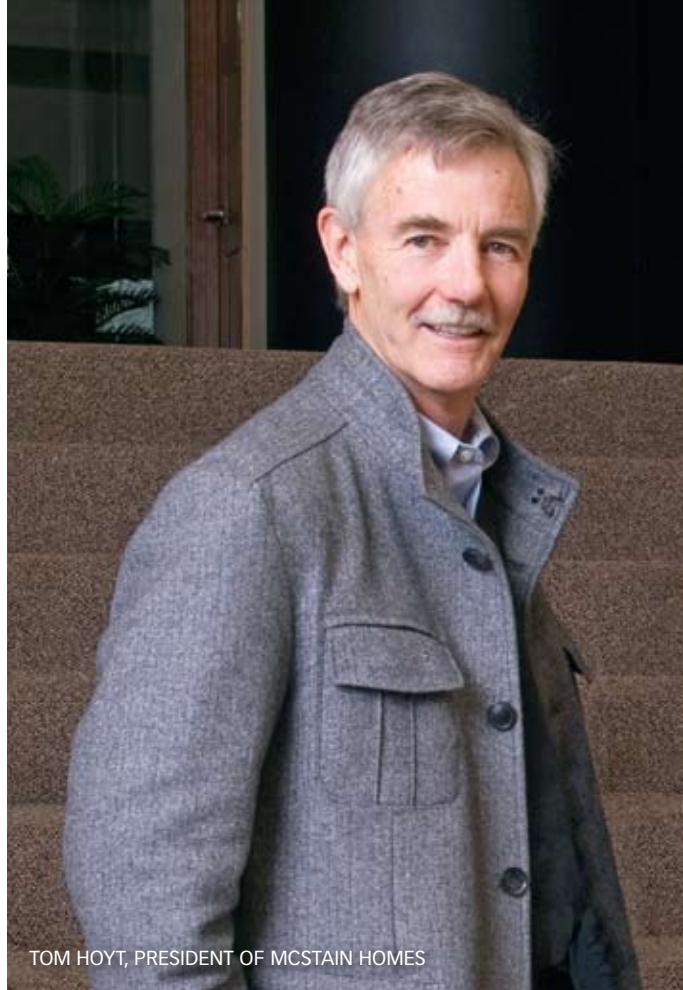
The changes have done what Hoyt had hoped: Focus the efforts of every employee on what customers need in each location. In a central office, he notes, marketing, construction management and other activities tend to get formulated across all projects. Now, he believes, the McStain team can focus on the needs at each of its six project locations, from Lafayette to Stapleton.

And with a virtual design center, McStain can meet with a customer anywhere – from the customer’s home to a flooring products center, depending on the decisions that need to be made.

“We can provide a bigger range of choices by working in a virtual environment but one that is very customer-oriented,” Hoyt says.

Another way that the building industry is changing as it re-emerges involves more outsourcing of a variety of functions.

For example, Builder Purchasing Services in Littleton has developed comprehensive purchasing administration services. “We get involved with a builder from the inception of a project and post its drawings and bid documents to our plan room,” explains Michael McMahon, vice president. “We review the specs and scopes of work to ensure they coordinate



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with the plans. The suppliers and trades can review it online and respond in a secured way. We then submit the completed bids to the builder for negotiating and contracting.”

Beyond the bidding process, McMahon says Builder Purchasing Services will assemble a budget, generate purchase orders, manage change orders and budgets, give banks required reporting and track the insurance status of all the trades as well as manufacturers’ rebates.

“A builder will no longer need an in-house purchasing department although it may still have a purchasing manager,” McMahon says. He estimates the company can save builders 35 percent to 60 percent of their purchasing administration costs.

The company launched a year ago and is currently working with builders in Texas and Colorado.

Builder Purchasing Services President Mark Henderson notes that outsourcing companies save builders the cost and hassle of retraining purchasing staff. “Purchasing has always been a high-stress, low-reward job in building. And to have someone do it

externally with automated systems like we have is new to them.”

Henderson predicts more and more outsourcing opportunities will crop up in the home building industry for functions including quality control inspections, warranty management and design centers.

Bill Armstrong, president of ProHome Colorado, predicts outsourcing will increase as the industry recovers. “We are already seeing a fallout with a lot of builders who can’t make it. It’s like dancing with an 800-pound gorilla: If you can’t change your dance step fluidly, you won’t make it. We will see key changes.”

One is controlling overhead, which he predicts will happen by more outsourcing of design centers, purchasing and his niche – warranties.

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Evergreen, is a franchise of 26-year-old ProHome International, a company that outsources warranty management so builders don’t have to worry about calls and claims, or documenting issues. Nor do they have to worry about scheduling subcontractors to make repairs, Armstrong says.

“We have continued to add additional clients throughout the downturn,” he says. Some have come from publicly owned builders pulling out of the market for whom ProHome handles homes still under warranty.

He predicts that production builders who have downsized will increasingly turn to companies such as his. “For builders selling 40 units a year, I can demonstrate to them a six-figure cost savings a year,” Armstrong says.

In addition to cost savings, he notes that as an outside third party, ProHome can provide liability protection years into the future. In court, Armstrong notes that builders end up in front of a jury of home owners – not builders – and claims end up often being a test between the buyer’s word and the builder’s word. ProHome

can provide objective documentation of what has happened, Armstrong says.

Whether they are outsourcing operations or not, builders are continuing to seek out efficiencies.

“In good times and bad, we are always looking to improve our operations,” wrote Mandino. “We believe that there is a great opportunity to reduce total costs and leverage talent across multiple divisions by centralizing some of our support activities such as accounting, purchasing and marketing.”

Hoyt says that McStain has looked at outsourcing and has turned over closings to an independent operator working on a per-closing basis. And some sales operations are being taken over by independent contractors.

But McStain is concerned about maintaining control of its brand, and that means providing excellent customer service and keeping basic service functions in-house.

Hoyt says that as the market recovers, the virtual company he has built will actually help. “All of us who were central-office-oriented are spending more time in sales facilities or building sites,” says Hoyt. “That means we are in better touch with our customers and what they want, and we see more of our contractors. So we are in better touch with the folks doing the work and the folks buying it.”

Builders trying to stay afloat are focused on sales – but also focused on maintaining a good attitude.

“Generating sales is by far the most important activity right now. This responsibility does not rest with the sales team alone. Every functional area of the operation should be focused on how it can contribute to improving the likelihood of

success on the sales floor,” Mandino wrote.

“Along with this, builders need to accomplish two other critical objectives. First, the overhead cost structure of the operation needs to be as lean as possible.

“While compensation is the biggest line item, there are many other areas of opportunity to reduce expenses,” Mandino continued. “The final piece of the puzzle is probably the most important and most difficult to accomplish right now. I believe that maintaining a positive culture in your organization is the true key to long-term success. This type of culture will serve to create a team that sells more houses, retains the best talent and is in position to take full advantage of the next housing cycle.” 🏠