



The Art of the Purchase

By: Mark A. Henderson

President - Builder Purchasing Services

Volume II: Preparing for the Buyout – Standard Options, Bid Pricing Documents and Setting Up Your Database.

When preparing for the Buyout or bidding of a project, there are several crucial tasks that must be performed. Plan review, refining the Scopes of Work, creating the Material Specifications, bid pricing documents, deciding what will be offered as standard options, setting up your purchase order database, Instructions to Bidders and assembling the preferred Trade Partners list for bid.

In this second volume of The Art of the Purchase, I will be addressing the importance of selecting the standard options that will be offered, preparing your bid documents and setting up your database.

Standard Options – This process will involve involvement of the sales, construction and the purchasing departments. First, you need to decide what your “Brand” is. When the public hears your company’s name, what do you want them to think of? Are you an entry level builder, move up or high end? And in each one of those three categories, how do you want to be perceived? In the past, the thought process among most builders was to put in as many high end finishes as possible and hope that would realize the expected return on investment. By doing so, they were not able to capitalize on the profit center that options should provide. With the current state of the industry, the thought process has definitely changed. Builders are trending towards smaller footprints and entry level to mid level finish specifications. This accomplishes two goals right off the bat, lowering the base sales price and increasing the potential for option revenue. Second, how does this process affect our company? Sales, of course will demand as much as they can possibly get. What sales needs to remember is that the purchasing and construction departments need to be able to execute whatever is finally agreed upon. From a construction standpoint, they need to know that the selected options and the steps necessary to implement them in their homes are not going to adversely affect their production schedule. From the purchasing side, they do not want to manage and maintain a database that can very easily become cumbersome and out of control. Keep in mind that all of these departments are on the same team and need to communicate effectively to guarantee success within your option program.

Bid Pricing Documents – Now that you have selected your options, it’s time to create your bid documents. Your bid documents must include all your standard bid items, global options (options that are the same price for all plans and projects) and your plan specific and project specific options. Your standard bid items are what are included in your base home, everything from excavation through landscape. Next, set up your global option items. Included in these options are selections such as ceiling fan pre-wire, add a duplex outlet, add recessed can with switch, etc. Finally, you have to select your plan specific options. Based on your Brand, what you want to offer in the way of bonus room/bedroom conversions, color upgrades (cabinets, flooring, countertops etc.), bath and door hardware upgrades, lighting upgrades etc. To help your buyer select, it is recommended that you put together packages. If you are building entry level or multi-family, you may want to put together three or four upgrade packages for your finishes to include cabinets, tile, countertops and hardware. Since these are normally put together by your designer, have them create color boards for each. This will show your buyer what these components look like together and ultimately will help you sell more upgrades. You can also do the same for your hardware/lighting upgrades, including door, bath and cabinet hardware, faucets and light fixtures bundled by color. If you are building move up or luxury homes, it is suggested that you give your buyer more options that can be selected individually. You can still put together packages, but you will want to offer both. Some builders feel that they have to offer their buyers everything by giving allowances for flooring, lighting, appliances etc. When you offer allowances, you are leaving money on the table. If your buyer goes above the allowance, you lose the margin that you could be receiving. Once you have these items, get your team together and review to make sure everything is included and everyone is in agreement. By being proactive and thorough during this process, it will ultimately lead to a more streamlined database which will require less maintenance and increased revenue – on your upgrades.

Setting up your Database – Now that you have your Bid Pricing Documents defined, it’s time to set up your database. Start with creating the master assembly for your base home. You need to have everything you could possibly offer in this assembly. For example, for countertops, you want to have laminate, granite, tile, concrete and solid surface. The same philosophy should be followed for the Global and Plan /Project Specific options. By including everything in your base assembly, you will be able to copy your master to create an assembly for any new plan and delete what will not be included. This will save you time and keep your database clean. When you are ready to go out to bid, you will pull your Bid Pricing Documents directly from this database so your trades will be pricing the base items along with all the Global and Plan/Project specific options.

By following the procedures suggested above, you will be more prepared and accurate in performing your buyout. And because of this preparation, your Trade Partners will also be more confident in putting their proposals together.