

25 SURE WAYS TO IMPROVE PROFITABILITY

Presented by
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1. **Get rid of bad deals**
 - Major source of lost profits
 - Conduct gross profit analysis
 - By community
 - By model
 - By house

2. **Don't give things away: analyze standard specifications**
 - Develop practice of "zero" base specifications
 - Strip standard specifications to basics
 - Conduct cost / benefit analysis
 - Add back items that give adequate returns
 - Create options and upgrades
 - **DO NOT** overdo a standard feature

3. **Fall out of love with your houses: design the product for your customer - not yourself**
 - Develop a value mission statement and strategy
 - Understand how your customer defines value
 - Define customer value
 - Understand your customers' perceived value
 - Create a strategy to deliver superior customer value
 - Deliver that superior value to a well-defined target market
 - Information about customer needs, preferences and buying patterns is the **MOST IMPORTANT** input to all business decisions

4. **Eliminate waste and excess material usage**
 - Trash pile
 - Diverted materials
 - Wasteful construction techniques
 - Excess material being installed
 - Inventory material deliveries
 - Return unused or damaged material

5. **Develop scopes of work and quality checklists**
 - Train construction personnel on the scopes of work

- Train the trades on the scopes of work
 - Implement checklists
 - Assure work is complete and accurate
- 6. Have accurate and detailed working drawings**
- Develop a scope of work for architectural drawings, to insure their uniformity
 - Working drawings should include necessary construction details and material assemblage techniques
 - Get input from the superintendents and trade contractors
- 7. Value engineer plans**
- Analyze for construction efficiencies
 - Consider new and alternative materials
 - Implement material and labor saving techniques
- 8. Gain control of slippage**
- Document fill-in orders and extra work
 - Conduct variance analysis
 - Develop a strategy to reduce variances
- 9. Improve estimating**
- Prepare detailed in-house quantity survey estimates
 - Detail and accuracy is critical
 - Determine quantity of material and labor
 - Produce reliable house-specific construction cost budgets
 - Coordinate with purchasing, scheduling and job cost accounting
- 10. Improve purchasing**
- Unit pricing vs. bid management
 - Qualify trades and suppliers
 - Negotiate with trades and suppliers
 - Document the agreements
 - Vendor agreements
 - Trade contractor agreements
 - Implement a formal purchase order system
 - Use variance purchase orders
 - Negotiate manufacturer rebates
- 11. Maintain construction schedules**
- Develop a master schedule
 - Consistency before speed
 - Work continually to reduce
 - Centralize notifications

- Use technology
 - Handhelds
 - Tablets
- Track schedule variances
- Develop a strategy to reduce schedule variances
- Superintendents can adequately supervise only a given number of houses

12. Develop quality standards

- Have scopes of work for each trade
- Set quality standards for each trade
- Have checklists
- Train the superintendents AND the trades

13. Standardize procedures

- Be consistent and reliable
- Efficient and effective
- Establish a culture of discipline

14. Develop quantifiable objectives, then measure and track critical performance indicators

- Analyze financial information using ratio analysis
- Develop your own target ratios
- Chart financial information
- Conduct comparative analysis
 - Compare actual to target
 - Compare to standard plans
 - Compare projects
 - Compare superintendents
- Conduct trend analysis
 - Critical material and labor cost trends
 - Actual financial ratio trends to targets

15. Watch staffing levels

- Maintain balance with sales volume
- Watch superintendent loading

16. Train employees and trade contractors

- Develop a formal training program for new employees
- Develop on-going training programs for existing employees
 - Cross-training
- Develop on-going training programs for trades
- Consider establishing a trade council

17. Maintain adequate sales velocity

- Set target velocities for your communities
- The market sets the price
- Builder modifies only marginally
- **DO NOT** discount houses to buy velocity - 100% profit
- The typical pricing method is cost-based
- **DO NOT** treat profits as a residual
 - Determine market sales price
 - Deduct your target profit **FIRST**
 - Deduct land costs
 - Deduct operating expense allocations
 - Deduct historical slippage rate
 - Deduct average warranty expense
 - Remainder available for direct construction costs
- Develop target budget for direct construction costs
- Design, specify and estimate toward the target
- Protect your profits
- Trade off direct cost, **NOT** profits

18. Balance number of models with available lots

- Make sure models have good gross profits
- Decorate to sell, not to win awards

19. Monitor advertising and promotion

- Target advertising to your customers
- Establish a public relations program
- Editorials are more effective than advertising, and less costly

20. Develop a viable referral program

- Set specific objectives for referrals
- Identify contact points when you will ask for referrals

21. Watch amount of unsold inventory

- Balance the levels with sales velocity
- Have a strategy to release inventory houses to construction, based on your market conditions
- Set a strategy to liquidate old inventory

22. Monitor interim financing fees and rates

- Track interim financing fees and interest rates
- Secure a revolving construction line
- Watch unsold inventory
- Balance the level of specs with sales velocity
- Maintain construction schedules

23. Monitor points and closing costs offered to buyers

24. Analyze the management systems

- Look at the information systems
 - Integrate your information systems
 - Improve your management reports
 - Two minute reports
- Chart the approval process, workload and number of hand-offs
 - Invoice approval
 - Contract approval
 - Purchasing procedures
 - Change order processing
- Make sure you do not become top heavy
 - Invest in systems before hiring more staff
 - It is easier to hire than it is to fire
- Do **NOT** over-departmentalize
 - Hinders communication
 - Tends to cause more bottlenecks
 - Staffing tends to increase

25. BUILD THE HOUSE RIGHT THE FIRST TIME

- You are not in the remodeling business
- Change orders during construction
- Semi-custom vs. mass customization
 - Pre-planned, pre-priced structural options
 - Package selections
- Eliminate allowances
 - Establish a standard set of specifications
 - Price the difference

HOW MUCH PROFIT CAN YOU MAKE?

- Very inefficient industry
- Average home builder net profitability is historically 3 - 5%
- Average should be 10 - 12%
- Superior profitability should be 20% +
- 2005 Shinn Consulting / Lee Evans Group Financial Study:
 - Average - 10.24% net profit
 - Over 15% net profit - 16.5% of participants
 - Over 30% net profit - 4.0% of participants
 - Highest result was 43% net profit