STILL CRAZY AFTER ALL THESE YEARS

THE MORE THINGS CHANGE, THE MORE THEY STAY THE SAME
I just received a call from one of home building’s best and brightest, builder Mike Beckett, to let me know he is officially retiring. Good for Mike, but sad for his friends, his colleagues, and so many others in the industry.

I got to know Mike during a Lean project with Austin, Texas, builder Grand Haven Homes, the company he founded in 2006 with two partners after they left employment with TOUSA, a Florida-based builder with operations in Texas that filed for bankruptcy in 2009, following the housing crash. Grand Haven built some truly innovative, attractive product and became large enough to gain the attention of Calgary-based Brookfield Residential, one of the rapidly growing Housing Giants. Thus Mike’s career has run the gamut from smaller, entrepreneurial builders to national, even international, builders, and there’s not a lot he hasn’t seen. Many times over the years, I’ve sent out requests to trusted, knowledgeable industry contacts for feedback on a column idea. Mike always responds with something insightful and quotable. Anything he says, I can take to the bank.

As we ruminated over Mike’s decision and his general thoughts on retirement, I suggested that if he wants to do some consulting to stay active in the industry, there would be plenty of opportunity. That led me to one of those, “Why, just last week you won’t believe what I ran into!” conversations that vividly demonstrate the need for people with Mike Beckett’s knowledge and experience. We progressed into a back and forth over things that we both continually encounter that have changed little in our three (going on four) decades each in the business. We talked for nearly an hour before finally saying goodbye and promising to stay in touch. I am sure we will.

PAUL SIMON SAYS

After I’d finished that conversation with Mike, I set out on a drive of several hours and found myself pondering one of our more impassioned discussions, when Paul Simon came on the radio singing “Still Crazy After All These Years,” an old, old favorite of not just mine but, I’ll wager, of many others of my generation. I literally laughed out loud at the irony. The song neatly sums up what Mike and I were lamenting about home building: It’s a completely crazy business.

Think about it … You can save or borrow a relatively small sum of money, buy a plan, get a lot, and become a builder without hiring a soul. If you’re subcontracting all of the work, many states don’t even require a contractor’s license. Depending on your market, it takes just one to four units to become a million-dollar firm. In what other business can you do that? Open a restaurant? OK, to sell at the rate of around $3,000 per day, you need 200 customers spending $15 each. How many restaurants achieve that profitably? And talk about people problems—legendary in the restaurant world. No thank you.

I ran a ton of businesses through my head, considering what it takes to gross a million dollars. Insurance agency? Dry cleaner? Flower shop? Printer? Car mechanic? Just keep that $20K a week figure in mind, or $3K to $4K per day depending on how many days a week you’re open for business. I have friends currently looking for a contractor to renovate a building that will be an ice cream shop. Given the winters in Michigan, I think they’ll be hard-pressed to gross $300K their first year,
and they’ll be open every evening in the summer until 9 or 10 p.m. and will work every weekend. To my mind, building one 2,300-square-foot home to generate $300K in revenue sounds a whole lot easier (healthier, too, as you’ll not have to work off all those extra calories from the free ice cream you’ll consume).

I have known many builders that went from zero to $50 million, $100 million, or more in the space of 10 years. Other than software, social media, and dot.com-type companies, finding growth like that in any other business is a rarity, to put a generous spin on it. In consideration of the potential opportunity, the barriers to home building are crazy low compared with most other businesses, despite the issues of codes, approvals, regulations, and bureaucracy you’re forced to deal with.

WASH, RINSE, REPEAT
So the very nature of home building is still crazy, yes, but that’s not even the craziness that Mike and I discussed. The craziest part for us was how many home builders—even many successful ones—are doing the same crazy things over and over again with little substantive change. I’m from Detroit, the Motor City, and it still earns that title every day, despite what you may hear from various pundits. Besides all of the automotive companies headquartered here, the Detroit area is also becoming a tech hub for both U.S. and foreign companies, with five excellent university engineering schools within an hour’s drive. Electric cars? Self-driving, autonomous vehicles? Application of new materials and technologies? Detroit is the epicenter.

My point? Over the past three decades, change in the automotive industry has been massive, as companies have learned to do things very, very differently from what they did in the past. You see it in your own vehicles, which run far better and much farther than we ever imagined was possible 30 years ago. Engines, transmissions, tires, electronics, safety... virtually every aspect of your car has improved and undergone a sea change from just a few decades back. And now cars don’t rust!

That’s the obvious part, but what you may not know is that manufacturers build vehicles very differently today as well. Industrial robots have reached incalculable precision and, perhaps most amazing of all, newer manufacturing plants routinely build several different models on the same assembly line. And we’re not just talking cosmetic differences here, but very different automobiles, giving automakers the ability to adapt to market demands.

Other industries have experienced similar changes. Consider electronics, health care, banking, or transportation, just to name a few. All have seen massive changes both in what they offer customers and how they “construct” their products and services. You may think an industry such as agriculture has changed little, but you’d be wrong. When I grew up helping my farmer neighbors, we plowed, planted, cultivated, and fertilized by “feel” and knowledge of the land. Today, John Deere tractors are controlled by satellite, dropping exactly the amount of seed, nutrients, and pesticides required using complex algorithms that take soil conditions, moisture, and myriad other factors into account. Dairy cows once spent their lives in the pasture, then came in like clockwork twice daily for milking. Today, most of our milk comes from cows that mature twice as fast, produce three times as much milk, are housed in huge barns, and rarely see the light of day.

This is a tough one, though, because while I can hardly think of any negative changes in automotive, agriculture is a decidedly mixed bag. The amount of food we now get from plants and animals is astounding, but its quality and nutritional value is a hot topic of debate, to put it mildly. Improvement and efficiency by some measures may not stand up to examination by other measures—an important lesson to remember. Having grown up around more traditional farming practices, the incredible productivity of today’s “big ag” gives me chills.

THE ROAD MOST TRAVELED?
So, what will it be with housing? We lag greatly in technological advancement compared with other industries in terms of what we offer and how we build. There are some definite improvements in building materials, such as housewrap, engineered lumber, and composite siding. And while seemingly innumerable forms of smart home or otherwise electronic technology still fall short of creating genuine excitement, various components, such as HVAC systems, are greatly enhanced from what they were a generation ago. Still, those changes look mild compared with advances in other industries.

As for labor, our relative lack of productivity has been documented ad nauseum. I have written frequently about the many efforts around the country to replace traditional on-site construction methods with off-site techniques. At this juncture, however, off-site still represents only a relatively small percentage of the total labor in a home. This will change—it must change—and you’d be right to say that one
of the craziest things about home building is change takes so long.

If asked to produce a rank-order list of craziness factors that bedevil our industry, I can do it; then next month the list may change, depending on who I’d worked with and where. The type and level of craziness varies greatly by builder and market.

Most months, however, purchasing issues will be right up there at the top. I’ve addressed this topic in the past, so I won’t give you justification, history, rationale, etc., here—just the bottom line: We are still relatively primitive in our purchasing practices. The most basic idea of all is the absolute requirement of buying on total cost, not mere bid price.

Here’s the test question: If I showed up in your office tomorrow, could you show me not just your list of at least five (ideally eight to 10) cost factors you use and track to evaluate suppliers and trades, but the documentation proving you use those factors to make decisions? If you don’t employ such a process, the question is not “if” you’ll make mistakes, it’s “how many and how many.” To do anything less is simply crazy.

The purchasing arena also includes two factors I’ll combine: bid package and start package. The irony is I learned the critical nature of these more than 30 years ago from one of my best mentors, Mike Rhoades, in Chicago, who taught it like it was religion. Without a totally nailed-down start package, how can a supplier or trade hope to get things right the first time? And if you don’t provide an equally textbook bid package, you’ll never get their tightest bid, nor will you catch up in time to get the start package right. That bid package requires fully detailed plans, complete specifications and all options, not to mention your scopes of work.

All builders know the implications of failing here: mistakes, rework, last-minute orders, extra trips, and schedule fails, for starters. These same builders spend limitless resources coping with these issues to get a house completed on time. Yet rarely do they commit the labor, brains, and discipline to get everything done up front—all of the actions that prevent the downstream brain damage. Talk about crazy!

Go upstream from the bid and start packages to the final, detailed, address-specific plans and detailed specifications. While many builders tell us they do a great job here, their suppliers and trades often tell us otherwise. If you don’t provide fully detailed plans with engineered mechanicals—especially HVAC—you’re simply throwing money away. That’s crazy. And if you don’t involve key suppliers and trades early and often in plan design—well before building the first model—that’s crazier still.

Can it get even crazier than that? Sure, by simply using whatever engineer your architect suggests, whichever one is cheapest, or, what the heck, just let your materials supplier do the calcs and specs for lumber, engineered wood, and trusses. An engineer who understands that their No. 1 customer is the builder is rare. During field walks, we seldom see less than $1,500 per unit that can be saved without hurting the structure in any way, and twice that or more is not uncommon.

CRAZY IS AS CRAZY DOES

We could go on discussing such craziness. If we were to get started on the implications of lousy scheduling practices—still endemic in our industry—I’d need another 2,000-word column to describe the resultant drop in the absorption of fixed costs, increase in breakeven point, and loss of profit. And I’d need an additional 2,000 words on why so many builders can’t solve the trade shortage. (It’s not as hard as you think.)

But here’s what should truly unnerve you: In our travels around the U.S., Canada, and a few other countries, my TrueNorth colleagues and I find some widely scattered builders that have learned to get a lot of these things right. Mike Beckett is one. These builders tame the chaos, reduce the brain damage, and corral the abject craziness that seems integral to the home building industry. They get their systems, processes, and people in order, maintain discipline, attract the best suppliers and trades, then build great homes at a handsome profit for satisfied (even delighted) customers. Some go about this quietly, others are easier to pick out, but you probably know who they are. They are overcoming the crazy nature of this business and they’re beating you.

Paul Simon’s original version of “Still Crazy After All These Years” is fraught with melancholy for the past and concludes by asserting that, despite his craziness, he wouldn’t be convicted by a jury of his peers. Sit back and consider that question. Would you be so convicted? PB

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