

Alternative Back Office Strategies in Homebuilding

A point of view from RealFoundations



Executive Summary

Most national homebuilders today are organized around a geographically dispersed model with national, central or regional offices. In an effort to become operationally competitive, staffing has been reduced to less than half the headcount reported in 2006, requiring a strategic review of the efficiency, accuracy and effectiveness of the back office functions.

Current market conditions provide an excellent opportunity for homebuilders to take a strategic look at how, where and by whom their work is performed with the ultimate goal of improving performance, gaining a competitive advantage in the market and ultimately driving cost savings. Alternate back office strategies have evolved to the point where homebuilders can now participate in activities previously limited to large organizations performing high volume, repetitive tasks. Some of these back office strategy options were either unknown to homebuilders or were not available in the past.

“Homebuilding is an outsourced industry by design...Back office strategies have evolved to a point where homebuilders can participate.”

Homebuilding is an outsourced industry by design, employing subcontractors and various levels of materials management for the construction of the product. Today more sourcing strategies exist and have been successfully employed by others in the real estate industry. These strategies — which include centralization, managed services and outsourcing — lead to greater accuracy and efficiencies, become scalable through implosive and explosive markets and can result in a by-product cost reduction.

Introduction

Every homebuilding enterprise has unique attributes which sets them apart from their competitors in the market place. Product design, location, available option selections and personal services are all differentiators. At the same time, many of the back office activities performed at geographically diverse locations display a remarkable degree of similarity and offer little competitive advantage. Within some of these similar activities an opportunity exists for creating efficiencies and reducing operating costs by leveraging alternative back office methodologies.

Homebuilders continue to operate in a somewhat local manner due to an overwhelming desire to maintain local control. Certainly, what needs to be local should remain local including all customer and vendor facing activities. However, other functions that do not add value with a local presence should be reviewed with the intent to develop a more strategic model.

MAPPING STRATEGY FOR KEY HOMEBUILDING TASKS



Very few homebuilders today employ craftsmen for the construction of their product, choosing instead to contract with “turnkey” subcontractors employing varying levels of materials management along with outsourced labor. Homebuilders discovered the use of a third party resource is a cost effective and efficient means to deliver a consistent quality product. This white paper demonstrates that employing alternative back office strategies for the non-differentiating business processes is a natural extension of an industry that has successfully outsourced direct construction and selected overhead functions.

As alternative back office options are employed, care must be taken to insure they are appropriate for the organization and the business process being analyzed. For example, centralization strategies should not simply shift costs from the local office to a national or regional center. This effort must also improve the accuracy and efficiency of the business process in question. Employment of strategic back office strategies can add value and benefit to the centralization effort.

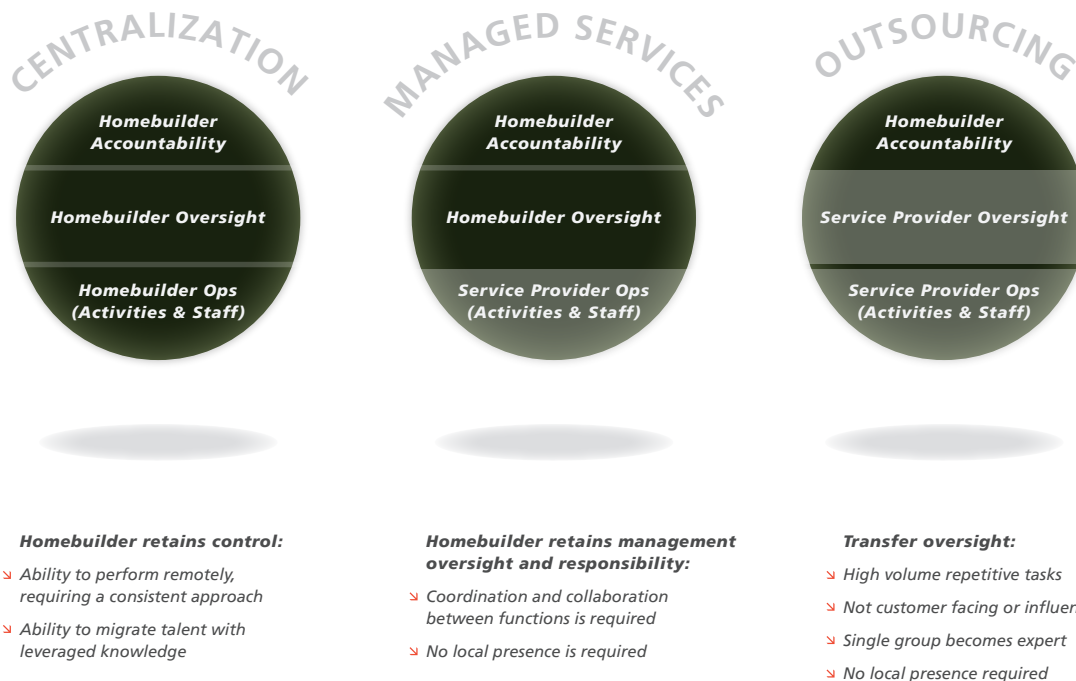
ALTERNATIVE STRATEGIES

- Scalable for Implosive and Explosive markets
- Level of fit
- Increase productivity
- Drive consistent quality

Alternative Back Office Strategies Defined

For purposes of this white paper, alternative workforce strategies are defined as having activities performed by resources not traditionally utilized for these tasks, or performing the tasks in locations other than the conventional geographical location or corporate office. Information technology support is one of the most common examples of alternative back office strategies (centralization in this case) employed by homebuilders today.

There are several options now available for homebuilders seeking alternative back office strategies. In addition to **centralization**, other alternatives include **managed services** and **outsourcing**.

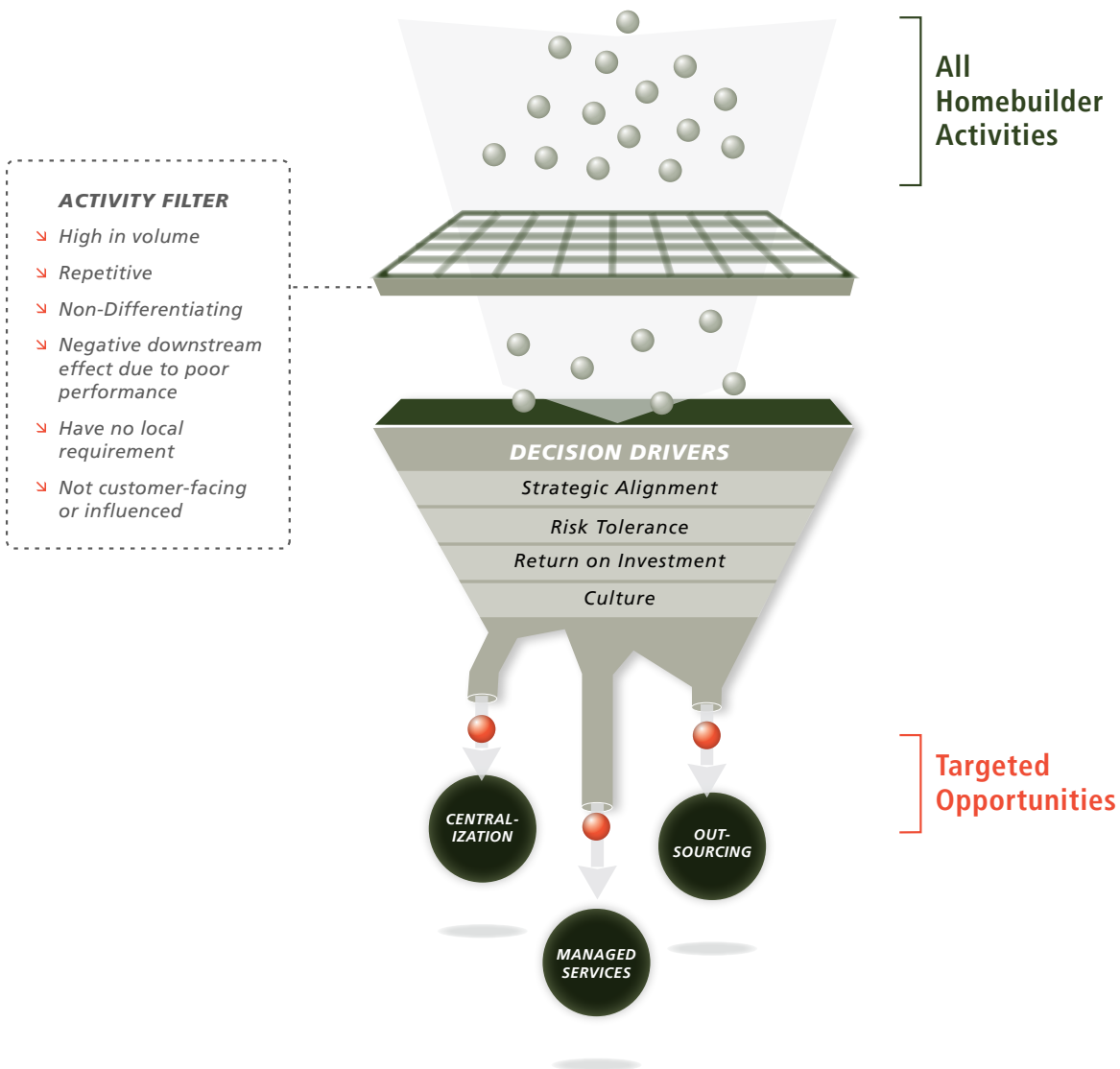


How Can We Identify Opportunities?

Evaluating and selecting activities for alternative sourcing is a focused and discrete undertaking. This does not mean enterprise-wide organizational change and need not be transformational or revolutionary change. It is targeted change.

“Evaluating opportunities is a discrete undertaking...It does not mean enterprise-wide change; it is targeted change.”

RealFoundations has undertaken a review of the non-differentiating and repetitive tasks performed by homebuilders and contrasted these tasks against alternative back office strategies. The tasks typically part of the linear homebuilding process were analyzed through an “opportunity filter” to determine the level of change and fit to effectively increase productivity of the back office functions.



What Are The Potential Cost Savings?

Numerous homebuilder activities are potential candidates for the implementation of alternative back office strategies. Each activity has different metrics, value propositions, costs and benefits.

By-Product Cost Reduction

Due to the relative high volume of units closed, revenue and cost of goods sold (COGS) for production builders, any potential cost savings that is realized on a per unit basis can become a significant enterprise-wide cost savings. Builders are challenging their procurement and purchasing departments to value engineer plans, improve take-offs and reduce the overall cost to deliver their product. At the same time the homebuilding corporate entities review how, where and by whom their work activities or business processes are performed. All these efforts will lead to cost savings. In order to make these cost savings permanent, however, a strong back office function is required to ensure that savings don't leak through extra work orders or duplicate purchase orders as builders struggle to re-bid contracts and revalidate their scopes of work.

Scalability

The seasonality of home sales loads the builder's backlog in an uneven manner. Many builders have attempted to smooth out the production process, employing evenflow strategies with varying levels of success. As a result, the builder is forced to staff the back office to the high volume run rate or do an annual reduction in force after the higher volume has been delivered. Utilizing an alternately sourced workforce changes these fixed costs to variable costs and allows them to naturally fluctuate through the heavy or burdened season.

SUCCESS PARAMETERS

- ↳ *Metrics*
- ↳ *Value Proposition*
- ↳ *Cost*
- ↳ *Benefits*

Conclusion

We remain in a market that continues to pressure the homebuilder balance sheet and income statement with a fundamental drive to conserve cash. Production builders are reviewing and analyzing every possible reduction in operating costs. Alternative back office strategies identified in this white paper can help the builder take this focus to a new strategic level. These activities can give the production builder enhanced scalability.

Effective implementation of these strategies can result in an increase in efficiency and sustained cost savings, a high level of accuracy and effectiveness due to specialization and an appropriate level of control of the business processes. These strategies require an understanding of the homebuilder model and a knowledge of successful strategies that will improve the bottom line of the business.

About RealFoundations

RealFoundations is a management consultancy company focused exclusively on the homebuilding and real estate industries. As part of the ongoing pursuit to add value to our client base, we have established an Alternative Strategies practice specifically tailored to address the needs of the homebuilding community.

The clients we serve comprise 21 of the NAHB Builder 50, representing 57% of 2006 US closings and an economic engine of nearly \$200 Billion.

The opportunity outlined in this white paper is there and can be realized through a methodical well implemented endeavor. RealFoundations is here to partner with you along this path.

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