

# STRUCTURAL BUILDING COMPONENTS MAGAZINE (FORMERLY WOODWORDS)

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## "The Opportunities & Pitfalls for Component Manufacturers - A Customer Perspective" by Patrick Hamill of Oakwood Homes

*The following article is based on a keynote presentation delivered by Patrick Hamill, President/CEO of Oakwood Homes, at the 2000 Building Component Manufacturers Conference (BCMC) in Milwaukee, Wisconsin, on October 12, 2000. Audio tapes of the conference seminars are available.*

The component industry is one that is dear to my heart. My father was a small, custom homebuilder in Michigan—he built vacation homes all over the state. I remember that one of the problems he had was a very short building cycle due to the weather and Michigan winters. Because of this, my father was actually a very early pioneer in the manufacture of wall components, trusses, precutting materials, etc.—really anything to do with reducing on-site labor to ensure he got his houses closed in before winter. So, in many respects, I grew up in and around both construction and component manufacturing.

Oakwood Homes was founded in 1990. In 2000, our revenue approached \$180 million—about 857 closings. We pre-sell 99 percent of our homes; everything is sold from completed models. Every single house that we build is 100 percent panelized and we also custom tailor our homes to individual needs out of our 10,000 square foot design center. We have a lot of standard options that require a tremendous number of wall changes and floor changes all in a panelized environment. In addition, Oakwood Homes has won both the National Housing Quality Award and the J.D. Power and Associates Customer Satisfaction Award.

Ultimately, the fundamental principle of our organization is to provide compelling value to the consumer. I'm writing this as a customer of the component manufacturing industry. The point that I'm going to make repeatedly is that we need to be focused on the customer—the person who writes our checks and pays our bills. For me that's the homebuyer; for you, that's a builder like me. Regardless, the answer is being focused on and able to provide the solutions, quality and service the customer wants.

In my opinion, these are the good old days. These are the days to remember sometime in the future. We're in a very strong market—one that I've never seen before. But that doesn't mean there aren't problems to face. What is the number one problem facing component manufacturers? Are all of you having problems with attracting and retaining qualified people? I think this is something that we are seeing become more of a problem across the entire industry, and it's one that needs to be solved quickly.

The method that Oakwood Homes has explored to begin solving this problem is moving toward the implementation of the industrialized jobsite. The main reasons that necessitated moving to this organizational model are (1) labor and product shortages, (2) a declining work force, (3) an

industry that has not kept pace with consumer expectations, and (4) declining quality and rising costs.

When we looked at the industry as it relates to attracting and retaining qualified trade contractors and suppliers, it was a little daunting to consider it from the overall industry standpoint. So our goal as we got into it was to look at it from a market share standpoint. How could we make our company the builder of choice within our market? How can we make sure that people are going to pick us over the other guy? What's more, we wanted to be the builder that our vendors wanted to work with most. All of you, for example, probably have your favorite builders—those you will make an extra effort for to help make them the builder of choice. That was our goal and the strategy that we laid out almost from the beginning.

Creating this kind of environment was key in our effort to solve our labor retention problems. A culture of excellence and constant communication is key. In order to become the builder of choice in our market, we had to foster a community of people who were working to achieve excellence—there isn't room for any other kind of person. Sometimes this means letting go of those who do not perform at the level you expect in order to make room for those who will succeed. This may seem like a bad idea in today's lean labor market, but keep in mind that it is the bottom ten percent of employees that can ruin the morale of your best people. In addition to excellence and communication, one other key to a creating a successful work environment is fun. People rarely leave a job because of money or other tangible benefits. It's the intangible things, like a fun, open work environment that will retain good employees. One thing I do is to have a barbecue every week in my backyard. I invite different employees over in small groups so I have a chance to really get to know people. It doesn't even matter that I serve the same food every week—I'm fostering a sense of community and creating a work environment that produces loyalty and excellence.

In addition to this approach to our organization's culture and work environment, we developed a ten-point plan for implementing what we call the industrialized jobsite. Now, I'm not about to tell you all about manufacturing. You could all give me lessons. But I do feel that there are portions of this plan that could be applied to the component manufacturing industry to help you improve your businesses.

## **1. RELATIONSHIPS WITH OUR VENDORS**

It's all about mutual respect. We participate in a Trade Contractor Council that includes 10-15 members representing the major trades. This forum is an important communication tool and feedback mechanism in maintaining our relationships with vendors.

## **2. THE ENVIRONMENT OF THE JOBSITE**

This ties into how we maintain our relationships with our vendors. How can we make doing business easier for you? One of our unique focuses in this area is jobsite readiness and cleanliness. We are especially particular about how each jobsite is set up and maintained so that each time a vendor makes a delivery to one of our jobsites they can always unload it in the same general place. We have a jobsite cleanliness policy that involves fining both our own people and/

or vendors if the jobsite is not kept clean. Both of these factors create predictability on the jobsite as well as improve safety and efficiency.

### **3. THE PRODUCT**

How do we panelize and really do production volume work? That takes simplicity of product. This is an area where good relationships with our vendors are really important. We need vendors who can provide us with solutions that save us both time and labor. Simplifying the products we use or bundling services together to eliminate unnecessary steps are important in the success of an industrialized jobsite.

### **4. WEEKLY PAY**

We are the only builder in our market that pays our vendors on a weekly basis. We pay on a Voucher P.O. System. Purchase orders turned in by 10 a.m. on Monday are paid by 3 p.m. on Friday. In addition, instead of mailing our payments, we have a mailbox for each of our vendors. The goal with the mailbox system wasn't to save on postage (though we did save more than \$40,000 last year), rather it was to encourage more face-to-face communication and interaction. Again, this speaks to the need to create a certain kind of culture within your company that makes people want to be around—this works both for vendors and for employees.

### **5. COMMUNICATION CENTER/CENTRALIZED SCHEDULING**

All of our jobs are scheduled out of one centralized place in our office, and all confirmations and schedule updates are communicated through our Central Command Post. This centralized approach to communication makes it much easier for our vendors to get in touch with on-site supervisors and other individuals who are typically hard to track down. This method also improves our efficiency regarding who communicates to the vendors.

### **6. HIGH VOLUME PRODUCTION**

We're the fifth largest builder in our market, but we sell and close more homes on a per community basis than anyone in the city of Denver. This is because one of the things we focused on was getting high volume out of each of our communities. Oakwood Homes could not be a high volume builder if we didn't have strong relationships with vendors who help us solve our problems and provide us with solutions that make our jobsites more efficient.

### **7. ARCHITECTURAL TECHNOLOGY**

We developed our process so that when we sell a house we actually do the job drawings at our office in order to make sure that it conforms to what our customer selected. Then we give those drawings to our component manufacturer. We have received a fair amount of resistance to this idea from our vendors, but it is incredibly important to us that we have that connection with the customer.

## 8. PURCHASING OF COMPLETED PRODUCTS

One of the primary goals of the industrialized jobsite is to reduce on-site labor. The main way we achieve this goal is by emphasizing the need to purchase complete products that are manufactured off-site and installed on-site. This is another area that our relationships with vendors are strengthened as they provide us with answers to the question, "How can we make it easier to produce our homes?"

## 9. EVEN-FLOW PRODUCTION

We used to drop 20 houses on a subdivision at one time and just miraculously expect them to get started. Every day in our company, we have what we call a start meeting. We start and close four homes a day. We've taken the same principles that Henry Ford introduced not quite 100 years ago and applied them to the jobsite, creating the discipline within our organization to achieve even-flow production. Even-flow production makes the work easier on us and on our vendors, and allows everyone involved to be much more profitable. Vendors enjoy some predictability about what our needs are and we benefit from our vendors' ability to plan ahead and to maintain consistency.

## 10. RECYCLING

At Oakwood, we have a focus and a commitment to using products where the waste we create can be reused and the products we use do not take away from the environment, but promote sustainable development. Oakwood works with a trash company that recycles approximately 80 percent of our waste. We consider not only the first time cost of products, but also second time costs, such as energy and maintenance costs for the homeowner. For example, wall panelization cuts down on waste, promotes speed and creates consistency. Concrete tile roofing is a reusable product that does not take away from the environment like asphalt. Cellulose insulation is made from recycled newsprint.

## CONCLUSION

You need to continuously ask yourself, "What does the customer want?" I can tell you that, currently, the answer is that they want massive individual attention. The challenge as manufacturers is how to address that need in a mass production environment. At Oakwood Homes, we feel that technology is the key to meeting this need. An important part of leadership is seeing a group of people that wants to go in one direction and figuring out how to get in front of them to help them get there.

Ultimately, consumers are looking for a great value. The correct combination of price, product and features will provide that value. The future of the homebuilding industry hinges on it. As a component manufacturer, you can increase your longevity by remaining aware of how you fit into this value equation. How is your business changing with the times to provide the solutions your customers need? Do you have a competitor in your market place that is looking at offering solutions? Is this on your radar screen? There are solutions that I'm challenging you to offer, because I'm going to tell you today, if you are in the truss business and that's all you're doing,

you are selling a commodity and your days are numbered.

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Patrick Hamill is the President/CEO of Oakwood Homes in Denver, Colorado. He started Oakwood Homes in 1990 and has positioned it to be the builder of choice in quality, affordability and value in the Denver marketplace.

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## Top Ten Industry Trends for the Housing Industry

Courtesy of Patrick Hamill, Oakwood Homes, Denver, Colorado.

- 1. Traditional Consolidation:** This occurs when one truss manufacturer purchases another truss manufacturer, simply resulting in a larger truss manufacturer.
- 2. Bundling:** Consolidation that offers a solution. For example, a heating contractor that purchases an insulation contractor to be able to offer a total heating solution to a builder. Oakwood's trim supplier is another example. The supplier offers not only the materials, but also the labor to install the materials in the house. This type of consolidation is more strategic and offers more value to everyone involved. It also offers the vendor an alternative for more profitable growth.
- 3. The Value-Added Supplier:** A supplier that combines a product with something that adds value for the consumer. **Home Lumber**, Oakwood's component supplier in Denver, is a great example. When we moved to panelization five years ago, we didn't purchase any lumber from them. However, they worked closely with us on our plan to panelize and helped make the change possible. They combined the lumber they had to sell with a service Oakwood needed. Now, they are our main supplier of panels and trusses, supplying us with 95 percent of our component and loose lumber needs!
- 4. Consumer Shifts:** The consumer today wants and demands choice. This has resulted in our industry moving from an environment that relied on spec building to one in which our homes are almost entirely pre-sold. This trend is a win-win for everyone!
- 5. The Changing Face of the American Worker:** We need to embrace the multicultural workforce that is building our homes instead of dwelling on the differences that sometimes result in day-to-day difficulties. Figure out how to use the situation to your advantage. Create opportunities for employees from all backgrounds to learn new things that will enrich their working experiences.
- 6. Manufactured Products:** The trend is all about providing solutions. How do we provide a more completed product, such as wall, floor and roof components, to allow us to cut down on on-site labor?

**7. Technology/Tools:** It is important to remember that technology should be used as a tool that provides savings and solutions. Failing to use technology to its fullest can result in being left behind in a flurry of tasks that would seemingly take an army to accomplish!

**8. Growth Movement:** The “not-in-my-backyard” mentality has been pervasive in recent years, as the trend to curb urban sprawl has become a popular cause. We all need to figure out how to work together, educate our markets and develop advocates for the future of our industry!

**9. Alternative Revenue Sources:** We need to look beyond the basic products and services that we sell to see how we can pick up a bigger piece of the pie! If we don't, there may not be any pie left for the future of our businesses to feed on.

**10. The Importance of Value:** The Home Depot®, Wal-Mart® and places like them did not become as successful as they are on a fancy jingle! Consumers demand value, and they vote with their pocketbooks! If your company can't provide something that consumers perceive to be of value, you will likely be voted out of business!

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