

STRUCTURAL BUILDING COMPONENTS MAGAZINE (FORMERLY WOODWORDS)

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NAHB RESEARCH CENTER RESOURCES:

Change Is the Only Constant in Business Today: Leaders Learn to Adapt

Change seems to be the only constant in the business world these days. Entrepreneurs who are aware of change and successfully adapt to it today will emerge as the business leaders of tomorrow.

The home building industry is no exception to the rule of change, as leading builders and suppliers confirmed earlier this year in a roundtable exchange. The NAHB Research Center in conjunction with Professional Builder Magazine convened the roundtable in Chicago on April 23, 1999, to find out where leading quality builders are heading as we approach the next century. Participants agreed that they have not escaped the dramatic and rapid changes that have defined business in the last decade and that a management revolution is upon the home building industry. But they also agreed that for those who are able to stay one step ahead of the revolution, the rewards are exceptional business results.

From the perspectives of Round-table participants, which included several National Housing Quality Award winners, the most significant ongoing changes are:

- The increased expectations and market sophistication of consumers, which thereby raise the bar on quality and customer satisfaction.
- The re-engineering of the construction process.
- The maturing science of business management in the home building industry.

RAISING THE BAR ON QUALITY & CUSTOMER SATISFACTION

Leaders in the home building industry point to several identifiable trends among consumers that warrant the attention of home builders. For the consumer of today and tomorrow, a positive home-buying experience is as important as buying a good, quality home. Leading builders use each contact with the buyer as an opportunity to add value and exceed expectations. They choreograph the entire customer experience—from a pleasant sales and selection process, to a smooth construction process, to a 24-hour turnaround on warranty items—into a coordinated play to capture the heart and soul of home buyers.

Although the home buying experience has escalated in importance, quality homes—those with zero defects, reduced home maintenance requirements and ever-expanding warranties—are also expected by home buyers. And, what leads a home buyer to a high level of customer satisfaction is also

changing rapidly, so listening to customers is becoming more and more critical. “The thriving companies of the 21st century,” according to Bold New World author William Knoke, “will throw away the blueprints that describe what they provide and look at customers’ needs.”

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It is expected that customer satisfaction ratings for builders, much like mortgage rates, will become public knowledge and easily accessible in the future. And because leaders in the field have found ways to raise and then exceed customer expectations, the benchmark on quality and customer satisfaction continues to improve. Some leading builders are even offering to buy back their homes if their customers are dissatisfied. Obviously, only quality builders can stand behind offers like this, and that is the powerful message this action sends to potential home buyers.

Exceeding customer expectations is important to the future success of home builders, as highly satisfied home owners are a highly productive source of referrals. Additional paybacks for exceeding customer expectations by delivering quality include higher profitability, increased efficiency, reduced cycle time, decreased callbacks and warranty work, and increased customer satisfaction, which often results in increased market share.

RE-ENGINEERING THE CONSTRUCTION PROCESS

Builders are recognizing the limitations of existing home building production systems and the inefficiencies embedded in the way homes are typically built. No longer is it enough to improve the existing system, because industry leaders have made wholesale changes to the system and have begun to reap the corresponding benefits.

For production builders, one such change sweeping across the country is known as “even flow production.” Regardless of the number of homes being produced, this concept requires that schedules be set to ensure a steady pace for production. According to Roundtable participants, predictable work allows the trades to reduce crew sizes and cycle times for the same volume of work. One Roundtable builder reported that even flow production allowed him to reduce his staff by one-third and increase the number of homes he built by nearly 200. Other builders participating in the Roundtable reported similar experiences.

Another change in the construction process is the shift from mass production to mass customization. No longer do industries focus on producing standardized products or services for homogeneous markets. Instead, through the application of technology and new management methods, they have found their way to a new paradigm—mass customization—by creating variety and customization through flexibility and quick responsiveness.

In his book *Mass Customization, The New Frontier in Business Competition*, B. Joseph Pine says, “While the practitioners of mass production share the common goal of developing, producing, marketing, and delivering goods and services at prices low enough that nearly everyone can afford them, practitioners of mass customization share the goal of developing, producing, marketing, and delivering affordable goods and services with enough variety and customization

that nearly everyone finds exactly what they want.”

According to Roundtable participants, the gap between custom and production home builders is eroding. Leading builders continue to develop the ability to make changes and options as routinely and cost-effectively as elevation selections.

Many builders are re-engineering their construction processes by adopting ISO 9000 techniques for ensuring jobsite quality control from the manufacturing sector. Leading builders concur that the rigor of the ISO 9000 approach is becoming increasingly necessary for jobsite quality assurance as well as litigation protection.

Industry leaders also agree on one factor that can greatly enhance the success of re-engineering—greater collaboration, cooperation and teamwork among builders and their trade workers. To accomplish this, leading builders are strengthening their relationships with the trades by developing common business goals and involving them in business management consultations. With solid partnerships in place, the ability to re-engineer core construction processes is greatly enhanced.

THE MATURING SCIENCE OF BUSINESS MANAGEMENT

As the new millennium approaches, few would disagree that builders are fostering better companies. Leading builders have sales of \$1.2 to \$1.4 million per employee, more than 50 percent higher than the industry norm of about \$800,000 per employee. As the level of sophistication in business management rises, the gap between traditional builders and the leaders is growing. The leaders are developing processes that bring higher levels of operational performance and the creation of new organizational competencies.

One component common in most successful builder businesses is “organizational alignment,” which emphasizes having everyone within the organization pulling in the same direction. The goal of organizational alignment is to develop a cohesive culture with common vision, values and goals.

Leading builders have successfully created organizational alignment by crafting their network of activities into a unified business system. Each activity is designed to support the company mission and vision, as well as other functions throughout the organization. It is a disciplined approach to management that keeps everyone focused on doing the right things in an efficient manner. In the process, they have discovered this eliminates employee misdirection from mixed messages from management, functions working at cross purposes, redundant activities and operating inefficiencies. Some exceptional builders take organizational alignment one step further into the organizations of their suppliers and trade contractors.

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Another change in the science of business management for builders is in the area of human resource management. Builders are taking an increasingly organized approach to building the workforce necessary to achieve long-

term business objectives. Casual training “as opportunities allow” is becoming a thing of the past. Leading builders have training budgets up to 10 percent of salary costs targeted on creating the culture, knowledge and skills that enhance the future vision of the company. This strategic perspective also sharpens the goals for employee recruitment, retention and career development activities.

Leading builders also recognize the huge potential of the Internet for sales, marketing and communications, and they realize that the way they manage their businesses will change because of the Internet. They now offer information about communities, product lines, floor plans and their companies on web pages, and email is used regularly for communicating with buyers. The leaders’ future strategy is to provide sales prospects with all the information they need on-line.

It is safe to say that change will continue to be an integral part of the challenge facing builders over the next several years. The basis for competition is evolving, business shifts are occurring and new competencies are required in residential construction. Working together, quality-conscious builders and suppliers will continue to find ways to streamline operations and provide a better, defect-free housing product to American home buyers. Builders who ask the right questions and seek answers to those questions will greatly enhance the likelihood of their success.

For more information on the NAHB Research Center’s quality management services, call 800/638-8556.

NAHB Research Center Code Corner: Pressure-Treated Wood Standards

If you think that all pressure-treated wood is the same—think again! The American Wood Preserver’s Association (AWPA) has set minimum retention levels of water-borne preservatives in pressure-treated wood used for specific applications. The levels are:

| Retention (lbs/ft³) | Appropriate Product Application |
|---------------------------------------|--|
| 0.25 | Above Ground |
| 0.40 | Ground Contac |
| 0.60 | Permanent Wood Foundation |
| 2.50 | Salt or Water Use |

Typically, a stamp or a tag either on an individual board or affixed to a unit of pressure-treated lumber is present indicating the preservative retention level. Other information contained on the tag or stamp includes the proper exposure condition such as above ground or ground contact, the type or wood preservative, year of treatment, treating company and AWPA standard used to treat the wood.

Model building codes often stipulate the use of treated wood. For example, the 1998 CABO, section 322.1.1, states, "All wood in contact with the ground and which supports permanent structures intended for human occupancy shall be approved pressure preservative treated wood suitable for ground contact use..." Similar language can be found in the codes produced by Building Officials & Code Administrators International, Inc. (BOCA), the International Conference of Building Officials (ICBO), the Southern Building Code Congress International, Inc. (SBCCI), and the International Code Council (ICC). Be sure to specify and inspect any pressure-treated wood you use in order to ensure that the right grade and exposure condition is being used for a given application.

A recent development that concerns treated wood is an announcement by the AWPA of a transition to a use-based classification system rather than the current commodities-based system. The new system will make specifying treated wood easier for those with little knowledge of treated wood. The new system will be designed to be compatible with that of the International Standards Organization (ISO).

For more information about treated wood, the American Wood Preservers Institute provides a good question and answer web site at www.awpi.org. They also have a treated wood hotline—800/356-AWPI (2974). Builders can also call the HOMEBASE Hotline—800/898-2842—for help in the specification and use of treated wood.

The NAHB Research Center seal is recognized throughout the world as a mark of product quality and an assurance of product performance. For more information about this or any related issue, call 800/898-2842.

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