



BUILDERSOURCING



Paired for Performance

A COLLABORATIVE BUILDER BUYING GROUP CREATES CLOUT AMONG SUPPLIERS.

BY LISA MARQUIS JACKSON

PHOTO: COURTESY PHILOSOPHY COMMUNICATIONS

ONE OF THE THINGS THAT the nation's largest builders like to boast about is the buying power they wield and the resulting cost savings they realize from it, thus providing a competitive edge over medium and smaller builders. But if Charles Schneider has his way, the biggest builders that reap benefits of smart supply chain management won't be part of an exclusive club for long. Last year, Schneider left MDC Holdings to start Builder Sourcing Corp., a buying group for independent home builders. By banding together, the company's builder

members are able to stay competitive through collaborative purchasing; they also benefit from discount, rebate, and incentive programs. In turn, supplier members have an opportunity to pursue a selling channel (i.e., smaller builders) that has typically been difficult and costly to penetrate.

"I realized there was an opportunity to do for independent builders what we [at MDC] were doing for independent divisions of a national builder," says Schneider. "There's no more fragmented industry than home building, and in any fragmented industry, there is room for someone to be an aggregator to bring value to the market" (see chart, page 48).

TAKING ADVANTAGE: (Right) Charles Schneider left MDC Holdings to start Builder Sourcing, a buying group that George Hess, president of Vantage Homes, is making good use of.

CROSS-INDUSTRY POLLINATION

It is sometimes said that builders are behind other industries in the supply chain arena, so it might be a positive thing that Schneider's 25 years of experience in the discipline stretch beyond home building. As a partner with the consulting firm Booz Allen Hamilton, he developed his supply chain and system strategies in manufacturing and service-based industries, working with such Fortune 100 (see page 48)

companies as McDonald's and Merck Pharmaceuticals. Then in 2002, he brought his experience to home building, tasked with bringing supply chain innovation to an industry that had been operating under the status quo for some time.

Lured to MDC by chairman and CEO

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—Charles Schneider, Builder Sourcing

Larry Mizel and COO Dave Mandarich, Schneider was swept up in the company's determination to bring a whole new perspective to the supply chain area. "After working with many industries, I developed a view on how to see, and make, a lot of money in the supply chain," he recalls. "Dave Mandarich's words were that he wanted to move purchasing and sourcing functions from the back of the bus to the front of the bus." And that's just what Schneider did. In fact, by initiating new programs, creating a focus on rebates and incentives, and implementing cost saving measures that had proved successful in other industries, Schneider returned "tens of millions of dollars" to the corporation during his two short years as senior vice president responsible for national purchasing and logistics, information technology, and national design center and corporate strategy. Now he's bringing his knowledge to others in the industry.

PRODUCING RESULTS

George Hess, president of Vantage Homes, has been firmly rooted in the Colorado

Spring market for 17 years, but before joining with Builder Sourcing, he realized his company still wasn't very adept at accessing all the money that was available to them in the supply chain arena. "We didn't have the staff or the expertise to go after it all," admits Hess. "We weren't capturing

anywhere near what we could have."

Collaborating with Builder Sourcing has already meant \$76,000 in "found money" this year for Vantage. In some product categories, such as windows, which Hess buys direct, dollars are shaved through volume pricing negotiations and a price "lock" for a set amount of time. In other areas, where the sale is made through distributors, such as pre-engineered lumber, Builder Sourcing negotiates rebates. And along the way, advertising and marketing dollars have suddenly become available.

"Not only are they finding ways for us to have access to these savings, but they handle all the paperwork that needs to be filled out and they follow through to ensure that we will collect it," says Hess. "My staff just doesn't have the time to deal with all of that."

When it comes to choosing vendors, Hess assures that there are no strong-arm tactics involved on the part of Builder Sourcing. "They negotiate with a number of vendors and then we have a choice to go with whoever we want," he says. Builder Sourcing starts with each

builder's existing list of material suppliers but also goes the extra mile to introduce builders to other vendors and their programs. A perfect example for Vantage Homes has been James Hardie siding, which is used heavily in the Denver market but sparingly in Colorado Springs, primarily because "no one knows how to use or install it," says Hess. Builder Sourcing has worked closely with the supplier to learn about available training that might benefit Hess' trades. Now, James Hardie—and all its incentives—might be worth consideration by Vantage Homes.

"For us, we rate our vendors on quality, service, and price—in that order," says Hess. "Charlie understands what's most important to us, and in some cases, they have brought things to the table and we have switched."

MAKING TRACKS

In one year's time, Schneider's concept has gained a lot of momentum. "I'm proud of the fact that we have excited builder partners," he says. "They really had to commit first; without them, there weren't going to be many suppliers that were going to listen." After getting a handful of builders on board, Schneider was able to work with a network of suppliers and sell them on the same vision. Today, there is an extensive list of suppliers and a group of builders that has grown to the combined equivalent size of a top 50 builder.

To date, Builder Sourcing's largest builder partner is Oakwood Homes, which closes about 750 units a year. But because of his company's intense scrutiny on the supply chain, Schneider sees value for bigger builders as well. "I've looked at the data from some builders in the tier from No. 11 through 30. I don't know if they are even aware of what they could be doing [in terms of savings] if they were focused [on supply chain management]."

In the next year, Builder Sourcing plans to roll the program into five new markets and grow to the size of a top 25 builder with nearly 4,000 combined units. "It has been important to us to take our time in this first year and make sure that all our processes are in place," says Schneider, "but ultimately, we plan to gather the size and strength of a top five builder."

"There are more than 1,000 branded items in a home, so there is a long way to go in terms of programs," says Schneider. "There's a lot you can do." **BB**

BUILDER SOURCING RESULTS

BUILDER	BEFORE		AFTER		DIFFERENCE	IMPROVEMENT
	# OF DEALS	\$/HOME	# OF DEALS	\$/HOME		
Builder 1	4	\$188	11	\$1,169	\$989	6.2x
Builder 2	6	\$169	11	\$876	\$707	5.2x
Builder 3	6	\$351	13	\$1,090	\$739	3.1x
Builder 4	2	\$120	13	\$1,117	\$997	9.3x
Builder 5	8	\$229	13	\$959	\$730	4.2x
Average	5	\$211	12	\$1,042	\$832	4.9x

SOURCE: 2005 BUILDER SOURCING CORP. CUSTOMER DATA FOR BUILDERS WITH DEALS, SINGLE-FAMILY HOMES. NOTES: 45 PERCENT OF BUILDER MEMBERS STARTED WITH LITTLE OR NO DEALS; NATIONAL BUILDERS REPORT MORE THAN \$2,000 PER HOME; THERE IS NO RELATIONSHIP BETWEEN SIZE OF BUILDERS AND NUMBER AND VALUE OF DEALS; THESE NUMBERS EXCLUDE VALUE FROM THE LUMBER CATEGORY.