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## Kitchen and Bath Issue

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A strong indoor-outdoor connection and abundant daylight highlight this kitchen at Irvine Pacific Homes' Santa Maria at Stonegate community. Bassenian Lagoni Architects designed the plan.



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# BID LESS, SAVE MORE

By adopting the principles of category management, builders can greatly simplify the bidding process and achieve considerable savings.



By Charles P. Schneider, CEO, Builder Sourcing Corporation

**W**hen I first got involved in home building, I was shocked to find out how outnumbered our purchasing department was compared to those in other industries. The ratio of purchasing people to the value of their purchases was staggeringly off.

Making matters worse was the typical bid process, which was extremely time-consuming. It was common to bid by house plan or plans for a project. So, for a project with five house plans, three versions each, and 25 trades, that would be 375 bids to be done. Then, if three projects were being run at the same time, that would be a staggering 1,125 bids. Start three more projects during the year and the number shoots up to 3,400 bids.

With staffs being thin, this is a daunting task. So people take shortcuts. Fewer contractors are asked to bid, old bids are reused, and less detail is used. The result? The trades win. Why? Because they are experts in their categories. They have all of the information and they are sitting across from an overworked generalist who is spread across every category. It's a classic no-win scenario. Category management offers a solution to this dilemma.

## CATEGORY MANAGEMENT

What is category management? It is switching from purchasing by house or project to purchasing by category across all house plans and all communities for the year. If we take the example from above and switch the emphasis to category or trade, the amount of activity drops dramatically. In fact, the 3,400 bids can be reduced to just 25. Of course, to achieve this level of reduction requires a builder to create contract templates with parameters that are set to allow for the differences between plans, locations, and time as they relate to changes in commodity prices. Once created, however, the effort is reduced and the value is increased.

Builders use category management to make sure that

commonly purchased materials and labor are not purchased separately by various purchasing agents but are sourced through a single agent who can maximize leverage in the market for the particular category. The benefits are:

1. Better value for the money by aggregating purchases across house plans and projects
2. Standardized specifications, quality control, and purchasing authorization
3. Simplified business processes and practices, creating substantial time savings
4. Skills and specialization to make better purchases in particular categories
5. Time and resource commitment to analyzing and watching each category

The trades gain many benefits, too:

1. A substantial reduction in the number of bids
2. A clearer understanding of the value of the relationship when the contracts to be awarded are reviewed annually across plans and projects
3. More time and money to focus on ways to add value beyond price to aspects of quality and value engineering
4. Cost transparency, leading to longer-lasting, more strategic relationships.

What happens when you make this shift? Astonishing things. For example, a house plan was being built in several communities by different divisions of the same home builder. We took all of the costs of that house plan and created a spreadsheet to see how the costs varied. In many cases, the same trade was actually performing the work. The costs varied widely for the same house plan for the same items from the same trade.

Next, the purchasing agents from the various divisions got together, reviewed the data, and then called a meeting with the trade in question. When the trade came into the room and saw them all together, he knew immediately that his ability to charge the various divisions different amounts for the same

items in the same house plan was now over.

## AN EIGHT-STEP PROCESS

Category management is a process that repeats annually for each category. Generally, a few categories are bid each month

to spread the workload over the year. Analyzing and watching each category would go on monthly. The steps are:

1. Define the category — what trades are to be included and excluded
2. Create/modify the framework or template for financial understanding the category — This typically involves unbundling the material and labor components and the drivers of each. Calculate the annual purchase volume across plans and projects.
3. Assess the builder's current performance in the category — costs, quality, trade performance, etc.
4. Set objectives and performance targets for the category
5. Devise an overall strategy for meeting the goals — reducing cost variations, introducing new contractors, improving quality, etc.
6. Prepare for bid process — develop a calendar for the bid cycle and determine the trades to be included
7. Conduct bid process — vendor meetings, award contracts, etc.
8. Review the results.

The builder would assign someone to lead each of the category teams. Typically this would be based on leveraging someone's experience or expertise, or this person would be expected to become an expert in the various aspects of the particular category they were to lead. Co-category leaders can be nominated from one of the trades that is regularly involved with



the builder. This can add a tremendous resource to the builder's team.

## WHERE TO START

As with most new things, implementing category management can seem daunting. Time is short to do new things that will

seemingly take more time to do initially. Where should you start?

Create a 2x2 matrix. The matrix is broken down between easy- and hard-to-do categories and high- and low-value categories. Focus first on the easy-to-do, high-value categories. These categories might include drywall, electrical, and plumbing. Simply take the next bid cycle and rather than just bidding a house plan or project, create the framework and projections, and bid the entire year of purchases. Involve the trades to help create the framework and the take-offs. Next, focus on the harder-to-do, high-value categories, like framing and foundations.

## THE RESULT

Category management is not new. It is just new to home building. Its processes are not new. They are just new to home building. Don't let the trades tell you that it cannot be done, because you can do it with or without them. And in today's economy, there really isn't a better time to make the switch. Work is scarce, and you won't find too many trades prepared to walk away from the work, especially when they see what it is worth to them for the entire year. **PB**

*Charles Schneider is the founder and CEO of Builder Sourcing Corporation, a professional services firm that works with home builders to improve their results in purchasing and the use of advanced builder management systems.*