

IS IT TIME TO CHANGE

Most builders buy drywall turnkey, with both the material and the labor provided by the same contractor. Purchasing expert Charles Schneider offers a better solution.

By Charles P. Schneider, CEO, Builder Sourcing Corporation

Drywall is a great category to discuss when looking for opportunities to lower cost. Why? Every house uses drywall, it is very visible, and its application is straightforward. Those are the same attributes that make drywall an opportunity to lower cost.

Most builders buy drywall turnkey, whereby both the material and the labor are provided by the same contractor. This adds a level of confusion as to what is being purchased, what the costs are, and why the costs change from house to house and over time. Exacerbating this situation is that the cost of drywall, like that of many other commodities, fluctuates wildly over time, with swings of over 30 percent in a year not uncommon.

Yet a review of builders' drywall purchasing techniques shows that:

1. Most builders receive a turnkey bid with both labor and

materials in a single amount.

2. A few builders receive a turnkey bid but have labor and materials broken out separately.

3. Very few builders receive a turnkey bid with labor and materials broken out separately and help the drywall company purchase their drywall.

All of these approaches involve drywallers generating bids and cost estimates that builders use to determine which company to work with and costs, and then they use that cost information to set prices.

Is one technique better than another? In our view, yes.

THE DRYWALLER'S PERSPECTIVE

Of the many contractors a builder works with, drywall companies are among the most straightforward operators. Most important to them is a consistent schedule, job site readiness, and minimal changes to the plans.

HOW YOU BUY DRYWALL?

Like most trades, drywall companies value consistency, long-term relationships, and builders who are easy to do business with.

We analyzed the purchasing practices and costs of many builders buying drywall. The results were surprising. We learned that for a category that was relatively easy to manage and understand, little data were available to help the builder validate or justify the costs being paid. The only way costs could be analyzed was by comparing bids from competing drywall companies.

When we asked builders what they thought they were paying for a sheet of drywall and what was the labor cost to install the same sheet, they didn't know. Not only that, they didn't know how many sheets were needed for various house plans. Without this level of information, the only way a builder could hope to get to the lowest cost would be to competitively bid the projects and then rebid them as the commodity costs changed. This creates a lot of work (and cost) for the both the builder and subcontractor and doesn't help create stability in the relationship.

THIS ONE IS EASY

Of all the categories in home construction, drywall is the easiest to still buy turnkey yet bid unbundled with each of the cost elements detailed out because there is a short list of significant items. From a materials standpoint, this includes the quantity and cost of drywall sheets, screws, mud, and tape. Then add in the labor cost, which typically is a function of the labor rate per sheet of drywall. Builders tell us that they can get this information from drywall companies on occasion, but not always. And even if they do, they can't be sure the quantities are correct.

However, builders with access to tools such as SoftPlan can do a drywall layout and have the computer calculate the amount of drywall required to sheet the home with an allowance for waste. Or, they can simply go to the job site on the day that the drywall is delivered and count the sheets dropped, then come back the next day to get a sense of the waste factor by counting the number of unused pieces in the dumpster.

How do you understand materials costs? Go online. In seconds, you can call up pricing from Home Depot or Lowe's for the delivered cost of drywall in your area. If you subtract 10 percent from the prices quoted, the contractor likely is not or

should not be paying more than that amount. Once you establish the materials you need to track, you can also use this method to create longer-term contracts with your drywall contractor, as you will now be able to see the local impact of commodity price changes. Gone will be the days when a drywall contractor asks for a 20 percent increase for the job based on an article he read somewhere saying drywall costs went up. Gone also are the days of continuing to pay the same price for drywall when drywall costs have fallen and the contractor hasn't lowered his costs for the work.

THE SOLUTION

Clearly, we like methods two and three stated earlier — purchasing drywall turnkey but bidding it on an unbundled basis. Both techniques:

- Put the builder in the position of understanding costs, removing the volatility associated with the commodity aspect of the category.
- Save time in managing the relationship with the drywall contractor.
- Create an ability to have a cost-effective, long-term relationship in the drywall category.

Depending on builder size, there are additional opportunities to seek out a relationship with drywall distributors and create favorable pricing for your contractor and, in turn, for yourself by directing the drywall purchase to one or possibly two sources.

THE RESULT

Builders that have used these techniques are impressed with the results. Savings of 8 to 20 percent have been achieved, along with the intangibles associated with saving time in managing this category. Time spent in the bidding process is greatly reduced for both the builder and the drywall contractor. The result is lower cost and better service, and both sides are better off. The mystery of cost is greatly reduced, even in a commodity category as volatile as drywall. **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.