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Guiding Your Growth

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Entering new markets or expanding services can be highly advantageous for builders and contractors, yet doing so without the proper planning holds the potential for disaster.

A good business owner is constantly keeping his or her finger on the pulse of the market in an effort to uncover new ways to grow the business. Yet far too often these owners pursue a plan without the proper planning and foresight necessary to achieve success for the long haul.

Ranging from merger and acquisition activity, entering new markets, franchising, and providing new services, there is a multitude of ways a business owner can pursue to grow the bottomline of the company. Each avenue is accompanied with a series of questions concerning the timing of the move, the personnel and resources required, future market changes, and the readiness of the organization, among others.

Additionally, current market conditions present a whole new dilemma for company owners. With housing experiencing such a boom during the past few years, builders have been forced to examine the validity of any perceived move. In other words, when assessing an opportunity they need to ask whether this is one that is the result of an over-inflated market or one that truly has potential for long-term success. Aside from any owner with a crystal ball on-hand, this presents enormous uncertainty.

And what about that booming market? While there have been back-and-forth rumblings about a bursting bubble, 2005 has shown sustained strength carried over from 2004, which ended with record starts for single-family housing of 1.953 million, according to the National Assn. of Home Builders (NAHB), www.nahb.org, Washington, D.C.

While the 1.92 million housing starts forecasted for 2005 by the NAHB doesn't indicate any huge burst to the housing bubble, it does show a somewhat sustained market. Some may read this as continued strength, while others might report that this is indicative of a coming slowdown.

Credit rating agency Fitch Ratings, www.fitchratings.com, New York, N.Y., looks for interest rates to move higher in 2005, which in turn could lead to a moderately diminished demand for housing.

“With rates likely to go up 150 basis points over the next year, Fitch projects fixed home mortgage rates to also increase, albeit at a slower pace, 40-50 basis points in 2005.”

No matter what the situation in the near term, the truth remains that the housing sector has been historically cyclical requiring companies to be prepared for anything. Some are proactively planning for the future, while others are simply riding high on the current profit potential contained within the market.

Experts cannot stress enough the importance of making the right moves now to develop a growth strategy that will ensure your company will survive to see the next boom. Any move should involve thorough research, an assessment of internal operations, and a long-term view of your business strategy.

Fletcher Groves, vice president, SAI Consulting, www.saiconsulting.com, Ponte Vedra Beach, Fla., who consults homebuilders on improving operating performance, believes companies need to understand who they are, what services they provide, and how their customers perceive them.

“No matter which way you are trying to expand your company you need to have an understanding of who you are and a narrow focus of the value you deliver,” says Groves. “You cannot be all things to all people. You need to have a great deal of discipline

in terms of your processes and systems and those things need to be hammered out before you even begin (speculating growth).”

He suggests employing a method of dashboarding, which focuses on gaining a streamlined view of every aspect of your operation, prior to making any move. This includes the people, process, and even the technology incorporated in the enterprise. It is a process that involves a great deal of commitment, yet if done right can result in a great deal of success, says Groves.

“The key is to understand that you have to be able to predict performance based on what you see on a daily basis. Everyday homebuilders are forced to make decisions on how to create income, where to invest, and how to spend money. If you understand the effect of your operating decisions on those three things, you will be better prepared,” says Groves.

Planned Process

When cultivating your growth plan, addressing the people and processes of your organization is critical. Yet as information technology (IT) continues to become an even greater component in the construction community, the software and hardware aspect begins to factor heavily into the equation as well. Experts believe it is smart to assess your IT strategy so long as it is done so in a manner that correlates with your business process.

Even smaller builders are often times running a very complex business. Aside from the task of building, they are often coordinating multiple parties, such as suppliers, subcontractors, customers, bankers, developers, etc. Handling these tasks efficiently via manual procedures may be of little issue to a smaller company, but experts warn that as you look to grow you need to reevaluate how you approach these processes.

“Smaller builders can run the business without a great deal of focus on a defined process because there are a lot of hidden elements that are driven by people within the company,” says Greg Hunt, product manager, homebuilding, Microsoft Business Solutions, www.microsoft.com/businesssolutions, Redmond, Wash. “When looking to grow, there needs to be more of a focus on process. What usually happens when a company fails to do this is they throw new people at the process that are not aware of all the hidden elements and processes of the company. As a result, these people cannot perform at the speed that the company is looking to move.”

While some construction companies have failed to properly evaluate the role of IT when formulating strategies in the past, Hunt sees that changing somewhat in the current market. More construction firms are realizing the value of tapping into such things as customer data, project figures, and accounting numbers when evaluating the strengths—and weaknesses—of their organizations for purposes of assessing growth.

Tom Gebes, president, BuilderMT, www.buildermt.com, Lakewood, Colo., also sees great value in tapping into this data to determine growth potential, yet also believes this can only be effective when accompanied with a strict evaluation of business processes.

“When a builder is looking at growing and reaching out into new markets, they need to look at their internal business processes first and then their current technology,” says Gebes. “If the technology cannot handle multiple entities, financials by division, consolidation from the purest form of the general ledger, then (achieving) growth is going to be a problem. A growth plan, business processes, and technology plan all need to work harmoniously in order to grow the business and manage that growth effectively.”

While many builders do a thorough job of researching the market and examining the new demographic of homes and buyers, they often pay little attention to the backend operations. Gebes says the first thing companies need to determine is whether the organization is structured in its accounting and operational systems well enough to accommodate the planned growth. Next comes mapping a procedure of how to deploy technology that will make people accountable within the new offices or divisions. A basic solution for this is ensuring that any new entities are running off of a common database as the home office.

“Without a common database structure at both the home office and the (remote location) creates an environment of no accountability or control of information,” says Gebes. “If all data is kept in one place (executives) have the ability to generate accurate profit and loss statements by division, drill down to see what areas are doing well, what options are selling well, where they made the most money, and so on.”

While Ryder Homes, www.ryderhomes.com, Walnut Creek, Calif., isn’t targeting any immediate moves for entering new markets, Vicki Buckridge, IT manager, believes tapping a common database for information has greatly improved relations between locations in California and Nevada. This helps immensely in what Buckridge refers to as a “different kind of growth”

which entails servicing its current market more effectively.

“It enables us to do more with less, allowing us to handle the routine stuff with ease so we can concentrate on the not-so-routine stuff more effectively,” says Buckridge. “We are not looking to be the biggest, but rather keep the focus on the customers and lots we currently have, so in a sense we are growing in a different nature.”

Using applications from BuilderMT fully integrated with its accounting package from Timberline, www.timberline.com, Beaverton, Ore., Buckridge is able to generate reports that are specific to customers and properties without having to sift through countless reports in a manual progression. This allows for actions and requests to be handled in a more streamlined fashion, therefore resulting in more satisfied customers.

Eric de Jager, director of product management, Microsoft, believes tapping data from one common database can not only help analyze profits by segment and location, but also allow users to tie that in with such things as customer satisfaction rates and subcontractor relations to determine which services are providing the most value.

“It provides a grasp for the nature of contracts that produce the most profit for these companies,” says de Jager. “If they do a few retrofit or demolition projects on the side, they know how well those jobs did. This can help them determine whether or not to pursue those types of jobs in the future.”

Determining how many users it can support, identifying limitations, and evaluating whether or not it can support a wireless access network are among the factors to consider with extending the database to remote locations, says Robert Intersimone, senior industry advisor, Intuit Construction Business Solutions, www.intuit.com, Santa Rosa, Calif.

“Of utmost importance is ensuring that your system is providing realtime, accurate data,” says Intersimone. “If you are expanding your reach you need to ensure any remote operation is relying on, and more importantly, providing you with accurate data.”

Overall the technology allows users to pay attention to the details of their operations. As a result they are able to see which areas they may need to tighten up, which areas are making the most profits, and in some cases, help target which areas they may want to pursue more aggressively.

IT Assistance

For the most part, builders and contractors have a good handle on which areas they experience the most success as well as where they target their growth efforts. Still, there is something to be said for the role IT can play in helping companies target new opportunities.

“You want a system that can help you match performance metrics with the demographic of the new areas you are targeting,” says Intersimone. “Beyond which models sell best, you can see what types of communities you do best with (and target a new market with similar demographics). This is helpful for smaller builders, as it is a matter of applying the same methods that are applied by the larger builders in this manner.”

Doing more with less can be particularly critical for smaller contracting companies that may not have the resources of a larger firm. Michael Strasia, technical support director, The American Contractor, part of Maxwell Systems, www.maxwellsystems.com, Norristown, Pa., believes the proper technology can help subcontractors move into new arenas.

“Take for example an (heating, ventilation, and air conditioning) contractor looking to branch into electrical,” says Strasia. “Our system allows them to add in simple modules to track inventory, do job costing, and estimates all in a similar way across all disciplines. This makes it very easy to add in other areas of revenue opportunities (without disrupting the enterprise).”

Linda Gridley, president of home remodeling and construction company Gridley Co., www.gridleycompany.com, Campbell, Calif., can attest to the effective role IT plays in her company’s growth strategy. Looking to expand the services of Gridley Co., which range from remodeling a bathroom to complete construction of a home, into a second location in California, she has established a step-by-step approach centered on technology.

“My strategy is to expand the business to a satellite office that is about 25-50 miles from (the home office), so I want the home office to have most of the technology and do most of the support, so people can just log into the main (server) to access information,” says Gridley.

She is in the midst of working on a Web infrastructure that will allow her to publish schedules on the Internet for customers as well as for her to oversee all aspects of her operations from one view. In addition, she is using a document control module from The American Contractor, which she uses for accounting, to manage change order requests, among other documentation, throughout a project. She believes cutting down lead times with these items will be of greater importance now that her company will be operating out of multiple locations.

“Figuring out how to (track) paper is a huge problem, so the only way I can think of doing it is having an electronic file where the project team signs off (on changes),” says Gridley. “Our average is about eight hours to handle one revision, so this will help us streamline this process. I think technology will help boost us forward in this aspect of the business.”

She credits the actual jobsite as a large piece of her marketing initiative and through this satellite location Gridley creates a new avenue to extend her reach and promote her services. For her, it all fits nicely within her long-term plan.