# BEATING THE ODDS

In today's market, challenges for small- and medium-volume builders abound. These three tackled the obstacles and prevailed

**By Bob Schultz, Contributing Editor**

The playing field is far from level for small- and medium-size builders competing against large, publicly held, and regional builders. Working to maintain market share, profitability, and growth while competing against those that have access to unlimited capital—or with builders that compete on the basis of lower price—poses serious headwinds.

As they tackle the goals of increasing sales revenue while reducing unnecessary costs, small- and medium-size builders face particular stumbling blocks and hurdles: trying to be all things to all buyers; getting trapped in the custom home syndrome; maintaining a high-performing sales operation; gaining access to finished lots or appropriately sized parcels to develop; and lacking buying power, materials, and subcontractors. Here, we'll define small as less than 50 homes per year, while medium is between 50 and 150 homes per year. Now let's meet three such builders that are prevailing in today's marketplace.

**ASHLEY KENT**, VP OF SALES AND MARKETING, KENT HOMES, WILMINGTON, N.C.

**In a nutshell:** Kent Homes has been family-owned since 1989. We serve active adults relocating from the northeastern U.S. Homes range from $250,000 to $600,000.

**Growth:** 2015: 63 closings; 2016: 79 closings; 2017: on track for 90 to 95 closings.

**STRATEGY**

**Custom to production:** Of our 30-plus floor plans, five were most popular. Cutting the others made it less confusing for buyers. Eliminating one-of-a kind custom homes with high probability for errors—estimating, purchasing, production—made us more efficient and profitable. Then we focused on prepackaged options, creating The Kent Homes Collection.

**Sales:** I was learning the role of construction superintendent, and it was time for me to move into sales. Developing a great sales operation was critical in enabling us to go from being a small custom builder to doing higher-volume quality production. We started with a team of two salespeople, and we still have two, of which I am one. Presentations must have a plan; you can't just wing it. We embarked on a serious program to develop a seamless presentation, with practice, drill, and rehearsal of interactive, scripted dialogues. And finally, I became a leader and coach. I learned never to ask someone to do something that I couldn't or wouldn't do myself. I worked hard to develop Kent Homes' interactive presentation, coaching our other salesperson and, as we continue to grow, coaching the new associates we're hiring.

**Land position:** We build within master planned communities. As an on-your-lot builder, our average build price is $385,000. Over the last three years, we've worked with developers of MPCs to buy home sites and create exclusive Kent Homes neighborhoods.

**Buying power:** We combine our lumber volume with that of other builders in our group, enjoying savings of 5 percent to 7 percent over local market pricing and participate in a national contracts program. We'll install 70-plus HVAC systems this year, making us an important customer for Lennox. Buying garage doors, appliances, and tankless water heaters provides significant savings, rebates, price protection, model home programs, and fast response from manufacturers on product issues.

**SHAWN FORTH**, OWNER, SHAWN FORTH CUSTOM HOMES, EDMOND, OKLA.

**In a nutshell:** Shawn Forth Homes has been family-owned since 1992. We serve first-time and move-up buyers. Homes range from $250,000 to $500,000.

**Growth:** 2014: 11 closings ($4 million); 2015: 19 closings ($6.1 million); 2016: 17 closings ($5.5 million); 2017: 19 closings ($6.2 million).

**STRATEGY**

**Custom to production:** This has been a difficult undertaking: For 20 years, we built custom homes on our clients' lots. Over time, we developed a portfolio of plans with standard options, offering personalization and concierge-level service.

**Land position:** We joined with several other small builders and created an LLC land-buying group to purchase lots. We go into a community and make commitments to take down lots just like the larger builders do. The developers like it because the liability is spread over three to four building companies.

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**Buying power:** We took a leadership role in getting the CBUSA [buyers co-op] system into the Oklahoma City market. Our group has lowered direct costs, with buying volume equivalent to the largest builders in the market, leveraging volume for significant savings in lumber, drywall, roofing, and concrete. We participate in numerous contracts for appliances, garage doors, HVAC, and fiber-cement siding.

**BRANDON ELLIOTT**, FOUNDER, ELLIOTT HOMES, GULFPORT, MISS.

**In a nutshell:** Elliott Homes, founded in 2011, targets first-time buyers, first and second move-up buyers, and active adults.

**Growth:** 2014: 32 closings ($4.2 million); 2015: 46 closings ($8.6 million); 2016: 78 closings ($21.2 million); 2017: on track for 129 closings ($42 million).

**STRATEGY**

**Custom to production:** We asked a lot of questions, held a lot of focus groups, and dug deep to find the "why." That made it easy to create a plan that people really want, rather than what we *think* they want. We sometimes nickel and dime our plans to death to increase profitability, but in doing so we take away the sexiness that consumers value. We tried to find a happy medium between salability and profit, creating options that make the plan versatile enough to target more than one buyer segment.

**Sales:** In 2016 we shifted from selling spec homes through MLS with a broker to having manned model homes with specs at various stages. Our sales greatly increased, got more consistent, and the "It's just a bad time of the year" excuse went away. The key to bringing sales in-house is training and culture.

**Land position:** When a national builder entered our market and tried to buy all of the available land to put the small builders out of business, we found ourselves in the land development business. This can be risky; finished lots are expensive and have no exit strategy in a downturn. The key to our going from four communities to 18 in a year was the terms under which we purchased our developments. Our mentality is that if the deal isn't good for both parties, then it's not good for us. When buyer and seller each understand what the other needs, a hard negotiation turns into a brainstorm on how to make it happen. We run land development as a self-sustaining company that sells land at market value to the home building company. It must make money on its own, as there is risk involved and it requires overhead to function effectively. **PB**

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