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Presentation by Andy Gianino, President of The Home Store, at the Modular Home Builders Association's Modular Home Summit on September 25, 2014

Thank You!

Thank you Tom and Steve for inviting me to speak today. As our industry's advocate, your organization, the Modular Home Builders Association, is doing a great job protecting and advancing our interests. I saw this in action recently at a meeting of Massachusetts' code officials. It was very clear that you had earned their confidence and trust.

To everyone else in the modular home industry, if you haven't already joined – whether you're a manufacturer, builder, or vendor, please do so for all of us. The association can't help us unless we all help carry the freight.

You may wonder why I'm saying this to all of you here today, since you're likely already members. I will be creating a podcast of my presentation that Gary Fleisher has kindly agreed to post on his blog, Modular Home Builder. He will also be posting a text version. I want to encourage all of you listening to the blog or reading the text to join our industry's association.

Let me also say that I can't think of a more fitting place to post my presentation, since Gary's blog is our industry's source of news and thoughtful reflection. We all owe a thanks to Gary, rightfully known to everyone as "Coach", for speaking candidly and constructively about how to improve our industry. If you don't regularly read his blog, you owe it to yourself and your company to do so.

Introduction

Those of you familiar with my book – The Modular Home – know that I strongly believe in our industry. I believe modular homes provide better quality, faster construction, and lower prices. But I believe we can become much better. While my book is about enhancing the builder – customer relationship, today's presentation will be about the optimizing the manufacturer – builder relationship.

So why is our market share not growing? Is it because customers don't know about modular homes? Without a doubt that's a problem. I know the association is working on it.

But what are we doing about the fact that a lot of people do know about modular homes, yet remain unconvinced of their value? From my experience, they especially have doubts about the quality and cost savings of modular homes, although they agree modular construction is faster. Will an advertising campaign be able to change their perception? Not as much as we need, if we're to command a larger market share.

On the other hand, I also believe our industry doesn't have a single critical problem. We can change nothing and our sales, if not our market share, will grow. That's because conventional construction will be challenged to meet the increasing demand for new homes, especially with the increasing labor shortage. But I think we'd all like to grow more than a little.

All of you have thought of the things I'm about to say, so the problem isn't ignorance. The problem also isn't primarily about our image, although the solution will enhance our image considerably. I doubt this observation is particularly contentious.

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However, my prescription for fixing the problem may be a little more controversial. I believe the solution requires the industry to change the relationship between manufacturers and their builders in a fundamental way. I believe this change requires each manufacturer to invest substantially in business tools that will help their builders. In turn, I believe each builder must make a greater commitment to their manufacturer.

Caveats

Let me mention a couple of caveats.

First, I was sincere when I said in my book that I was surprised to learn that home building was as difficult as psychology. (As some of you know, I have a PhD in psychology. I was trained as a child therapist.) I said this because of the phenomenal amount of complexity in both. The complexity in the home building world makes it hard to build efficiently with quality while controlling costs. The complexity also makes it hard to orchestrate everything so well that all of your customers are happy. That's in part because, like psychology, building a new home involves managing the transactions between people.

But with home building it's not about managing people's motivations, behaviors, or emotions – at least that's not something I'll address today. It's about managing their work – which is quite challenging because of the complexity. My views today will be about how we can manage this complexity more effectively.

Second, I've never worked for a manufacturer, nor have I had an insider's look into how a manufacturer is run. I realize that most manufacturers are doing some of the things I'm going to suggest. Maybe a few are doing many. But we all need to do a lot more.

Third, the fact that I want to take an honest look at how we can become better doesn't mean I have an ounce of doubt that modular homes are better than stick homes and a much better value for our customers.

Fourth, it's not that I know specifically what should be done to reconfigure the relationship between the manufacturer and builder. There are many alternative paths, and each manufacturer, along with their builders, will come up with their own system. So don't focus too much attention on the specifics, which are just meant to give examples of what one might do. But I do want to give an overview of why significant changes are necessary and present a few alternative models. Most of all, I want to start a discussion that I hope will carry forward on Coach's website and continue directly between manufacturers and their builders.

Image

Let me say a little about our image.

We all know how our image as modular home builders gets framed compared to stick builders. When a stick builder has a problem with a particular house, they get judged as having failed as a builder. The customer, other contractors, vendors, and the general public all tend to feel this way. When a modular builder has a problem with a particular house, too many people judge the failure as another failure of the modular industry.

In other words, people in general don't think of the problems with stick homes in terms of the type of construction as much as in terms of the quality of the builders. But they think of problems with modular homes in terms of the type of construction, regardless of the manufacturer or builder. We've all heard a version of "Modulars just aren't very good!"

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Stick builders are susceptible to this kind of thinking even more than the general public, which is why our efforts to recruit them are met with resistance.

When people start off with a negative impression about something – virtually anything – they filter news through this prejudice. Small negatives become big ones; big positives are discounted. All the positive stories and photos about modular homes won't change the opinions of those people who are prejudiced against modular homes.

Nor will the stories necessarily get remembered. The negative stories, however infrequent, are the ones that get remembered. Marketing can't undo or fully compensate for these stories.

Why do I make this obvious point? If we have this kind of problem with our image, we must change this perception with more than marketing. And we must do this together – as an industry.

The best way to deal with this is to become better – not a little better, but significantly better. In my opinion, we aren't better than stick building by enough of a margin. This includes those things we're definitely better at than stick builders (quality, price, time). Being 10% or even 20% better is enough in most matters to tip the balance. But not when you're working against pre-existing prejudices. We need to improve so much that we can't be ignored or denied.

Don't misunderstand me – I believe advertising will help. But it will work best with those already favorably impressed or at least those open minded about modular homes.

More importantly, what really captures most people, including those with negative views, are word of mouth endorsements. That's why social media is so important these days.

My point – we need to make great products and provide great services so we turn our customers into evangelists. This will make our customers want to make converts of others. This will only happen when we exceed the expectations of those who buy from us.

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Problems

Let me say a few things about how our advantages in quality, time, and price aren't always great enough to overcome the negative image some people have of us. I will confine myself to a few obvious items here.

Quality

I'll start with quality.

Modular manufacturers have gotten considerably better over the last three decades I've been building modular homes. Our quality is considerably better than found in most stick built homes. But there are still too many things that need to be fixed in the field by either the builder or the manufacturer.

Customers see these things and so do subs, vendors, and building inspectors. Even manufacturer sales reps, sales managers, and service managers complain that the quality should be better. Worse yet, modular builders and their employees sometimes become so frustrated and angry that they, too, voice these complaints to anyone who'll listen. Obviously these criticisms seriously undermine consumer confidence and interest in modular homes.

One thing in particular that is making us appear to have quality problems is manufacturers' sales to dealers who don't honor their responsibilities to their homebuyers.

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First they fail to educate the homebuyers about their responsibilities, especially the scope of work needed to complete a turnkey. To add insult to injury, they don't assist with warranty problems. These dealers seriously compromise our industry's reputation.

Time

Let's talk a little about time.

In my opinion, it takes too long to complete the steps that bring the customer from the first sales meeting to their modular delivery. Consider the following typical steps:

- Design
- Pricing
- Custom specifications
- Drawings
- Revisions of drawings and pricing
- Then more revisions of drawings and pricing
- Permit plans
- Production backlog

It routinely takes a few months to complete these steps, regardless of how competent the builder and manufacturer are. One problem is that many of the steps done by the manufacturer are repeated by the builder and vice-a-versa – for multiple revisions. This is especially true for drawings, custom specifications, and pricing. A competent stick builder can break ground in half the time.

It also takes too long to complete a turnkey. The time required to complete the mechanical hookups and carpentry button-up on anything but a simple ranch is substantial. I've often wondered whether manufacturers could do more at the factory to reduce the time in the field. But their objective, understandably, is to limit the labor in the factory to keep the price low.

It's possible there are button-up techniques for doing it faster. But there's no training to teach us.

Another reason why it takes too long to complete the turnkey is the additional time it takes to correct factory mistakes. This includes the following:

- The time needed to fix the mistakes
- The time needed to resolve disagreements between the builder and manufacturer about who is responsible
- The time waiting for the manufacturer's service crew to arrive and complete the work
- The time waiting for the replacement of damaged and missing materials to be delivered

I've often wondered if manufacturers understood just how much damage this does to a builder's reputation, as well as their own. If you read builder comments on Coach's blog, you know almost all builders share this view. What's amazing is that this should be easy to fix.

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Price

Let's move on to price.

We seem to have accepted that modular homes are only a little less expensive than stick homes and that most of the savings is due to speed of construction, which of course saves money with financing and insurance. I would have thought we'd be able to drive down the cost using lean procedures and automated systems.

On the other hand, Scott Sedam, the guru of "lean" construction, who writes a column for Professional Builder, has said that productivity in all of the residential construction industry has increased very little since the 1950's. During the same period, other US industries have increased their productivity 10 to 20 times more than home builders.

The productivity problem of course affects how efficiently we build. This includes the things we do managing the construction process in addition to the construction work itself. If we better applied the advances in technology and automated systems that have been developed over the last 50 years, we would seem to be in a position to make some substantial improvements.

What's standing in the way of lowering the total cost to manufacture, sell, and turnkey a modular home? One factor is weak product innovation. BluHomes' folding wall system may or may not be a brilliant innovation, but it definitely helps with a major industry problem – the cost to deliver the modules. In fact, delivery costs have become a huge component of the price for a modular home.

Since I'm not an expert on factory construction, I don't have a lot to offer here. But I will note that we often brag that we stick build our homes in the factory. To me, that's a major reason our productivity hasn't increased more than it has.

Another problem is that there are too many inefficiencies requiring redundant overhead with sales administration. These include drawings, specifications, and pricing.

Inadequate quality control also drives up the price. The total price to a homebuyer necessarily includes the cost for repairs incurred by the manufacturer and builder to fix factory mistakes. It also includes a fudge factor for surprises, since they occur with some frequency.

Finally, most of what I will discuss ahead has significant cost implications.

How to Improve Our Advantages in Quality, Time, and Price

So what do we do as an industry to fix these well-known problems?

I'm not going to focus on things that are universally agreed, such as better quality control systems will produce better product quality. Neither am I going to go into a lot of detail about any one of my observations. I'm sure each of you will have a different vision, especially when it comes to the details. But much of what I suggest will end up in one form or another in any system that attempts to comprehensively integrate and automate the manufacturer's and builder's business.

The goal of these suggestions is to propose how we as an industry can improve our quality and build faster while lowering our cost. All of these will improve our competitive position at the same time that they improve our image.

Let's take a look at Slide 1: "Manufacturer and Builder: A Closer Working Relationship".

As you can see in this slide, I suggest that there are four areas that manufacturers and builders need to work on together.

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- Customer Relationship Management

- Modular Drawings

- Turnkey Project Management

- Sales, Turnkey, and Business Training

Customer Relationship Management

Customer Relationship Management (CRM): Functions Covered

Let's start with a definition of Customer Relationship Management.

CRM is a software system for managing a company's interactions with current and future customers. Typical CRM systems help to organize, automate and synchronize sales, marketing, customer service, and technical support.

Let's take a look at Slide 2, "Customer Relationship Management", which shows the CRM version I've been building for my company. It includes the following eight functions that my company tracks.

- Customer Leads

- Modular Pricing

- Contractor Pricing

- Sales Administration

- Contractor Administration

- Delivery and Set

- Warranty Service

- Profit and Loss

I'm not suggesting that this is a model for others, but I do want to give it as an example of how a CRM system can help a manufacturer and builder work more closely together. It's also an example of how builders can create more efficient systems for themselves even if their systems are not integrated with their manufacturers' systems.

Why have I found it both necessary and immensely helpful to create our CRM system? Because there are too many steps and too many details for each of our customers. Our company cannot handle this complexity efficiently and accurately without help from an automated system.

Think about it this way. For each customer we first need to identify the tasks that must be done. This not only requires us to know all of the specific facts about each customer. It also forces us to know what is typically required for customers so we remember to secure the information we don't know.

For example, it helps if you learn that a customer needs a survey, but this might not come up for a while because the customer didn't volunteer this information and you didn't think to inquire. But it's not easy to remember all of these details and their corresponding tasks for every customer.

Furthermore, a lot of the tasks we're responsible for as a modular builder have multiple steps that need to be done in a particular sequence over time. So in addition to the information you know, and the information you're prompted to learn, there's remembering to do the particular tasks

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needed to move the customer forward in a timely fashion. In short, there's a lot of information that needs to be tracked and a lot of tasks that need to be completed.

Complicating this is the fact that a lot of the information flows back and forth between builder and manufacturer. It's not efficient for each side to enter and repeatedly update the same information separately, but that's what we do in our industry.

Three observations:

- I didn't create this complexity. My book documented some of it – but it wasn't a "how-to for builders".

- The time it takes to enter and update the information in a CRM system is minimal. Especially compared to the time it takes if you forget to do a task or remember it incorrectly.

- Like most builders starting out, we began by tracking all these details with pencil and paper or our memories. But without prompts, we often failed to collect all the information we needed. In addition, we too often forgot too much of what we learned and needed to do.

Customer Relationship Management (CRM): General Features

Let's talk about some important general features of my CRM system. I've listed fourteen of them in *Slide 3: "CRM: General Features"*. I will discuss two of them here.

- Integrated Within Each Network

Each of the eight functions in our CRM network is interconnected with the others. This means information only needs to be entered and updated once.

- Integrated Across Two Networks

This is a critical feature that we aren't able to take advantage of, since we aren't able to interface with either of our manufacturers. If we could interface, each function within our CRM network would connect to a corresponding function in our manufacturer's CRM network.

Of course, each of our manufacturers would need to capture the information in their systems that corresponds to what's in our company's system. The two of us could then in principle map the information across systems. In practice this can be very difficult and expensive when the CRM systems are different. But if we could do this, the information would only need to be entered and updated once by either the manufacturer or us.

To learn more about the other general features listed on *Slide 1*, see my notes at the end of my written presentation.

Let's now talk about each of the eight functions.

Customer Relationship Management (CRM): Customer Leads

The first function I will talk about is Customer Leads.

The purpose of this function is to contact, track, and follow-up with our leads so we can identify those who are interested in meeting with us for more detailed information. The system can handle internet leads from our manufacturer's or our own website as well as leads that call or visit during open house hours.

Let me first explain how the system handles internet leads, since these are the most problematic.

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The problem with most internet leads is they aren't very responsive. They only contact us to get information, ideally without talking to us, since they're not ready to make a decision.

Our salespeople understandably get impatient with leads who don't respond. If our salespeople are getting leads from phone calls and visits to our model home center, they'll do a poor job of staying in contact with internet leads.

Here's what we do.

Each internet lead is automatically sent an email thanking them for contacting us as soon as the lead comes into the CRM system. The system automatically assigns one of our salespeople to the lead, depending on rules set by me. The salesperson assigned the lead is prompted to contact the lead by phone. If the lead is not reached, the salesperson is prompted to send an email mentioning that they've left the lead a message, asking them to call the salesperson. The email is a template, which saves the salesperson a lot of time.

The CRM system then automatically prompts the salesperson to follow up with either more calls or emails, again using templates. The system keeps track of each contact with the lead and when the next contact should be made. It also tracks the other information the salesperson will want to remember about the lead. Most of this information isn't learned by the salesperson until the lead engages them with a phone call or email. But what is learned is recorded.

To learn more about the Customer Lead function, see *Slide 4: Customer Relationship Management*, which lists sixteen examples of the fields we track, as well as my notes at the end.

In addition to the steps we follow for new leads, our CRM system also automatically sends each lead one of 52 email templates on a weekly basis. Each template is brief, but with information the lead hopefully finds useful. Each template contains links to more information on our website. Leads most often click on the link to our home plans. The 52 emails are repeated every 12 months for three to five years. Although we make it easy for a lead to opt out, most stay on our email campaign. We have about 1,500 leads on the campaign now.

Here's a recent twist. About 8 months ago I personally started making the initial contact with each internet lead. I now take responsibility for trying to contact and engage these leads until they are ready to meet with our salespeople. My function is to screen the leads so that our salespeople don't have to. My job is to persistently nurture the leads along until they're ready.

While performing this function I continually update the information I learn from each lead so that when they're ready to meet with a salesperson, all the information gathered by me is already documented in the CRM program. The salesperson starts where I left off.

After a lead is engaged with us and ready to speak with a salesperson, the salesperson updates the information as learned. In addition to meetings and phone calls, the salesperson can draw upon any of our 50+ additional email templates, as needed. Again, the templates really help because the less the salesperson has to create, the more time they have to sell.

Here are some noteworthy advantages of this CRM function.

- We stay in contact with many more customers with less effort over a multi-year period
- Our salespeople aren't asked to spend time or motivation pursuing leads that aren't ready to meet
- The built-in email templates facilitate our contacts with the leads
- The To-Do Task Tracking reduces the chance we'll forget a task
- The To-Do Date Prompt reduces the chance we'll forget to contact the lead in a timely manner

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I will point out here that the two To-Do features apply to all eight CRM functions. So I will not repeat them below when I mention the advantages of the other CRM functions.

Customer Relationship Management (CRM): Modular Pricing

The next function I'd like to talk about is Modular Pricing.

The purpose of this function is to generate a retail price for the modules. It is the one function of the eight in our company that's paper and pencil. I've not been able to afford a program that I can integrate into our CRM system – although plenty of them exist.

Let's take a look at Slide 5: "CRM: Modular Pricing". This slide includes eight examples of how this function will be integrated within our CRM system in the future. To learn more, see my notes at the end of my written presentation.

Here are some additional advantages of the Modular Pricing function.

- It will generate detailed modular specifications and itemized pricing without waiting for the manufacturer.
- It will enable the homebuyer to make a more timely decision.
- The manufacturer won't have to re-enter all the information entered by us, although it will review and approve the information.
- It will save time, which will reduce our overhead – substantially.
- It will also reduce the manufacturer's overhead.

Customer Relationship Management (CRM): Contractor Pricing

The next function I'd like to talk about is Contractor Pricing.

The purpose of this function is to generate a price for the contracting work. Currently this function is "automated" using a very large spreadsheet with multiple workbooks. But it's not yet integrated into our CRM system. It's quite functional, but not ideal. But here's a sense of what it will look like when it is.

Let's take a look at Slide 6: "CRM: Contractor Pricing". This slide includes eight examples of what's included in this function. To learn more, see my notes at the end of my written presentation.

Here are some additional advantages of this CRM function.

- It will generate a detailed scope of contracting work with detailed specifications and itemized pricing.
- It will enable the homebuyer to make a more timely decision.
- It will also save time, which will reduce our overhead – substantially.

Customer Relationship Management (CRM): Sales Administration

The next function I'd like to talk about is Sales Administration.

The purpose of this function is to track and execute all steps required to help the homebuyer, the manufacturer, and my company remain on schedule from signing the contract through the sign-off with the manufacturer.

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Let's take a look at Slide 7: "CRM: Sales Administration". This slide includes eight examples of the fields we track. To learn more, see my notes at the end of my written presentation.

Here are some additional advantages of this CRM function.

- The built-in templates for letters and emails facilitate our communications with the homebuyer, manufacturer, lender, building inspector, contactors, etc.
- The time savings increases our homebuyers' satisfaction about us and reduces our overhead.
- It also reduces our manufacturer's overhead.

Customer Relationship Management (CRM): Contractor Administration

The next function I'd like to talk about is Contractor Administration.

The purpose of this function is to track and execute all steps required to help us shop and schedule the subcontractors and vendors needed for the contracting work when we're the general contractor.

Let's take a look at Slide 8: "CRM: Contractor Administration". This slide includes five examples of what's included in this function. To learn more, see my notes at the end of my written presentation.

Here are some additional advantages of this CRM function.

- Planning and shopping are faster and more accurate.
- The time savings improves subcontractor and vendor shopping and reduces our overhead.

Customer Relationship Management (CRM): Delivery and Set

The next function I'd like to talk about is Delivery and Set.

The purpose of this function is to help us shop and schedule the subcontractors and vendors needed for the delivery and set.

Let's take a look at Slide 9: "CRM: Delivery and Set". This slide includes examples of what's included in this function. To learn more, see my notes at the end of my written presentation.

Here are some additional advantages of this CRM function.

- Planning and shopping are faster and more accurate.
- The time savings improves subcontractor and vendor shopping and reduces our overhead.

Customer Relationship Management (CRM): Warranty Service

The next function I'd like to talk about is Warranty Service.

The purpose of this function is to record, track, and resolve service issues.

Let's take a look at Slide 10: "CRM: Warranty Service". This slide includes sixteen examples of fields we track. To learn more, see my notes at the end of my written presentation.

Here are some additional advantages of this CRM function.

- It generates invoices, work orders, etc. with a click of the mouse.

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- The tracking system makes for much happier homebuyers and reduces overhead for both the modular manufacturer and our company. It reduces the manufacturer's overhead because we stay on top of issue, which helps to get items resolved more effectively.

Customer Relationship Management (CRM): Profit and Loss

The last CRM function is Profit and Loss. It automatically calculates both modular and contracting profitability. It provides us with a good snapshot of both, and it's the information your accountant would want.

Customer Relationship Management (CRM): Interconnections

The last thing I'd like to mention about our CRM system is how each CRM function is interconnected.

Let's take a look at Slide 11: "CRM: How the Data from Each CRM Function Is Interconnected".

This slide indicates how the data flows between the eight CRM functions I discussed earlier.

Note that the information exchanged between functions within our network is in both directions.

As I mentioned earlier, there is no integration between our network and the manufacturer's network. If there were, however, the connections that would be mapped from our CRM system to our manufacturer's system would not be one-to-one. There would be many functions on each side that do not have any parallel on the other side. For example, Contractor Pricing and Contractor Administration on our side would not need to be tracked by the manufacturer.

In addition, there would be functions on one side that would be indirectly connected to functions on the other side. For example, our Contractor Pricing and Contractor Administration, which take input from our Modular Pricing, in turn take input from the manufacturer's pricing.

Drawings

Modular Drawings

Let's talk about modular drawings.

Building Information Modeling, a software known as BIM , is the most powerful tool invented for the construction industry. I am no expert on this and won't pretend to be. But if the modular industry could adopt this software as its preferred drawing program, it would totally set us apart from all but the largest builders. Small builders can use CAD, but few of them will be able to adopt BIM.

Warren Buffet thinks so highly of this technology, that he bought a software developer that is a BIM provider. He also wrote a "book" touting the technology, which he distributed to the CEOs of the 50 largest home builders.

What excites everyone about BIM?

- It is a true 3D program.
- It generates accurate cost estimates in terms of both materials and labor.
- It increases the accuracy of what's drawn so the field isn't burdened with fixing things that don't work.

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- It saves a lot time, materials, and labor, since it catches and removes the problems that are unintentionally designed into a home. Let me repeat: it catches design and engineering problems before production begins.

- It helps builders manage projects from beginning to end.

- It determines how long each construction task will take.

- It determines the sequence of tasks.

- It creates usable production drawings for all trades.

- It fosters collaboration between all involved.

- Etc., etc.

On the other hand, BIM is not inexpensive or easy to implement. In addition, it's probably not the drawing or design program builders will use to sell homes. Its primary value to builders will be on the construction side, since it will help them enjoy better quality, lower prices, and faster turnkeys. Accordingly, any modular manufacturer who uses BIM software will have a significant competitive advantage recruiting and retaining builders.

Contractor Drawings

Let's talk about Contractor Drawings, specifically drawings for site-built structures, such as garages, porches, and decks.

I'd like to make an argument for manufacturers helping builders with this task. Builders don't have engineers on their payroll, but manufacturers do. Manufacturers can charge for this option. If manufacturers helped with these drawings, the structures would be better integrated with the modular drawings.

I'm not asking manufacturers to officially engineer or have a 3rd party stamp them. A note can be put on the drawing that states this. Much of the time, building inspectors don't require the plans to be signed by a licensed engineer. If manufacturers can't do it in the usual way, they should figure out a way they can help. This will enable the builder to apply for a building permit earlier.

Turnkey Project Management

Let's talk briefly about Builder Turnkey Project Management.

Builders can use help from manufacturers with three things.

- House specific instructions and drawings for the set crew and button-up crew to complete their tasks

- A manual of contractor best practices

- Project scheduling integrated with Modular Pricing and Contractor Pricing

House specific information and project scheduling would help builders build efficiently and on schedule. Tools like Gantt charts would significantly help builders with planning and project scheduling, since they show sequence and task dependencies. If BIM were used, these could be automatically generated.

These tools should also be made available to homebuyers who want to complete their own turnkey. If a modular builder isn't completing the turnkey, they have an obligation to be clear

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and detailed about the homebuyers' responsibilities. With good instructional guides, homebuyers can complete the turnkey with more success and the finished home will look better. Our industry's reputation would be notably enhanced.

Training

Training

Let's consider training.

When starting out, few builders have all four of the skills needed to be successful. These include marketing, sales, contracting, and business skills. I personally only had sales skills, and they weren't polished. Unless the builder is competent at all four or recruits people who have the other skills, they will struggle to succeed. I know this first hand.

No manufacturer that I know has a comprehensive training program. Manufacturers don't want to invest a lot of time and money into training a builder only to find they went to another manufacturer. Also, few sales representatives are trained to coach builders. One-day, once a year training sessions, popular with manufacturers, are good as refresher courses. But whether 3 or 6 hours, they almost never foster lasting learning of new material. We just don't learn with one-shot teaching.

We take this for granted about athletes, doctors, and school teachers. We also know this is true for training our tradespeople. So what is needed for all tradespeople, doctors, athletes, etc. to learn? Training, practice, supervision! Repeat, repeat, repeat, repeat, repeat!

Given the importance of training, manufacturers need to have a designated trainer. The trainer position should be separate from the manufacturer's sales manager position. After all, managers aren't necessarily good teachers, and teachers aren't necessarily good managers. A manufacturer's trainer can train its own sales reps as well as its builders' salespeople.

It's worth mentioning that a comprehensive CRM system also serves as a great training tool. For one thing, it captures the tasks that need to be done for each administrative function. It also provides help menus that serve a training and supervisory function.

It's noteworthy that builder training will add credibility to both the manufacturer and builder. It will also provide an opportunity for publicity.

Sales Training

Let's take a look at Slide 12: "Sales Training", which has three suggestions about what should be included in sales training.

- On-Line and In-Factory Classes and Webinars
- A manual of Modular Sales Best Practices
- Videos and Podcasts of Sales Best Practices

These will take some time to develop, but the payback in increased sales will be substantial.

Turnkey Training

Let's take a look at Slide 13: "Turnkey Training", which has five suggestions about what should be included in turnkey training.

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- On-Line and In-Factory Classes and Webinars

- A manual of Contractor Best Practices

- Videos and Podcasts of Contractor Best Practices

- A manual of Troubleshooting Best Practices

- Videos and Podcasts of Troubleshooting Best Practices

When developed, these will help manufacturers recruit new builders to modular construction and, better yet, help retain them.

Business Training

I don't have anything special to say about business training. I think it speaks for itself. However, I will say that I personally could have benefited enormously.

Four Questions

I will end my presentation by asking and answering four questions, as listed on my last slide, *number 14: "Four Questions"*.

(1) Why Is Change Needed?

(2) Why Do We Need a Closer Relationship between Manufacturers and Builders?

(3) Who Should Create The Systems and Tools?

(4) How Might a Closer Relationship Work?

(1) Why Is Change Needed?

It's needed because we need to earn a better reputation. As they say, if we build a better reputation, customers will come – lots of them. We need to deliver better quality, build homes faster, and lower our costs so we can reduce our prices.

We also need to become cutting edge with our systems, not just with our construction. Whether we think about it this way or not, we present ourselves as building better quality homes using 21st century construction technology. But ironically, this causes customers to develop higher expectations for our entire performance. Unfortunately we don't always measure up, in part, I believe, because we're still using last century's systems.

Given that we're trying to rehabilitate our image, we need to exceed the expectations of those who buy from us. This means we have to consistently do all the right things, not just most of the time. If we do, our happy homebuyers will be the best advertising we can generate. And this will enable us to command higher margins, since we won't have to compete as much on price.

The kinds of changes I'm recommending are the kinds of things that most industries have already done. That's where their higher productivity comes from. Keep in mind that these changes will be implemented in one form or another by us or new players.

Although BluHomes isn't at this time a competitor for most of us because of its focus on very contemporary homes, they're creating some sophisticated systems, such as their Configurator. This allows customers to design their own home on-line. It produces a real-time view of the costs of the customers' design. It generates a material list for production.

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Their folding walls may yet prove to be a competitive advantage. This is not only because we incur a much higher cost to deliver our wide modules. But also because the smaller modules enable BluHomes to increase production substantially with much lower overhead. Why – because they can deliver affordably over much greater distances than we can, which means they need fewer factories to cover a large territory. Also, they have access to more investment capital than most other manufacturers.

What if they decided to bring their systems to our core market? Don't assume they couldn't drastically lower their retail prices. Remember, they control the retail side as well as the manufacturing side.

How about an international threat? You might have read recently that China is setting up production in South America to build thousands of homes.

The point is that market conditions over the next few years are likely to entice other very well-funded modular startups who will raise the bar. As I mentioned, the demographics are quite positive for new construction, so demand will be high. But the labor market for virtually all construction trades is shrinking, so the need for labor saving products and systems will grow. There are a lot of smart Americans with access to capital who will want to jump into this market.

(2) Why Do We Need a Closer Relationship between Manufacturers and Builders?

I believe that the changes I'm advocating are more likely to happen if a stronger, committed, and more mutually dependent relationship between manufacturers and their builders is forged. Manufacturers need to invest substantially in their builders. Builders need to commit strongly to a manufacturer.

What would make a manufacturer invest in the systems and tools that would help its builders? Manufacturers would be willing to make this investment if they received in turn a level of builder loyalty and commitment that makes them more successful. How will manufacturers measure success?

- Higher profits
- Lowers costs
- More sales
- More control and fewer complications
- Happier homebuyers, employees, and subcontractors
- More new builder recruits

What would make a builder commit to one manufacturer? First, why do builders feel they need more than one manufacturer? Here are typical reasons:

- Price
- Delivery schedule
- Floor plans
- Custom designs
- Engineering
- Module sizes
- Set support

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- Delivery costs

Why would a builder give up these advantages? Builders would give up these advantages if the manufacturer provided assistance that makes them more successful.

- Higher profits

- Better prices

- Faster turnkeys

- More sales

- More control and fewer complications

- Good automated systems

- Useful training

- Superior warranty service

- Happier homebuyers, employees, and subcontractors

A builder will be most willing to commit when the range of services and products offered by the manufacturer is significant.

In short, manufacturers and builders need the same thing. Integrated systems and tools that help both of them build modular homes faster, with better quality, for less money – so they can be more successful.

(3) **Who Should Create The Systems and Tools?**

It makes sense for each manufacturer to create its own systems for its builders. If a manufacturer creates its own system and each of its many builders create their own unique systems, there won't be a realistic path to integration. Also, builders can't easily afford or justify the expense. I can personally vouch for that.

The necessity for all manufacturers to develop these systems in order to remain competitive means two things. Those that don't take action will have a difficult time holding onto their builders. The cost and time needed to develop these systems will impose a barrier to entry for aspiring, but undercapitalized, manufacturers and builders.

(4) **How Might a Closer Relationship Work?**

Let's assume a manufacturer has created the systems and tools for its builders.

It could offer these without requiring any reciprocal obligations from the builder.

It could require the builder to buy a certain number of homes a year. But not prevent the builder from buying homes from another manufacturer.

It could limit the builder to only buying its homes.

It could require either of the last two options to be accompanied by a formal contract between the manufacturer and builder. This could be in the form of a licensing or franchise agreement.

What are the advantages of a franchising agreement?

It clearly spells out the terms of these kinds of relationships.

It's a proven system for building and sustaining a brand.

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It justifies manufacturer advertising, since it's viable to advertise the builder and manufacturer together, as happens with car dealerships.

Even if a manufacturer requires a contractual relationship in exchange for offering its systems, tools, and best prices, it wouldn't need to require every builder to make this commitment. Those builders who didn't commit would still benefit because of the better systems, faster delivery, and lower prices. They just wouldn't get the advantage of the manufacturer's state-of-the-art systems and tools.

I don't know which of these scenarios will come to pass, but these plus others are candidates.

I hope I get a chance to be part of these changes.

Three Brief Sales Pitches

I strongly encourage all manufacturers and builders to join the Modular Home Builder's Association. Your dues will help the association advance our industry like no manufacturer or builder can do on their own.

As I mentioned at the beginning, Coach has agreed to post my presentation on his blog, Modular Home Builder. He's also agreed to host a discussion of the issues raised today. So if you'd like to add your views and see those of others, check out his blog.

While you're on Coach's website, consider getting a copy of my book, The Modular Home. While today's presentation was about the manufacturer – builder relationship, my book is about the builder – customer relationship.

Thank you!

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Customer Relationship Management – Additional Notes

General Features

Here is some more information about the General Features of my company's CRM system, as listed in *Slide 3: "CRM: General Features"*.

- Integrated Within Each Network

Each of the eight functions in our CRM network are interconnected with the others. This means information only needs to be entered and updated once.

- Integrated Across Two Networks

This is a critical feature that we aren't able to take advantage of, since we weren't able to interface with either of our manufacturers. If we were, each function within our CRM network would connect to a corresponding function in our manufacturer's CRM network.

Of course, each of our manufacturers would need to capture the information in their systems that correspond to what's in our company's system. The two of us could then in principle map the information across systems. In practice this can be very difficult and expensive when the CRM systems are different. But if we could do this, the information would only need to be entered and updated once by either the manufacturer or us.

I'll talk more about this at the end.

- Data Accessibility – information is accessible by any of our employees anytime and anywhere, including on a smart phone or tablet. It's of course in the "cloud".

- User Help Menus – new employees can learn what to do more quickly. This point is not because of help menus, but if there's a change in our staffing, the handoff from one person to the next is much easier, since the information is documented.

- Staged Base Coaching – this includes a knowledge base of best practices.

- Internal Security – I can designate who has access to what information.

- Date & User Stamped Information – data entry and updates are automatically marked with the time and user.

- To-Do Task Tracking – this reduces the chance we'll forget a task

- To-Do Date Prompts – this reduces the chance we'll forget to contact the right people in a timely manner.

- Reports, Dashboards, and View the Data – these functions allow us to organize and evaluate the data in a variety of ways.

- Search Tools – it's easy to find things

- Calendars – we can create multiple calendars to serve a variety of functions

Our CRM program also allows us to add new functions and category fields. I was able to build almost all of our CRM system on my own.

Customer Leads

Here is some more information about 16 of the fields we track in our CRM system, as listed in *Slide 4: "CRM: Customer Leads"*.

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- Contact Information – all contact information

- Current Situation* – is the lead renting, do they own, etc.

- Why Build* – relocating, sold home, more space, , etc.

- When Move In – when the lead hopes to move in

- Financing – whether the payments will be made with cash, by a lender, etc.

- Contracting Services* – who will be the GC, and if us, which tasks

- Visited Models* – whether the lead has visited our model homes

- Site Checked* – whether we have checked for module access

- Alternatives* – to building modular, with other companies, etc.

- House Style* – T-ranch, chalet cape, traditional two-story, etc.

- House Size* – in square feet

- Plans of Interest – name of plans

- Contact Log – salesperson notes

- Email History – copies of all emails

- To-Do Task Tracking* – what the next step is for each task

- To-Do Date Prompt – when the next step for each task needs to be done

We track several more fields, but this gives you an idea. Asterisks denote a pull-down menu. We use pull-down menus when we can because they give us standardized fields for easier data entry and for running reports.

Modular Pricing

Here is some more information about how our Modular Pricing system functions within our CRM system. *Slide 5: "CRM: Modular Pricing"* includes the following examples:

- Retail Prices – the system creates the retail price by adjusting the manufacturer prices per our markup. It's a smart system – it knows what goes with what. For example, if the house is lengthened, it adjusts the price for any roof and siding upgrades.

- Custom Design Tool – this function allows us to create a base price for a customized plan. We now do this with a spreadsheet.

- Detailed Specifications – we provide very detailed specifications. For example, with regard to windows, we specify the style, material, operation, screens, design pressure, interior color, interior sill, interior jamb, exterior jamb, exterior sash, and exterior color.

- Itemized Pricing – we now do this with a retail price book.

- Excluded Items – here's an example of a note we might include regarding an exterior French door: "A screen door is not included."

- Product Literature – we include images for as many products as we can.

- Homebuyer Notes – these notes include important details the homebuyer might not know. For example, "All ceiling lights and fans will be located as close as possible to the locations shown on the electrical plan without moving or adding framing. If an exact placement is required, there will be a charge to move or add framing."

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- Builder Notes – these are notes from the manufacturer to the builder. For example, "This light fixture has been discontinued."

Contractor Pricing

Here is some more information about how our Contractor Pricing system functions within our CRM system. *Slide 6: "CRM: Contractor Pricing"* includes the following examples:

- Integrated with Modular Pricing – it starts with the specifications ordered with the home. It's a smart system – it knows what goes with what. For example, it uses the type of heat ordered with the modular home to determine the type of heat included in the contractor pricing.

- Detailed Scope of Work – it specifies which turnkey tasks are included, including the button-up carpentry and mechanical tasks, the construction of site-built structures, such as garages, porches, and decks, and site work and foundation.

- Detailed Specifications – it automatically enters the specifications with the scope of work (tasks).

- Itemized Pricing – it automatically enters the pricing with the scope of work (tasks). It's formula driven.

- Excluded Items – here's an example of a note we might include regarding soil conditions on site: "The builder is not responsible for the cost of remedying poor underground conditions (such as but not limited to ledge, high or fluctuating ground water, environmental wastes or toxins, radon, debris, or unsuitable soil)".

- Product Literature – we include images for as many products as we can.

- Homebuyer Notes – these notes include important details the homebuyer might not know. For example, "The number of lally columns indicated here is approximate until the final engineering load calculations are done for production drawings."

- Builder Notes – these are notes from our company to the subcontractor. For example, "The homebuyer wants to large boulders left in the rear, right corner of their property."

Sales Administration

Here is some more information about how our Sales Administration system functions within our CRM system. *Slide 7: "CRM: Sales Administration"* includes the following examples of fields we track:

- Payment Details* – who is making which payments when, etc.

- Approvals and Permits* – tracks each approval and permit required

- Utility Requirements* – tracks each utility requirement

- Legalese* – whether the homeowners signed all contract documents

- Sign-Offs* – whether the homeowners have signed off on all specifications and pricing

- Energy Code Requirements* – special energy code requirements

- To-Do Task Tracking* – what the next step is for each task

- To-Do Date Prompt – when the next step for each task needs to be done

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Contractor Administration

Here is some more information about how our Contractor Administration system functions within our CRM system. *Slide 8: "CRM: Contractor Administration"* includes the following examples of fields we track:

- Contractor Task Contract Price – price the homebuyer is paying us for the task
- Contractor Task Budgeted Cost – the amount we are budgeting to pay the subcontractor and vendor
- Contractor Task Received Bids – the subcontractor and vendor bids we've received
- To-Do Task Tracking* – what the next step is for each task
- To-Do Date Prompt – when the next step for each task needs to be done

Delivery and Set

Here is some more information about how our Delivery and Set system functions within our CRM system. *Slide 9: "CRM: Delivery and Set"* includes the following examples of fields we track:

- Module Sizes – the size of each module
- Carrier Sizes – the size of each carrier
- Staging Area – whether a staging area is needed
- Roof System – the roof pitch and type
- Panelized Sections – whether any of the set includes panels
- Special Tasks – any special tasks needed for either the delivery or set
- Subcontractor Shopping – all information needed to shop for delivery, crane, set, and equipment crews
- Subcontractor Contact Information – contact information for delivery, crane, set, and equipment crews
- To-Do Task Tracking* – what the next step is for each task
- To-Do Date Prompt – when the next step for each task needs to be done

Warranty Service

Here is some more information about how our Delivery and Set system functions within our CRM system. *Slide 10: "CRM: Warranty Service"* includes the following examples of fields we track:

- Description – a text description of the problem with attached drawings and photos
- Who Caused – who is responsible for causing the problem
- Fix Needed – what labor is needed to fix the problem
- Fix Needed – what materials are needed to fix the problem
- Report to Manufacturer – the report of the problems to the manufacturer
- Report to Homeowner – the report of the problems to the homeowner

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- Manufacturer Disposition – the manufacturer's response to the problem
- Builder Disposition – the builders response to the problem
- Who Correct – who is responsible for correcting the problem
- Reimbursement to Builder – reimbursement owed to the builder
- Reimbursement to Owner – reimbursement owed to the homeowner
- Work Schedule – when the service work is scheduled
- Date Work Complete – when the service work was completed
- Owner Follow-Up – when a follow-up to the owner is due
- To-Do Task Tracking* – what the next step is for each task
- To-Do Date Prompt – when the next step for each task needs to be done