

Business

Lessons From the Corporate World

by Jim Shalvoy

Imagine two builders. Builder No. 1 is an experienced project manager who decides to start his own business. His technical skills are finely honed, he knows how to manage a crew and schedule, and he builds homes that customers love. But a few years after hanging out his shingle he is still struggling financially.

Builder No. 2 is a former corporate executive with no construction experience who starts a custom building company and soon becomes one of the top builders in the area.

Neither scenario is uncommon. In this column I will offer my thoughts on why, and suggest ways to avoid the fate of Builder No. 1.

Building a Business

A likely reason for the first builder's struggles is that he is basing the success of his company on his skills at building homes. He knows that marketing and financial

Then in 2001 I joined with my brother Michael — a master builder who produces exquisite homes on time and on budget — to start Patrick Joseph & Associates, a custom building company just north of Charlotte, N.C. We build high-end spec and custom homes that range in price from \$1.5 million to \$5 million-plus.

After we'd been in business for two years, the local home builders association named us Charlotte's best luxury home builder, an award that was critical in building a brand that's grown to over \$20 million in annual sales volume. The award recognized the quality of our design and construction — but the secret to getting that recognition was in our business model.

The truth is that becoming skilled in business takes as much time and effort as becoming a master builder. If you enter the high-end building market without these skills, you would be wise to find someone who has them.

Parts of a Brand

If you want your business to reach its potential — and certainly if you hope to dominate the local market — you need a killer brand. That brand includes systems for production, personnel, financial management, client relations, and marketing. If you were trained in the corporate world, you understand how to assemble and manage those pieces. And if you were a successful corporate manager, you recognize what you don't know and are willing to hire skilled personnel to compensate for those shortcomings.

Here's how these issues played out when we created the business plan that became our company.

Market research. Years of experience working on product line extensions taught me to search for underserved niches with relatively low risk and strong profit potential, something I think every builder should do. When we began our company, we saw beautiful waterfront property with trailers and ramshackle cottages near neighborhoods with beautiful homes. Because of their great location, we correctly predicted the former properties would be the next wave of opportunity, and we

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management and other business skills are important, but figures he can learn them over time.

By contrast, the corporate guy knows how to build businesses. He also understands that his homes need to be top quality, and he satisfies that need by hiring or partnering with a skilled builder, which frees him to focus on the business. In other words, he understands that both parts of the equation are equally important, and he puts the resources in place to satisfy both.

I know how this works because for 25 years I was a senior executive with a major building-products manufacturer. I worked in sales, marketing, and management.

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positioned the company to go after them.

Marketing. The launch of a new product or company often includes a public-relations and marketing campaign designed to create buzz. This was one place where we knew we would need help, so we contracted with a PR/advertising agency. The folks at the agency helped position us to apply for the HBA award, which of course brought us some great press coverage. They also made sure that potential customers who decided to check us out would be greeted with a sophisticated brochure and Web site.

Customer relations. One of our key brand promises was to make the building process a pleasurable experience for our customers. We created an upscale, high-service office environment that we use as a command center. We also created a comprehensive, client-focused communication process — and had it reviewed by an outside consultant — to help guide clients through their design, product, and financial decisions. We're serious about getting feedback from customers, and from day one have sent out customer-satisfaction surveys that we thoroughly review.

Financial stability. I understand the importance of having someone on staff to monitor the day-to-day finances and help us make good business decisions — which is why, back when we really couldn't afford to do so, we decided to hire an in-house controller. We found a young MBA and CPA with great skills and explained that he would have to justify his salary. He came back with some money-saving ideas on how to do that. Having this person on board has really helped keep our business financially sound.

Understanding our finances helps save us from a mortal error: pricing too low. Sadly, this is all too common. For instance, one builder in our market was selling luxury homes at prices we couldn't compete

with. It's a good thing we didn't try, because while we were asking ourselves how he could afford such low prices, he went out of business. The answer to our question was that he didn't know his costs.

Negotiation skills. Our customers are senior corporate executives, entrepreneurs, doctors, and other successful people at the top of the financial food chain. They are usually good negotiators who will work hard to get the best possible value, so we

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need the ability to hold our ground in toe-to-toe negotiations. One advantage I have in negotiations is that I come from their world and can relate to them as a peer. But our strongest negotiating tool is that we know our costs and margin requirements, and can explain them in detail to support our selling prices. This is something I had to do often in the corporate world, and it's something every builder needs to become comfortable with.

For instance, when we sold our first spec home the buyer showed up with a deposit check for \$10,000 less than the contracted amount on a house listed at \$1.85 million. He'd asked earlier for the discount and I hadn't agreed — but he figured we'd be willing to grant it to get the deal done. I politely stuck to my price and ended up leaving without a signed deal.

I never got bent out of shape, though. Instead, I clearly explained how much a willingness to make concessions would cost our company over the course of a year, and how that would hurt our ability to provide great customer service and a strong warranty. Not long afterward, he came back and bought the house at full price. It would have been easy to have caved in to this last-minute ploy, but we knew the value of our product — and because we know our numbers, we weren't intimidated.

Putting It All Together

I believe that what gives corporate people an edge is the ability to think and communicate easily in financial terms, and to use this ability during a negotiation. Another advantage is their understanding of all the parts that make up a business, and of the best way to assemble those parts and manage them to support growth. In my case, that understanding came from years of experience.

Of course, some contractors are very successful without this experience. But if you are serving the high-end market, you may want to seriously consider partnering with someone who has worked in the same world as your customers. Time and again I have seen the benefit of doing so. I already mentioned the builder whose lack of financial sophistication led to business failure; I know another builder who partnered with a banking industry executive about 10 years ago. Today, their company is a development powerhouse that builds great homes with an average selling price of around \$1 million. Their customers are happy, the business is profitable, and each partner is doing what he's good at. Everyone wins.

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