



Architecture & Design

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Quality Now Means Revenue Later

It is tempting to cut corners in today's hectic environment but investing in quality today will pay dividends in the future

By Jenny Simon

Let's be honest: It is more than tempting to cut corners in today's unbelievably hectic environment. In fact, it almost feels like a necessity to deliver homes to your customer. An unprecedented and unexpected demand for homes, combined with supply chain and materials shortage challenges, makes it easy to wonder how we will be able to get the job done without cutting some corners here and there. Although sacrificing construction quality can open the door to all manners of issues (like reduced customer satisfaction, increased warranty or even litigation), doing so now could be more detrimental to products, business and reputation than ever before. Now is not the time to cut corners on safety and quality assurance efforts – despite the immense pressure to do so.

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The Landscape

It's no secret that even before 2020, the homebuilding industry was in crisis and was facing significant industry challenges. As one of the most fragmented industries, homebuilding exhibits the lowest productivity growth compared to other industries. With existing affordability challenges and a deepening labor crisis, the COVID-19 pandemic simply added another dynamic that has ultimately translated into a significant increase in demand on the number of homes that a builder is expected to build – ideally, without jeopardizing cycle time or quality.

Amidst this difficult industry landscape, sits the very complex structure of a production home builder's operations. So many facets of a builder's organization must collaborate and communicate effectively. To deliver 200 homes annually, it's likely that more than 50 individuals are employed by the builder, working in departments such as land, product development, marketing/sales, purchasing, construction and warranty. Beyond these 50, the builder hires at least three times as many suppliers or contractors to perform a specialized task. Throughout the process, there is a cycle of countless interactions – all fraught with the risk of miscommunication and human error.

Exponential Failures

And when mistakes occur in a production builder's environment, they will naturally be repeated until they are addressed... over and over, multiplying exponentially throughout communities, divisions, regions and possibly across the builder's entire footprint. Some mistakes are going to happen... and cost you. But when the pressure is on, choosing to cut corners to 'save' in the short term will likely cost you much more in the long run. Let's take a look.

While short-term warranty issues like drywall repairs or tile and grout cracks may only cost the builder \$200 – \$500 per home; a good benchmark for your warranty spend is 1% of sales cost. Below that and you're doing well; more than 1% and you're leaving money on the table. There are the bigger issues that often don't arise right away – water leaks, foundation settlement, indoor air quality, etc. Many times, these issues build up over several years and by the time the builder gets notified, repairs can run anywhere from a few thousand dollars up to \$60,000 per home if an entire wall cladding must be removed and replaced, for example.



In both cases, the dollars are real, but they are often addressed by building in a warranty budget and buying general liability insurance. However, the costs of mistakes don't end here. Mistakes during construction – even if they are caught and corrected – can increase your build cycle time, which increases your cost of carry. Additionally, too many mistakes that are visible to the customer will negatively impact overall satisfaction and will reduce customers' willingness to refer you to friends and family. A loss of referrals increases your cost of acquiring that next customer. Pervasive customer dissatisfaction can hurt your reputation in the marketplace, which could exclude

you from land deals or result in paying higher prices. Not to mention the cost of litigation, if things go that far.

These costs are just some of the many 'hidden' costs due to poor quality. But just because they are hard to quantify doesn't mean they aren't real. In fact, research has shown that the hidden costs of poor quality can equal or exceed the tangible costs a builder often accounts for. Bottom line – despite the pressure to cut corners, you will likely never save enough in doing so to fully offset the price you'll have to pay as a result down the road.

Simply put, it pays to invest in quality and do it right the first time. Now more than ever.

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