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Constellation *BLUEPRINT*

Make an Extra \$1,000 per Home

Craig Schweikart

In this article we will discuss the value of integrated purchasing and how it can improve the profitability on each and every home you build. Industry experts and the NAHB for years have touted the value of purchase order and work order management.

It is a simple process - - - estimate your costs and hold the trades accountable to their pricing. The idea is to send your suppliers and subcontractors written documentation in advance outlining the agreed upon pricing and the scope of work the sub is responsible for. These bids can either be solid estimates or lump sum prices. Later on when invoices are received, the invoices can readily be compared to the original purchase orders.

The value comes from having agreement across estimates, purchase orders, pay-points and job cost information. An integrated purchasing system does this automatically and all you need to do is manage the exceptions or variances. If these four components are not automatically integrated you have to manage all the detail manually. The result is you manage all of the "mundane detail" four times and exceptions need to be tracked in a fifth process.

There are several problems you can anticipate with a "stand-alone" purchasing system. Without an integrated system you are liable to run into the common problem of double billing of invoices. Another problem is that multiple manual processes are error prone and time consuming.

Most experts agree that an integrated purchase order system can generate cost savings of 10 to 20 dollars per cost code. I would bet most of you would agree by focusing attention on pre-pricing your labor and material based on estimates, then holding your trades to that price (after all they agreed to the price) --- you could save at least \$10 per cost code on average. You will save less on some and much more on others and remember this is not just a one time savings; you will be saving ten dollars for each cost code on each house!

If you are structured like most builders you typically have about 100 to 120 cost codes per house. So, do the math - - - a purchase order system is expected to generate between \$1000 and \$1200 per house in cost savings. If you build and close one house per month or 12 per year you can add at least \$12,000 in profits just by implementing a purchase order system.

In today's market what could you do with an additional \$12,000? What if you could reach the cost savings of \$20 per cost code?



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In addition to the financial savings, a strong purchase order system will greatly reduce headaches. Everything your subcontractors are responsible for is well documented so there is little room for dispute later on. Similarly paying your bills becomes a more automated, faster process with far less error.

If you look for software solutions to help manage your business take care to select a product with a strong purchase order and work order system. Make sure it has a proven track record for generating results similar to those in our example and you won't be disappointed.

About the featured Author

As a respected consultant and national speaker, Craig Schweikart has developed and presented numerous seminars to homebuilders. He has spent over twenty years advising homebuilders on system selection, process management, and profit improvement.