Solving the Labor Shortage

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A Note from Scott Sedam, President, TrueNorth

The beginnings of a serious labor shortage in homebuilding became apparent in the spring of 2012 in Texas markets at the forefront of the housing recovery. As it spread, builders enthusiastically greeted new sales, oblivious to the impact the coming labor shortage would have on their ability to deliver. One company president declared to me in late 2012, “The labor shortage will take care of itself. I am not worried.” During 2013, the shortage spread across much of the country, and that same builder’s purchasing manager told me in early 2016, “We have now reached the crisis stage in our company.” During TrueNorth’s Lean Design & Building workshop at IBS in January, 2013, we asked how many builders were experiencing a labor shortage in at least some trades. Hands shot up from nearly each of the 200 plus participants. At IBS 2014, the president of a recent “Builder of the Year” winning company stated, “The trade shortage cost us nearly four million dollars last year due to delayed schedules and closings.” 2015 saw the problem exacerbate and here we are in 2017 with no relief in sight. The shortage is real and it will get worse before it gets better. The cold hard truth is, this industry and its various constituencies from builders, to manufacturers to associations, have collectively done very little to combat the problem. This article collection spans this four year period with the 2016 articles first in order, but included are some of the older ones. They provide important context and background.

In the first article I wrote on this issue back in 2012, I addressed both politics and perils of the labor shortage, and although there was some hopeful preliminary action on Immigration Reform from a bi-partisan committee in the U.S. Senate, it has become a “third rail” in the House. For purposes of this booklet, I moved that article and the one on the non-resident labor issue to the back. They are important readings, but they are controversial and get into the politics of labor, a touchy area. Meanwhile, there are very specific steps you as a builder can take to immunize your company from the impact of the shortage and I have placed those articles up front now along with the two article set, “Grace Under Pressure” about an HVAC issue dealing with the daily issues confronted in residential construction.

You will find the “10 Step Labor Shortage Immunization Plan” article of great practical value while navigating this most recent industry storm and emerge on the other side as one of the successful builders. At the beginning of 2014 it was apparent that virtually nothing was being done – proactively or reactively – to stem the labor shortage. The “Trade Development Manifesto” is my lament over that inaction and a challenge to our industry to get off our collective fannies and get to work on solutions. After all of this, I had a revelation that suggested to me where the real heart of the issue lies and the genuine change of thinking required to change our course. You can read and consider that in “The Trade Shortage Epidemic,” but be open to changing some of your long-held beliefs and paradigms. In my most recent article included here, “Finding an answer in your own backyard” we get an idea about how some of that thinking – and doing – might make a real difference.

As I have said in previous article collections, whether you learn something new, confirm a lesson learned long ago, or even strongly disagree with something, distribute these articles to your associates – internal and external – and they are guaranteed to stimulate spirited and productive debate. As always, I encourage your feedback to scott@truen.com, or now and then I am available at our office at 248-446-1275.
Solving the Labor SHORTAGE by Scott Sedam, TrueNorth

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BASICS TO SOLVE YOUR TRADE SHORTAGE
In my article in the February 2017 issue of Professional Builder, we reviewed the results of the TradeComm survey conducted by my company, TrueNorth, with special emphasis on comparing results prior to the housing crash to results today. TradeComm solicits direct, anonymous feedback from suppliers and trades about builder operations and processes such as plans, product specifications, waste management, and communication of all kinds. The disturbing trend: Builder scores have dropped across the board compared with pre-crash levels, at a time when trade shortages are a limiting factor virtually everywhere across the country.

The irony is mind-numbing. Just when the industry needs a dependable supply of high-quality trades more than ever, we’re doing an inferior job of managing both our trades and our own operations. That means higher cost, degraded quality, inflated schedules, and depressed margins. Yet, as discussed in the February column, these results present a clear opportunity for competitive advantage. Knowing that most of your competitors are part of the gang looked upon less favorably by suppliers and trades, what happens if you’re the builder that stands out? Obvious, isn’t it? If your team does the work to identify and focus on the two or three biggest issues this year that hold you back in the eyes of suppliers and trades, you’ll see nearly all elements of your operation improve, including profit.

Let’s first deal with the messenger because if you don’t accept the source, you’ll never hear the message. I spent most of a decade as a corporate VP for a large national builder—a true Housing Giant—and worked in more than 30 divisions across the entire country. I had a nice budget, plenty of help, and almost limitless sanction and willing participants to try things, watch the outcomes, learn, then try to spread the knowledge. Much of our effort was spent on the relationships, efficiency, and development of suppliers and trades. The creativity of many of the field operations was incredible, since there was little central control as long as you made your numbers, and divisions could pretty much try whatever they wanted. Even those divisions that showed no interest in taking part in the experiments and trials were key to the process, serving as control groups. The opportunity to watch 30 different building operations from the inside as we went through tremendous growth and cultural change was an experience for which there’s no substitute. Toward the end of my tenure, we shifted to a more centralized control model with too many corporate and regional VPs engaged in forced replication of the builder’s presumed “best practices,” and with most experimentation discouraged, the rate of learning was suppressed. At that point, I concluded it was time to move on.

Since launching TrueNorth 20 years ago this summer, my colleagues and I have worked with well over 200 builders of all sizes and types in five countries. I annually present at 15 to 20 conferences, where, following each event, I hear from myriad builder personnel. With nearly 20 years writing a monthly column, I get continual calls and email from your people wanting to ask questions, float ideas, find resources, or to just talk. And then there are the results from the TradeComm survey itself. The message emerging from all of this work is clear and inarguable; there’s just too much supporting data. But if you still think we don’t have a good handle on the supplier/trade issue, channel the late Chuck Barris, smack that gong, and move on to the next article.

Our Current Business Model Works Against Us
If the topic wasn’t so serious, we could have a chuckle over the barrage of trade-shortage articles showing up in the business press in the past year, as if it was a recent phenomenon. Nothing could be further from the truth. During the first Obama presidential campaign more than nine years ago, I published a
column on the issue and described the coming shortage and its ties to immigration policy as the “elephant in the room” no one would attack head-on. What baffles me though, is how our industry—particularly the biggest builders, with all of their resources—continue to do so little to solve this problem, tied up in a business model that works their current trades to the bone, compromises quality, kills the schedule, puts ridiculous pressure on their own staff, and constitutes the single largest drag on profit you’ll find today. Yet we have an abundance of evidence on what works and what doesn’t in the quest for building and maintaining a sustainable labor pool.

**ESSENTIALS FOR SOLVING THE SHORTAGE**

What follows are the 15 ways in which strong locals consistently do better than nationals or multi-divisional regionals.

1. **Communicate, communicate, communicate.** TradeComm survey feedback clearly shows that suppliers and trades want to know: What are your plans? How much business is in the pipeline? How do customers rate you? What does the economy look like for the next year? And so on. They can’t respond like true partners in the business if you don’t treat them as such.

2. **Ditch bid price as your sole criterion and resolve to buy only on total cost,** which is the one thing that really matters. Total cost includes design, materials selection, installation methods, delivery, quality, labor cost, interaction with other labor and materials, administrative costs, warranty, safety, and sustainability. Ignoring the totality of the costs is a fool’s game. Sure, it’s more work to calculate up front, but it’s less work in the long run and will be far more profitable.

3. **Know that to get the best trades, you must earn them.** Get really specific. Ask trades exactly what their No. 1 Builder of Choice does that’s different from what you do. Beg them for honesty. Now share that feedback with all your people and take time to understand and internalize the information. Then figure out how to one-up your competitors.

4. **Understand the issue is not merely best trades, it’s best crews, and that can make the difference between profit and loss.** Best crews do high-quality work, minimize waste, arrive on time, complete on time, keep you informed, leave a clean jobsite, and work and play well with others. Crew quality can make or break your schedule. Bottom-of-the-barrel crews do none of that, and average crews achieve only a couple of those factors on any given day. You need the best, but—as I say in No. 3—you have to earn them. So since you’ve already scheduled the meeting, ask not just what it takes to be at the top of their list, but what it takes to earn their best crews.

5. **Kill the paperwork load.** Do this exercise: Assemble every piece of paper, email, online document, or form that a trade must use during the process of building your homes. Now, cut that in half this year and repeat as needed. We are killing trades with administrative inefficiency.

6. **Simplify wherever possible.** The only sensible way to operate is this: You can have as many options as you like if—and only if—you have systems, processes, and trained people to proactively manage them. Be honest. Can you meet that standard? Few builders do. Any shortfall here throws a super-size wrench in the process, and both you and your trades will pay the price many times over.

7. **Bid packages 100 percent complete, with final plans and specifications fully detailed and accurate.** There is only one way to be sure you nail this one. Ask each supplier and trade exactly what they need to do their most accurate and tight costing of your project. Now go get it for them. No excuses.

8. **Start packages 100 percent complete, detailed, and accurate with job-specific plans and working drawings.** See No. 7—and if you think this costs too much, you’re either lousy at math or you’re counting the wrong things.

9. **Negotiate firm dates with sales and the design center for all options and selections and hold sales accountable to manage customers to those dates.** We hear continual laments about how impossibly difficult this is to do and make sales while keeping customers happy. Yet we know too many builders that do it every day and their profit margins are higher than yours. Either figure it out or accept marginal results.

10. **Manage VPOs down to the minimum.** Every VPO is a loss—for builder, supplier, and trade alike. Accept no excuses, but that requires doing the hard work contained in nearly every point in the first nine points above. Failures in those are what cause VPOs. Cut them in half this year, then again next year, and again the next. Now you’re getting close.
Reduce charge-backs to an absolute minimum, with a goal of zero. Like VPOs, each charge-back is a loss for all. The blame game resolves nothing and perpetuates the problem. The best builders have the lowest levels of charge-backs to and among suppliers and trades. We know one 2,500-unit builder that has exactly none. If you’re truly doing your part to prevent charge-backs, yet workplace damage and rework continues at a high level, you’re working with the wrong trades.

Have the best-trained field construction managers in town. This must be intentional, not casual. Just having worker training worker is insufficient and inbreeds poor practices and processes. Injecting new people hired from competitors will worsen the problem. Establish your operations practices and processes, document them, streamline as much as possible, and train everyone on them. Be vigilant. Don’t relent.

Maintain an intelligent, proactive schedule that reflects the true capability of your systems, processes, and people working within the current capacity of your suppliers and trades. Level your production flow weekly, monthly, quarterly, annually, and keep it that way. There’s absolutely zero credible evidence that closings must be higher in the last week of the month, the last month of the quarter, or the last quarter of the fiscal year. An analysis of multiple builders with fiscal years ending anywhere from April through December shows that all have the same problem with jamming production in each period and especially at year end. Failure to solve this sends a clear message to suppliers and trades that you as a builder care nothing about their ability to manage their businesses, only your short-term profit.

Offer nonmonetary rewards. Every research study ever done on compensation shows employees want far more than just a competitive salary. TradeComm data backs that up. Why should your suppliers and trades be any different? They want to work for a good company that cares about them and listens to their input on product and process. Paying fairly and on time is just table stakes to be in the game. If you fail there, everything else is a waste of time. There’s more to it than money, though, and it’s your challenge to figure that out.

Accept your responsibility to become involved and show leadership on the local level in the development of the trade base and demand the same of your colleagues, competitors, school officials, and politicians. I’ve written ad nauseam about both the requirements to do this and the many ways it has been done. Yet, in all of those articles, you find it’s the smaller builders that lead the way on this, not the biggest ones.

How can this be? Will you really take the tack that it’s OK to just sit back and let others solve the problem, then assume you can steal from their pool of results to meet your trade labor needs? Is that any way to run a multimillion dollar business?

**IT ALL COMES DOWN TO CULTURE**

That’s a lot to contemplate and even more to do, but you have little choice. If you still doubt me, here’s another fun fact: The strong local builders by and large are substantially more profitable than the true giants of the industry—at least the public builders whose profits are published quarterly. Unfortunately, the publics don’t believe this because that information is privately held. Ask any of my consultant friends, though, and they’ll tell you. So face it they must. Why is it that these strong locals make more money than the nationals? I submit to you that the supplier/trade element is an essential driving factor, as clearly demonstrated by the TradeComm survey results. When we measure the strong locals with TradeComm, most of them hit the ball out of the park. There are specific reasons for this, which all of my colleagues will tell you stem directly from the culture set by senior management. The best systems and processes in the world are no substitute for a broken culture.

Not long ago I heard a senior manager of a national builder make the following joke when I pointed out the failings of management by “brute force,” which is still the most common approach in our industry. “If brute force didn’t work,” he said, “then you haven’t used enough of it!” Everyone in the room laughed, but later on that evening at dinner, several of the participants sidled up to me to say in so many words, “You know, that old reliance on brute force to solve everything … our approach is to beat whatever it is into submission … that’s our problem.” What would it take to change that? I don’t have a simple answer, but you can start by listening to your suppliers and trades.

Scott Sedam is president of TrueNorth Development, a consulting and training firm that works with builders to improve product, process, and profits. For a free PDF of the article series on “Solving the Trade Shortage,” including this article, send your request to info@truen.com. You may reach Scott at scott@truen.com or call 248.446.1275.
PART ONE: THE IMPACT OF THE TRADE SHORTAGE ON MARGINS, QUALITY, AND DELIVERY NATIONWIDE

By Scott Sedam, Contributing Editor

It’s true! Your shortage is the worst in America. Builders in at least 20 cities in the past year have insisted to me that their trade shortage is the worst in the nation. In most markets, reliable and current stats are so hard to come by that there’s little point in arguing.

But now that we’ve moved beyond mere awareness of the shortage to feeling the full impact, the conversation varies significantly by the attitude of local builder leadership. Some builders have an almost fatalistic take on it, “Que Sera, Sera.” They count on sufficient trades showing up somewhere, somehow. Purchasing managers in these firms lament that their superiors are in denial about the escalating costs inherent in this approach. The majority of builders are doing “something,” but that rarely amounts to anything beyond just trying harder at the same old methods. They scour the hinterland for trades, ask current trades for recommendations, and try to entice still others to work on their side of town. There’s nothing wrong with these efforts, of course, but they won’t keep prices in check.

There’s so little data beyond the anecdotal as it relates to builder impact that we decided to run a survey to see what we could learn. To increase the returns, our goal was to keep the survey short—just 10 questions—and try to gather a broad cross-section of responses from across the country. With about 165 responses, the statistics are pretty solid; enough to give us some insight into what’s happening and where we’re going in the near term. Let’s take a look at the responses for the first five questions, and next month we’ll review the other five.
1 THE AVAILABILITY OF TRADES IS A CRITICAL ISSUE

The first question is simple and straightforward, with the results coming as no surprise. You can break down each of the seven responses, but to save you time adding up numbers, for each graph we’ve combined the three responses on the positive side of neutral and put them in a green box, while taking the three on the negative side and putting them in the red box. With about 2 percent neutral, we get 93 percent agreeing that the trade shortage is critical, with just 5 percent disagreeing. With nearly 50 percent in the “strongly agree” category, this may gain a big “Duh!” response, but looking at it this way provides a good feel for the problem’s severity.

2 THE SHORTAGE OF TRADES HAS INFLATED OUR SCHEDULE

The numbers here are similar, with a slightly higher neutral response. Inflated schedules mean inflated costs—there’s no way around it. A delayed schedule also slows down cash flow, payments to trades, and frustrates customers. Nothing good about it. If you want a true picture of the cost of lost schedule days, send an email to info@truen.com and request our “Saved Day Calculator” Excel template. It will help you accurately identify the cost. (Caution: Prepare to be shocked.)

3 THE SHORTAGE OF TRADES HAS INCREASED OUR DIRECT COSTS

Once again, we see a huge consensus on the impact of the trade shortage, this time on direct cost, with nine out of 10 builders feeling the impact. Add to this the impact of schedule, above, plus other realities such as the increased costs in land and entitlements, and it’s easy to see why margins are squeezed. In most markets, the increases in retail selling price of new homes haven’t been enough to cover the rise in costs.
4 THE SHORTAGE OF TRADES HAS HAD A NEGATIVE IMPACT ON QUALITY

Although the numbers indicate that the trade shortage has affected quality less than it has cost, the impact on quality is still substantial. Two-thirds of surveyed builders see a negative impact on quality, about 10 percent have held the line with a neutral response, and about a quarter aren’t seeing a negative here. In truth, this is somewhat less than I expected, based on the anecdotal evidence from the field. Most of the big survey companies also see overall quality scores down since before the housing recession. This will be interesting to follow in the next few years.

5 THE SHORTAGE OF TRADES HAS LIMITED DELIVERIES AND GROWTH

Two years ago, I listened to the CEO of a Top 20 national builder lament how trade shortages have delayed closings and stymied growth, and little has changed. In this graph, nearly three-quarters of respondents report at least some impact, with 11 percent neutral, and just 17 percent seeing no negative impact at all. This is an obstacle both to short-term cash flow and longer-term opportunity.

Next month we’ll examine the responses to the other five questions in our industrywide survey on the trade shortage. It looks pretty negative, but as I’ve discussed in previous columns this year, a select few builders are beating this rap. These builders are truly pushing the envelope, doing things that insulate them from the worst of the shortages. They’ve adopted a “builder of choice” strategy and focus on ways to help their trades become more profitable—without simply raising labor rates or commodity prices. The fact that most builders believe it can’t be done is the out-of-the-box builder’s greatest asset and guarantees that the vast majority of competitors will never copy them. But whatever your take, I hope getting a handle on how the shortage affects the industry provides some motivation to take another look, increase your focus, and make a plan for what you’ll do to remedy the situation. PB

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In the first part of this two-part series, based on our nationwide survey on the trade shortage (see Professional Builder, December 2016), we examined feedback from 167 builders in response to five questions about the impact of the trade shortage on their business. There were no real surprises, just an almost universal affirmation of the issue’s severity. Virtually all agreed that trade availability is a critical issue that has inflated schedules, increased direct costs, compromised quality, and limited deliveries and growth. The sole minor deviation was that “only” two-thirds of respondents indicated that quality has gotten worse. Overall, the responses were in line with what we’ve seen in the 20 or so week-long Lean implementations we run annually, with an average of around 25 suppliers and trades participating in each one.

In Part 2, we consider the results of the second group of five questions, and although the responses generally skew the same way as in Part 1, the feedback on a few of the questions isn’t quite as clear. Let’s take a look.

By Scott Sedam, Contributing Editor
Overall, two-thirds of respondents said the trade-shortage problem worsened in 2016 compared with 2015, with strong weighting toward “Agree” and “Strongly Agree” responses. But 21 percent of respondents were neutral, reporting that the problem is pretty much the same as it was last year. We can’t know for sure if “the same” describes a good situation or a bad one, but our considerable field experience suggests it’s the latter. We do, however, have 14 percent, about one builder out of seven, reporting that the shortage has lessened compared with a year ago. These results may come from a market where the trade shortage isn’t as severe, such as Salt Lake City, which is among the very few that might qualify. Or it could come from those few builders that are in markets with serious shortages, yet they’ve figured out how to beat the reaper. We have seen it done, albeit rarely, and those builders have developed an incredible competitive advantage.

Will the trade shortage grow in 2017? A slight decrease in the strength of agreement on this question is seen in the shift of the cumulative agreement (green box) distribution to the left. Yet that’s tempered by a slight shift of the level of overall disagreement (red box) to the right. Meanwhile, a quarter of participants are expecting no change in the “situation”; that situation being that the availability of trades is a “critical” issue—as shown in Graph 1 in Part 1 of this series, where 93 percent of respondents agreed. Putting this all together, we can conclude that 88 percent of respondents expect the 2017 trade shortage to be at least as bad as today, with 62 percent expecting it to be even worse. Sobering, to say the least.
8 WE SUFFER LESS FROM THE TRADE SHORTAGE THAN OUR COMPETITORS

This is where the answers get more curious. Here we have a distinct majority of 57 percent stating that they suffer less from the shortage than their competition. With just a quarter showing some disagreement and a large neutral of nearly 20 percent, what do we conclude? Are these builders really doing better overall dealing with the crisis they all subscribe to compared with other builders? The distribution of these surveys is perhaps slightly weighted toward TrueNorth clients. Knowing that, it may be more likely those builders would answer yes, as the vast majority of them have been working to some degree on solving the trade shortage. Do they truly represent a “better than average” group? Or is this just human nature? I’m reminded of how in training-needs surveys that we’ve conducted over the years, respondents always set the need for training in the overall company as greater than their own personal need. When we see a broad problem, do we always think it doesn’t affect us as much as the other guy(s)? At this point, the answer remains a mystery, but feel free to email me with your conclusion—or at least a couple of clues.

9 WE HAVE TAKEN SPECIFIC, TANGIBLE STEPS TO HELP BUILD THE TRADE BASE

Although the results here show the greatest disagreement among respondents, I still feel a bit incredulous at the response. I hope it’s true that 57 percent of our builders have taken specific, tangible steps to build the trade base. Yet in almost countless presentations, ranging from Builder 20 groups with about 20 people in attendance to groups at association meetings—NAHB, IBS, or PCBC, numbering as many as 300—I ask this same question very directly. “If I went to your town today and asked your people as well as your trades to show me evidence that you have taken specific, tangible steps to build the trade base, how many could do it? P.S. Anecdotes do not count as evidence.” Most often, I get no hands, and in large groups I rarely get more than two or three. So where are the 57 percent hiding? Perhaps it’s definitional and those responding to this survey are simply thinking of their own local efforts to find trades, whereas the question was intended to address the issue of building the more macro trade base in any given market. Similar to question 7 above, there is no definitive conclusion to draw here, but I encourage each builder to take a long hard look in the mirror and ask the tough question: Are you doing enough?
Perhaps it’s fitting that the final survey question causes the most consternation. We have a huge builder plurality of 84 percent stating that the majority of their trades consider them as genuine partners in the business, with just 5 percent disagreement. Can this be true? We’ve had more than 4,500 suppliers and trades involved in Lean implementation weeks over the past 10 years, during which we’ve been able to closely watch how they work with builders. My analysis of the “genuine partner” question, if we ask the trade directly and in confidence, is at best a third. That is, one-third of trades will agree that both parties solidly meet the terms for what being a “genuine partner” requires from each party. Another third, or perhaps a bit more, will hedge on this, saying they have a productive relationship but something less than a “genuine partner.” A final third, or perhaps a bit less, will describe the working relationship as one of convenience for both parties, lacking in true commitment.

My stand-alone analysis of the final survey question left me uneasy, my assessment being so far off from the responses of our builder participants. I harp on taking supplier and trade feedback at face value, so should I not apply the same standard to responses from our builders? I decided to send an emergency email to our four TrueNorth senior associates, who average better than 30 years’ experience each, asking them the same question: Do trades consider builders to be “genuine partners?” Keep in mind, those builders who work with us to implement Lean are clearly demonstrating their desire—or, at minimum, their intent—to work as partners. The median response by our TrueNorth field consultants was that only 25 percent of trades consider their builders to be genuine partners in the business. Was I being generous? You may disagree, but the deep experience of five industry professionals—each in their 60s, by the way—is tough to dispute. We’ve worked with those builders who rate at the top of the scale on genuine partnering, and we know the difference between the real deal and the also-rans.

In some ways, the feedback from these 10 questions is what we expected. As stated at the start of this column, it’s clear: Trade availability remains a critical issue that has inflated schedules, increased direct costs, compromised quality, and limited deliveries and growth. The somewhat surprising feedback, however, is that most of the participants feel they’re better off than the average competitor, that they have taken significant steps to build the trade base, and that the great majority of their trades consider themselves genuine partners in the business. Serious questions remain, though, from those with considerable experience in trade partnering and working to solve the trade shortage. Are a huge number of builders kidding themselves? I’ll leave that for you to decide. Regardless, there is tremendous work to be done. I hope you’ve followed the recent columns where I reported on how builders, builder associations, and schools have teamed up to produce impressive results in helping solve the trade shortage. Meanwhile, how about sometime in 2017 I find myself compelled to write about you and your firm’s success solving the trade shortage? Let me know. No survey required.

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In my last two Professional Builder columns, “Survey Says,” Parts I and II, in the December 2016 and January 2017 issues, respectively, we confronted the responses, and stark consensus, from 167 builders who participated in a brief 10-question survey about the state of the nationwide trade shortage. Among other details, the builders described the labor deficit as a significant margin-killer and declared it will get worse in 2017 before it gets better.

But what do the trades think about all of this? You might guess they have some pretty strong opinions about how builders are working with them in these times of shortage. If only we had some way of measuring that. As it turns out, we do, and the results are sobering.

Back in 2005, prior to the crash that began in 2007, accelerated in 2008, and spun out of control in 2009, TrueNorth launched a survey called “TradeComm”—a supplier/trade feedback system for builders. This in-depth survey was developed around a long-standing model, somewhat modified to better fit the home building industry “subcontractor” approach to labor, then tested and refined. Its purpose was to help builders get direct feedback from suppliers and trades in an organized manner, enabling them to make sense of large amounts of data, determine priorities, then develop action plans. The goal: improved supplier/trade relationships, which would enable builders to attract and keep not just the best trades but the best crews. This critical distinction still escapes the vast majority of our builders.

The TradeComm Survey consists of 45 questions in six categories: Organization, Systems & Support, Feedback, Goals, Values, and Rewards. The categories allow a builder to identify key strengths and opportunities at a more macro level, as they dig down into the detail of each question. Prior to the downturn, 35 builders engaged their suppliers and trades with the survey, typically receiving between 50 and 100 responses. There was a lull during the survival years, but about two years ago, as the industry reemerged and volumes increased, we put the survey out there again.

As trade shortages intensified, builders began to understand the need to fight in more creative ways to gain the best trades in what today is, in any given market, a zero-sum game. Until the supply goes up, if you want more, you must take it from someone else. Although some impressive efforts to develop the trade base on a more macro basis...
are popping up, that won’t solve your immediate problem. Trying to get a firm handle on what makes a company the “builder of choice,” then working to achieve that, is the only short-term play, other than simply writing bigger checks. If you’re good with option No. 2, you can stop right here.

THEN VS. NOW
For the rest of you, we just ran our 15th builder through the TradeComm process post-crash, so today we have enough data to compare the scores, then and now. Stop here a minute and ask, regarding how builders run their companies: Have we gotten better or worse since the crash? We learned a lot, right?

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<td>1. Organization</td>
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<td>2. Systems &amp; Support</td>
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<td>3. Feedback</td>
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<td>4. Goals</td>
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<td>5. Values</td>
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<td>4.76</td>
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<td>6. Rewards</td>
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<td><strong>TOTALS</strong></td>
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Any reasonable person would suspect we have improved on the whole or, at the very least, it’s a mixed bag, some up, some down. But, as you’ll see, that reasonable person would be almost perfectly wrong, with just one question showing an improvement and three statistical “dead heats” out of 45 questions. In short, as an industry, we’ve regressed across the board. Yes, this is only one data set of 15 builders compared with the old data set of 35, but the numbers are so consistent, we don’t expect significant change as we collect more data.

There’s not enough space here to examine all 45 questions, so let’s look at the six categories and a few particular questions in each. The chart, above, presents the old mean, new mean, and
“all-time high” scores side by side. We run the best-ever score so builders will know what’s possible to achieve. This tends to dispel any notions of “well, that’s about as good as you can do on that one.” The questions are scored on a 6-point Likert scale, where 1 is the lowest and 6 is the highest.

Spend a minute scanning these results and some clear conclusions can be drawn, even with this high-level view. In all six categories, our post-crash builders score lower than those builders who got feedback prior to the downturn. The largest gap is “Feedback,” with a full four-tenths of a point drop. Statistically, that’s huge. “Rewards” also show a greater than three-tenths of a point drop from the old mean to the new. The smallest drops are found in “Systems & Support” and in “Organization,” so perhaps we can feel better about that. But comparing those scores with the top scores on the right will quickly take the wind out of your sails. If we compare any of the new mean scores to the top score, we find a huge chasm. And remember, the mean is the arithmetic average, making the distance from their score to the top score even greater for about half of our 15 surveyed builders.

Category 1: Organization. In this category, we cover schedules, plans, specifications, scope, contracts, site cleanliness, and safety. The good news is builders have held the line on plans and product specifications. But sites aren’t as well organized, clean, or safe, however, and scheduling has fallen way off the mark, with a huge increase in wasted trips to building sites. That isn’t the way to become the builder of choice and get the trades you so desperately need. It also drives up your costs.

Category 2: Systems & Support. In general, there’s a one-tenth of a point or a bit more drop in about half the questions covering systems, processes, paperwork, support staff, etc. One matter of concern is although the response to “Has well-trained, skilled employees who know their jobs” remained the same old to new, at 4.57, there was a significant falloff in other questions, which should benefit. The trades dropped from 4.7 to 4.53 when answering “Builder cares about the success of every supplier and trade,” and we saw similar declines in “Hires the best suppliers and trades” and “Has employees who are proud of their company.” These point to significant morale issues within the ranks.

Since day one of the TradeComm survey, Category 3: Feedback, has always shown the lowest scores. This remains true, but the fall in scores from old mean to new mean is the largest of all, from 4.15 down to 3.75. Statistically, that’s huge, yet it’s one of the easiest of all gaps to fill. Put simply, builders aren’t sharing details on customer satisfaction, company performance, or future plans with suppliers and trades and rarely provide constructive feedback. Further, builders almost never ask for feedback from trades about how the builder is doing or about other trades on the jobsite. This is one of the lowest scores on the entire survey, despite the fact those taking the survey are doing just that—giving the builder feedback. This sends a strong message. Again, this is an “easy fix” category compared with most of the others.

Category 4: Goals once again shows a significant shortfall on each question, with a clear drop from before the housing crash to today. Every study of employee or partner satisfaction ever done makes one point clear: People want to feel a part of the success of the organization they work for. Without sharing company goals regarding continual improvement, customer
satisfaction, supplier/trade relations, growth and the health of the business, we may as well put any talk of “partnering” aside.  

**Category 5: Values** is another critical element that many overlook, yet every organizational behavior study confirms its necessity. This category asks about operating from a strong set of values and principles and the commitment to those by senior managers and employees, as well as suppliers and trades. Here we see noteworthy drops in every question. Values, commitment, and quality standards are all down. The final question is most concerning, “This builder always treats suppliers and trades with dignity and respect.” From a score of 4.91, the new mean is now 4.68. Compare that with our all-time best score of 5.59. Let’s be frank: There’s no excuse for this. And don’t kid yourself; it’s decidedly not all on the backs or your superintendents. It begins at the top and flows down through every level, every function. Without a solid score here in the 5’s, becoming a builder of choice is a mere fantasy.  

**Good News or Bad?**  
You may now be asking: What does it mean to provide rewards other than money to suppliers and trades, and does it matter? Let’s imagine for a moment that the top-scoring builder in your market also pulled down the top score on that question, just under 5? What if several of your competitors score higher than you across the board? Would that make a difference? Who wins the battle for the trades? How do you do it? Now you have the clues, so get busy and figure it out.  

As stated up front, you can solve your trade shortage simply by writing bigger checks. There are always those trades who will chase the buck and put up with almost anything to get it. Those are never your top trades. We don’t want those who just chase the buck, but we do want those who methodically strive for profit—a huge difference. Your goal is not to pay them more than your competitors do. Your goal is to help them be more profitable, at a competitive price.  

If we hadn’t seen this done many times, we could not in good faith challenge you to pursue it. It requires a cold, hard look at yourself. Do a self-assessment, ask trades for feedback, and show them they can trust you with the information. Don’t assume the sale on that one—the default is “no trust.” But what an opportunity! We know trades are rating us down from before the downturn, and they’re not happy about it. How do you think they’ll respond to one or two builders in your market who truly get it in terms of the care, feeding, development, and profitability of their suppliers and trades? Will one of those builders be you?  

**PB**  
Scott Sedam is president of TrueNorth Development, a consulting and training firm that works with builders to improve product, process, and profits. For a free PDF of the “Solving the Trade Shortage” series of articles published in Professional Builder, email your request to info@truen.com. You may reach Scott at scott@truen.com or 248.446.1275.
AMERICA’S TRADE SHORTAGE: THE FAILURE OF AN INDUSTRY

A MASSIVE PROBLEM, WITH LITTLE EFFORT MADE TO FIND SOLUTIONS
Just over a year ago, at a conference in January 2015, I sat with a local builder and listened over lunch as a leading housing economist revised his 2015 forecast down to “only” 36 percent growth in housing because too many Millennials were holding out. I gave my friend a withering look and he nodded. Later, at a break in the programming, we confirmed what we’d both been thinking: Even if Millennials began buying in droves, there would be nowhere near enough trades to handle 36 percent growth in housing, let alone the economist’s initial—substantially higher—number. No doubt the economist had thoroughly analyzed demand factors, but somehow the supply side had escaped him.

My mind wandered back to a builder meeting in the Mid-Atlantic a few years earlier as the downturn was just beginning to wane. During the meeting, I told the company president that one reason to run a Lean process implementation would be to help reduce the impact of the serious trade shortage that would be part of the economic recovery. He looked at me, shook his head, and said—in front of his operating team—that there would be no trade shortage. It would take care of itself, “as it always does.”

This past January, at the NAHB’s annual International Builders’ Show, I ran into one of that same builder’s VPs. He said that the company, although handling it better than some, is now hindered by the most serious shortage of trade labor this country has ever seen, and he reminded me about the series of articles I wrote before the previous presidential election about the “elephant in the room”: immigration. In those articles, I talked about the inevitable shortage of trades and how it would affect our industry, imploring everyone in home building to get busy and work on the problem at whatever level they could.

As we talked, another builder I’ve known for years happened by and launched into a rant about how in Texas the trade shortage was killing him and every other builder he knew. We held our own little pity party there in the hallway. As far as these builders were concerned, no one was doing anything substantial about the labor problem. When I asked specifically what their own companies had done to help solve the issue, they stammered, at a loss for an answer.

If you recall the pre-Obama days, George W. Bush was practically crucified by members of his own party for trying to float an immigration reform proposal that amounted to something beyond just building huge walls and throwing all the illegals back. The issue pretty much died for five years, then in mid-2013 the fully bipartisan “Gang of Eight,” with some of the biggest names in Congress, developed a meaningful, comprehensive immigration package. We live in a time, however, when anything bipartisan—regardless of whether it has any promise—immediately fires off the sirens of talk radio and cable news, while the cash registers of super-PACs ring out across the land. According to its breathless and frothing opponents, that immigration reform proposal threatened the very foundations of the Republic, although no one has ever determined why.

YOU’LL NEVER LEAVE IOWA ALIVE
How bad was it? One of the best and brightest of the Gang of Eight, a young senator and now presidential candidate, has had to spend time during each presidential debate protesting, in so many words: It wasn’t me! I didn’t do it! The Gang of Eight’s immigration bill wasn’t perfect, and there’s no way to craft something that placates every interest group. But the fact that the Left, the Right, and others undefinable all had problems with the legislation told me it was probably about right and likely the best we could do. Yet the vitriol was so over-the-top that our promising young candidate now feels compelled to rewrite history. Might he garner more votes if he’d just stand up and tell the truth and challenge others about their lack of leadership in this economic debacle? Instead, all we get is chest-thumping and get-tough proclamations that are as meaningless as they are undoable. It’s incredibly ironic that the father of modern conservatism, Ronald Reagan, couldn’t have survived a current primary run. With Reagan’s offer of conditional amnesty to undocumented aliens, let alone the “earned income tax credit” that would redistribute income to the working poor, he’d never have made it out of Iowa alive.

THE LONG WALK TO DEPORTATION
I received some entertaining hate mail because of those columns I wrote four years ago. The general theme was that it’s people like me who are destroying this country—yes, the same country built by and on the backs of immigrants—because we want to implement a workable solution but are totally delusional about the issue.

I’ve spoken with someone in Washington who’s in a good position to know, and he claims that the real number
of “illegals” is more than double the 11 to 12 million figure that’s usually quoted. But, for argument’s sake, let’s just say that number is 12 million. A little back-of-the-napkin math quickly shows that mass deportation is simply not physically or economically possible.

First, each suspected illegal alien requires due process. This is America, after all, and the presumption of innocence until proven guilty cannot be suspended because you suspect someone of breaking the law. You have to treat someone as a citizen until you prove that they are not one. So you hire tens of thousands of people and train them so that you can process 10,000 undocumented aliens a week. If you could get each alien identified, arrested, jailed, processed, transported, and deported in 30 days, that would be miraculous. That’s 2,000 individuals per working day, so you have to build facilities to house the at least 50,000 detainees who are in process. At least half of those are women and children, so your facilities have to take that into consideration as well.

A quick Internet search shows that prisons cost $100K per bed to build and $35K annually to house each inmate—your tax dollars at work. To process and deport 500,000 illegals annually would take 24 years to get the job done at a cost of more than a hundred billion dollars. And that’s assuming there are no more who cross the border and that none of them have children.

Does anyone who can do 8th grade math actually believe that would work? In addition, you would absolutely cripple the housing industry, along with hospitality, health care, agriculture, and food services, to name just a few industries that employ these workers—and pay them very little, by the way.

So here we are, eight years past the original George W. Bush immigration reform proposal and nearly three years after the Gang of Eight’s, and things have only gotten worse. I totally agree that we have to control the border, but the solution will have to include a guest-worker program and a path to citizenship, among other initiatives. But check out the candidates’ rhetoric. None of them are talking realistically or intelligently about the issue.

**FACE THE BRUTAL FACTS**

The trade shortage is critical and will get worse before it gets better. Ninety-five percent of American builders had an increase of gross revenue in 2015 but were unable to increase retail sales prices as fast as their cost increases, so virtually all of those saw a decrease in profit margin as a percentage.

Not long after my lunch listening to the economist, I published an article in *Professional Builder’s* March 2015 issue titled, “10 Questions to Ruin Your Year,” and outlined exactly what would happen. It didn’t take any level of genius to predict that margins would drop in 2015, although I seemed to be the only one writing about it. It did require inside knowledge of what was going on with builders every day, and my colleagues and I at TrueNorth had that, in spades. So face the brutal facts: 2016 will see the same phenomenon as will 2017 and likely beyond. Both Meyers Research and John Burns Real Estate Consulting have published research this year documenting how retail sales prices compared with the price of existing homes are not just a little out of line, but dramatically so. This means retail prices won’t keep pace with the increases of the eight cost factors covered in that article—and the single largest factor is labor.

Incredibly, during the past few years, I had several “Solving the Trade Shortage” speaking proposals at various conferences rejected—a first for me—because the topic was “not current enough.” The perfect storm was brewing, there were specific things that could be done about it, and no one was acting. In one of those previous articles, I used examples such as steel for automobiles, oil for the plastics industry, and even nurses for health care. How would these industries respond, I challenged, if they had clear evidence that three or four years down the road their growth and profits would be compromised—despite increasing structural demand—due to shortages in one of the most critical elements of their business? And if they didn’t respond, we would question their very intelligence and ability to run their businesses. Only recently have we begun to wake up, with articles on the impact of the trade shortage appearing in *Fortune, Forbes, The Wall Street Journal,* and others.

**WE HAVE FAILED**

This year at the NAHB International Builders’ Show I talked with at least 35 or 40 builders in some depth, and for at least 90 percent of them, the worsening trade shortage was foremost on their minds. Everyone is talking about it now because it’s hurting their profit. I hope that by way of writing a column in the industry for nearly two decades I have earned the right to be honest, so
let’s go there. Any rational assessment of the U.S. home building industry would say simply that we have failed. Our refusal to face and address the trade labor shortage in a proactive manner with sufficient scale is a gross oversight at best and at worst, total incompetence. We have gotten exactly what we earned.

If anyone wants to correct me on that and show me evidence of broad industry initiatives attacking this problem, then have at it. I would love to be wrong. There are, indeed, small and local examples of schools, HBAs, and a few builders who have taken this on, yet we are so far from the critical mass needed that it’s almost as if nothing has happened. It does not appear to be a front-page issue for the NAHB. Go to nahb.org, search any variation of “trade shortage,” and you get just a few hits that address the issue, including a 2014 webinar by me, and an economist’s report from 18 months ago.

There are indeed NAHB initiatives underway that are increasing in scale, and I will detail those in a subsequent column. A few BIAs and HBAs have launched campaigns to develop trades using the NAHB trade development toolkit, but only a fraction of what’s needed. Why aren’t all of the 700 doing the same?

Where is the plan from the Leading Builders of America, the group made up of 20 or so of the country’s largest builders? I recently heard of one—but just one—of these builders taking some substantive steps, and I will feature them in a subsequent column along with other builders doing things that are working. But where is the leadership? What if all of these large builders required each of their local operations to work with the BIA/HBA, their local suppliers and trades, and vocational/technical training schools to develop the trade base, with mandated annual goals? And how about the suppliers and manufacturers? Is the leadership there? Yes, there are a few notable efforts on the supplier side, and I’ll communicate those later as well, but as a whole, not much is happening.

POLITICS AS USUAL

There are many things going on politically that all of these entities should be jumping up and down screaming about. For example, each time a politician talks about the importance of education and the funding required, then mentions only college-level content, forgoing trade and technical training, all of us should protest loudly and set them straight. Better yet, let’s work proactively so politicians can’t overlook it. Michigan Governor Rick Snyder, who has two Ph.D.s, began emphasizing trade and technical education several years ago and it was so noticeable it stood out. But for most, it’s a case of out of sight, out of mind, and this issue has been nearly invisible. But let the threat of an adverse ruling on land use, environmental law, or labor law rear its head and you will be deluged by “write your local government representative” emails, petitions, and requests for PAC money. So stop and think: When was the last time you saw the system kick into gear on the issue of the labor shortage?

In the next few columns, I’ll tackle these issues and feature the best examples from those who are truly working to remedy the trade labor situation. Toward that end, if you, your organization, or someone you know has something that’s working, please contact me (soon) at scott@truen.com. We need to tell your story and inspire others. We will also examine the strategy of reducing the need for labor through the application of manufacturing techniques to home building. With no small amount of irony, I relate the words of Bill Pulte from a workshop I attended fully 27 years ago: “This is a revolution that is about this far [holding up his finger and thumb with a tiny space between] from happening … since the end of World War II.”

There are great systems out there, but the truth is that if you look at the percentage of U.S. housing today that’s built using manufactured techniques and components, we haven’t progressed much since Pulte made his comment.

Meanwhile, we will also feature a few builders that have no trade shortages at all despite building in markets where the overall labor scarcity is severe. For these rare builders, the shortage has actually become a competitive advantage, as they know most builders don’t have the will to do what it takes to overcome the obstacles. That won’t solve the industry shortage, but it just may help solve yours.

There’s a lot to discuss on this critical issue and a lot to learn. We need your input and really, I even welcome the hate mail. An editor told me years ago that you haven’t made it as a columnist if you don’t generate hate mail now and then—and I am overdue. PB

Scott Sedam is president of TrueNorth Development. For a PDF of all the articles in the series “Solving the Trade Shortage,” send email to info@truen.com and include “Trade Shortage” in the subject line. Scott welcomes your direct feedback to scott@truen.com or 248.446.1275.
IMMIGRATION REFORM AND THE LEADERSHIP

THE U.S. IS OVERDUE FOR IMMIGRATION REFORM, AND IT’S TIME FOR BUILDERS TO STEP UP AND PLAY A LEADING ROLE IN THAT MOVEMENT
By Scott Sedam, Contributing Editor

Nearly 13 years ago I published an article in Professional Builder titled “Lessons on the Road to Everywhere,” in the July 2004 issue. It was the story of an incredible man—an immigrant—I met while stuck in a massive Los Angeles traffic jam. He was my driver that day and his life story remains the single most remarkable I have ever heard.

After his pilot father was killed, shot down by mistake while flying cargo to Israel during the 1967 Egyptian-Israeli Six-Day War, his newly impoverished mother had no choice but to disperse her children to live with relatives. Tesfaye, his Ethiopian name, found himself at age 13 indentured to a cruel uncle who treated him like slave labor on his farm in the Ethiopian bush. One night Tesfaye, then 15, carrying only what he could hold in his arms, began a six-month, nearly 2,000-mile journey on foot to Mombasa, Kenya, where he believed his late father had friends in aviation. His goal was to reach the United States, where an older sister had gone off to college before their father died. The problem was, he had no money, nor did he even have an address or phone number for his sister.

Just stop and imagine that for a moment. Age 15, no money and no map, walking the same distance as Chicago to Los Angeles, through infinitely tougher terrain and climates, not knowing who to trust, encountering different languages, severe hunger and desperate thirst, not to mention animals that would gladly consume you for lunch. Has even one of us reading this column taken on such an against-all-odds task … to get to America? Tesfaye made it and he did find help in Mombasa, which got him to Israel, then to Greece where, through tireless efforts, he eventually gained passage to the U.S. (And yes, he did it legally.) Fortunately, his Catholic school upbringing left him well-versed in English and Tesfaye had spent the last 30 years moving from place to place in the U.S., always working and sending money home to his mother, still in Ethiopia. He called it his “journey on the road to everywhere,” and due to his childhood journey, found he never was comfortable staying in one place for too long. This incredible man left a deep and lasting impression on me. I felt genuinely blessed to have been given the chance to learn from a remarkable soul born on the other side of the world.

Later on that trip I found myself on a jobsite marveling at the many languages I heard coming from faces that looked very different from mine, never drawing a moment’s recognition from any of the builder personnel I walked the sites with that day. The builders were wholly dependent on the hard work and
industriousness of these immigrants, yet it seemed the workers didn’t exist, as everyone passed them with hardly a look. The day before, I may have reacted—or not reacted—in the same way. Now, however, with Tesfaye’s story on my mind, I couldn’t help but hear every accent, every language, see every face and wonder, what were their stories? I thought of football coach Barry Switzer saying, “Some people are born on third base and go through life thinking they hit a triple.” And, if we’re honest, the vast majority of us began on second base, at a minimum, just by growing up in the U.S. These immigrants working on

our houses had to fight and sometimes risk their lives to even get up to bat against a horde of pitchers hurling one obstacle after another.

STOP. LISTEN. LEARN. The point of that July 2004 column was an appeal to stop, listen, and learn from the immigrants upon whose backs our industry depends. Learning their stories—and I’ve heard many more since—is incredibly inspiring. Whenever I hear a strong accent and there is enough time to listen, whether in a cab, at a restaurant, or on a jobsite, I love to ask, “Where are you from originally?” And if you ask in the right (nonthreatening) way, people open up with pride and tell you about their journey. Knowing a person’s history completely alters your perspective. Finding out these personal stories changes your attitude and feelings about virtually all immigrants. Perhaps it will even give you a glimpse of what some of your own ancestors suffered through to attain what, for most, was just a vague idea, a dream of a place called America. Will some naysayers hang onto their “immigrant go home” attitudes? Sure. Will still others continue to believe the false narrative that immigrants commit more crime than native-born citizens, when the facts prove otherwise? No doubt. Frankly, though, I no longer have time for those who define themselves by who and what they hate.

So how far have we come in the 13 or so years since I met Tesfaye? I spend more time travelling the country and walking jobsites than anyone I know, and perhaps 13 years ago I was quicker to pull at least some of my punches, but I’m too old and impatient for that now, so here is my completely forthright conclusion: Compared with 2004 when I wrote that column, as an industry we are more dependent today upon immigrant labor to build our houses than ever before. As a society, however, we have significantly regressed in our attitude toward immigrants and our treatment of them.

Everywhere you go there’s great suspicion of immigrant communities, and our recent elections have only served to fan those flames. Disinformation is everywhere. But one thing we in home building can’t deny is that without the immigrant community, we are dead in the water in terms of getting our houses built. If you happen to be in one of the few markets where immigrants don’t make up as high a percentage of the labor force, don’t for one second feel smug. If the immigrant labor in those other 95 percent of markets is threatened, the shortages in those markets will begin to pull the more traditional labor from your area within months. Count on it.

CAN YOU SAY, ‘THE I WORD?’ Things are beginning to happen in some cities to increase the trade base, and I’ve written extensively about those efforts in recent months. The full impact won’t be felt for years, however, and getting traditional high-school students interested in the building trades will never provide enough labor to annually build 1.5 to 2 million units. The only solution is comprehensive immigration reform with a guest-worker program and a path to citizenship for current undocumented workers in good standing.

When I last wrote about that, I got some pretty aggressive, even nasty email messages about how people “like me” are what’s wrong with this country. But as an editor pointed out to me when I started writing 20 years ago, “You haven’t made it until you win a Neal Award for your articles and get hate mail.” So check, and check, and many thanks. I was just nominated for another Neal Award, so just in case, I could use some hate mail to bolster my candidacy. Fire away.

George W. Bush understood the need for comprehensive immigration reform more than a decade ago, and got hung out to dry by his own party. Another workable proposal by a strong, fully bipartisan group of senators during the Obama administration similarly went down in flames. A hard look at our current crew in Washington, D.C., leaves me hard-pressed to say with any confidence that something meaningful will
pass with this Congress. If anything, we appear to be going in the opposite direction, hell-bent on making immigration more difficult … unless.

**WHAT DOES ‘UNLESS’ LOOK LIKE?**

So what would the “unless” look like? I’ll put it as directly as possible. The home building industry, with its several major constituencies, needs to find the guts and fortitude to stand up and raise hell on the issue of immigration reform. It’s as simple—and as tough—as that. There are three groups, among others, that must tackle this challenge: NAHB representing all home builders, the NAHB’s Leading Suppliers Council, and the Leading Builders of America (whose members include most of the top 20 national builders).

I’ve thoroughly searched the NAHB website and all I can find is a one-page resolution, vaguely supporting immigration reform, published in 2004 and reaffirmed a couple of times thereafter. Further inquiries into specific lobbying efforts revealed nothing tangible. Clients of TrueNorth who participate in the Leading Builders of America, and a couple of those I know on the NAHB’s Leading Suppliers Council, say the issue of immigration reform has been discussed but that no definitive action has been proposed or launched. The NAHB executive team and all senior management from home building companies should need no convincing on why immigration reform must be at the very top of their agendas. And if the suppliers stop and think, the function and quality of their product once in the customers’ hands is largely dependent upon the quality of the installation, so it’s their issue as well.

What if this actually happened? Imagine if, starting next month, you began to hear that NAHB, Leading Builders, and the Leading Suppliers that I’m not being fair and “just look at all we are doing!” then all the better. Maybe, just maybe, this industry will step up, grab this bull by the horns, and wrestle it to the dust. It’s time for all of us to show some leadership. Remember my friend Tesfaye. In Ethiopian, his name means, “my hope.”

Scott Sedam is president of TrueNorth Development, a consulting and training firm that works with builders to improve product, process, and profits. For a free PDF of the article series on “Solving the Trade Shortage,” including this article, send your request to info@truen.com. You may reach Scott at scott@truen.com or call 248.446.1275.
‘BRICK & KICK,’ OPEN THE BORDERS, OR...?

CHOICES AND RESPONSIBILITIES IN SOLVING THE TRADE SHORTAGE

By Scott Sedam, Contributing Editor
The late Stephen Covey, author of one of the all-time best-selling business books, *The 7 Habits Of Highly Effective People*, often wrote about "the world of abundance." In Covey’s view, there’s always enough of virtually everything to go around, if we approach it with the right frame of mind. It’s all there, you just have to learn how to find it—or to create it. One thing that never works, though, is to sit back and hope abundance finds you. Whether you’re debating the availability of food, clean water, land, business opportunities, or promotions, Covey taught that the “scarcity mentality”—the zero-sum game where for you to win, someone else must lose—is responsible for many of the world’s woes, from countries to companies, sports teams to schools, and families to individuals.

Today there are several hundred home builders who may vehemently disagree with Covey, especially in regard to the nationwide shortage of trade labor. Their solution? Currently it appears to simply be “pay more and buy the supply over the next guy.” But with most builders facing a significant squeeze on profit margins, that’s not a compelling strategy. Covey’s approach, by comparison, requires a change in our basic beliefs—the hardest change to make, next to changing the beliefs of someone else.

**HEARING BOTH SIDES**

When I started this series in *Professional Builder*, the first article, “America’s Trade Shortage: The Failure of an Industry” (March 2016), cited our industry’s slowness to engage on the issue of the trade labor shortage in a productive, proactive way. I anticipated both a measure of support along with a dose of criticism and even hate mail, and my expectations were fulfilled.

The emails and calls supporting my position and those willing to share their efforts to develop the trade base were both gratifying and enlightening. But it’s important to also give a nod to those who see things differently because, in truth, they are many.

Some of the pretzel logic and circular reasoning coming from the hate mail boggled my mind, and it was tempting to just dismiss it. But recalling the old story about the boy who digs through a huge manure pile each day after school because “with this much crap, there has to be a pony in here somewhere,” I’ll try to translate their key points.

Here are the primary pushbacks. (I’ll leave out the ones claiming the universal answer, “It’s all Obama’s fault!” because everyone already knows that, correct?)

**Mass deportation.** I went so far in the March article as to provide some conservative and simple math showing that mass deportation of undocumented aliens is neither practical nor affordable. Yet this is the first position taken by many. Often citing “rule of law,” mass deportation beyond a massive, impenetrable wall, is non-negotiable. We won’t do the math
again, but, suffice it to say, the numbers are totally lost on those who hold fast to this belief. For them, it’s about the kind of country we want this to be, and anything other than immediate expulsion is a threat to the Republic. The issue is black and white. They came here illegally, so they all must go—now. Whatever it takes.

I asked one hardliner who called me directly, how we would solve the “family problem.” I explained that one of our leading presidential candidates emphatically stated during the debates that we can’t break up families—there are literally millions of families where the father, mother, or both are undocumented while their offspring, born and raised in the U.S., are citizens. My caller had no answer for this “crazy, liberal notion,” and when I told him that well, no, actually it was Republican Sen. Ted Cruz who said that, the caller just replied, “I’ll check on that,” clearly unbelieving. So far, no one has an answer to that issue, but note that considering families ups the ante—and the sheer numbers—significantly. You may argue that the law granting citizenship simply by birthright alone should be changed going forward, but that does nothing to solve the current problem.

I was also accused of supporting a totally open-border policy. When I protested, the reasoning went like this: If you don’t think mass deportation is viable, you must be for open borders. Right. Again, it’s black and white to some. No gray area or nuances allowed. But in case you’re wondering, I believe totally open borders would be a disaster. Besides, I just don’t trust those Canadians. They have a new premier and God only knows what they might be up to.

Illegals take American jobs. Either by staying on the move or participating in multi-layers of contracting and subcontracting that are difficult to track, the reality is there are more than 10 million illegals in the workforce and, according to some folks who contacted me, they take jobs that should rightfully go to Americans. Besides construction, illegals do considerable work in agriculture, food services, hospitality, home services, and senior care, among others. Yet what I hear time and time again are stories of employers who try to hire “traditional American workers” (and no, don’t ask me to define that term), in what are typically lower-paid positions, and have a difficult to impossible task finding the labor they need. Some say that’s because these so-called traditional American workers are either unavailable for or unwilling to do this lower-paid work, but I was told it was due primarily to low wages, even in the skilled trades.

Illegals depress American pay. Several callers and writers described this with palpable frustration. Men from my generation recounted a life spent building their trade contracting companies, yet their children have no interest in the business. The reason? Lousy pay. These witnesses claim the only thing that matters to builders today is bid price, and due to illegals there is always someone willing to do it cheaper and not as well. But again, across the nation, all I hear is case after case of substantial increases in labor prices.

Our TrueNorth team members report back on this every week from our work with builders around the country, and I can speak from recent personal experience due to a rash of roof and plumbing leaks at my own home, and the subsequent desire to “just remodel while we’re at it.” In the past six months my family has employed drywallers, plumbers, and installers for skylights, flooring, and HVAC, and they were each paid quite well. We’d love to have hired a tile layer, but after a months-long search, we did the project ourselves. Several lost weekends and a couple of aching knees later, I’d have paid a king’s ransom for someone else to do the work. Then I think about a family member who is an electrical contractor, and let’s just say most of us would love to trade bank accounts with him.

Brick and kick! I can’t speak to other industries, but there’s scant evidence that illegals have held back wages in home building. How about picking tomatoes in the “thumb” area of Michigan or staffing the summer resorts on Mackinac Island? Do they hire immigrants, legal or otherwise, because they can pay them so little, or because traditional American workers just won’t do the seasonal jobs? Farmers and hoteliers claim the latter, but who really knows? Regardless, let’s say somehow the “brick and kick” (brick the big border wall and kick out all the illegals) gang wins the day and labor rates increase by 15 to 20 percent, or more. As I’ve written in previous columns, we’re in a period where builder margins are falling despite higher sales because the market won’t support the price increases required to cover increasing costs in all areas of the
business. A significant rise in labor rates may stop our post-recession housing growth in its tracks.

It's the government, stupid. The primary arguments here are that the borders are not secure enough and deportation is too slow. If you're bored, Google search “Deportation under Obama,” and you'll find articles stating that Obama, with a year to go in his term, has deported 2.5 million illegals; 23 percent more than George W. Bush did in eight years. You can also read about how the current administration has deported more illegals than 19 previous presidents from 1898 to 2000 combined. Then you'll read that last year saw the lowest rate of deportation in a decade. So pick whatever “facts” suit your agenda.

But … it’s not the employers. I was compelled to ask the “brick and kick” crowd why, amidst all the chest-pounding by candidates over just how big a wall they’d build and how quickly they’d launch mass deportation, not one mentioned going after the employers. I’m not taking a position here, except to note that illegals come here for the jobs and opportunity. If there were no jobs and no money, word would quickly get back to the countries of origin and the flow would slow to a trickle. Would this not be a far less expensive approach than brick and kick? Just sayin’ … But no one bit on my challenge. For those who are dead-set on just culling these workers, I ask you, Why are the employers virtually untouched? I don’t know, but I’m curious. I anxiously await your explanation.

Let’s add on one more big issue, however: We are overly focused on pushing high school kids toward college degrees, when we should also be pushing them—equally or perhaps more—toward trade and technical training. School loans? How about this: Reimburse trade and technical school students 50 percent of the cost of each course passed with a “C” or better, and if they complete the program, reimburse them the other 50 percent. Once you reach age 18, you should have to have “skin in the game” to get any help, presuming you are of able body and mind.

WHO’S RESPONSIBLE?
I recently spent a day with an exceptional management team, setting up their Lean Process implementation. They are No. 1 in their midsize market, build great quality homes, and I was amazed at the detail and amenities they provide at each price point. They are committed, enthusiastic, focused, clearly love the business, and care about customers, suppliers, trades, and one another. In most builder teams there is a resident skeptic or two who holds back, and that’s normal. Yet I couldn’t find one in this group, despite my provocations. Was there any deficiency at all in this team? It didn’t turn up until late in the day. I asked them—given their position as market leader and possessed of such a strong, progressive team—what specific actions they’d taken in the past year to help develop the trade base they are so dependent upon. They looked at one another, then at me, perhaps a bit embarrassed, when finally the CEO said, “In truth, nothing.” I let that sit awhile, then asked if perhaps this was a responsibility they had overlooked.

When considering the roles and responsibilities of management and leadership, responsibility for trade development is crystal clear to me and inarguable. Leaders are charged with building and protecting the assets of their company. Given that trades are a critical asset in short supply, taking the utmost care to protect that asset lies at the top of the business responsibilities list. Could this even be a moral responsibility? Be brutally honest with yourself and your team. What are you doing to build and protect this asset? I’ll suggest that if it isn’t difficult, your efforts aren’t meaningful. What would happen if we reached genuine critical mass with builders stepping up? What if the national builders required each of their several hundred divisions to annually demonstrate their performance on trade development metrics just as they must demonstrate profit, growth, and more traditional asset management? What if the leading regions and locals did the same?

While you ponder that, I hope most of you are now asking, How? and that will be the focus of the next few columns I write. We’ll report and explore specific examples from the national efforts by the NAHB and its HBI (Homebuilder Institute) arm, local programs from HBA/BIAAs, the work of local vocational and technical schools, steps taken by product manufacturers, and progress made by local builders. Are you going to sit around and pray that abundance shows up on your doorstep or are you going to take action to create it?

Meanwhile, I’ll put my money on at least one strong local builder with a committed management team being among those leading the way in the near future. PB

Scott Sedam is president of TrueNorth Development. For a PDF of all the articles in the series “Solving the Trade Shortage,” send email to info@truen.com and include “Trade Shortage” in the subject line. Scott welcomes your direct feedback to scott@truen.com or 248.446.1275.
SOLVING THE TRADE SHORTAGE

By Scott Sedam, Contributing Editor

T he scene on this drizzly spring morning in front of DeVos Place, a huge exhibit and event complex in Grand Rapids, Mich., wouldn’t impress the average passerby, yet I am mesmerized. Flowing back up Monroe Street from the entrance, I count 10 school buses, with more queuing up around the corners east and west—at least 15, perhaps 20 buses in all. Each is quickly marshalled up and unloads 30 to 40 students who excitedly line up at the building’s front doors. I watch for about five minutes, and in just this brief time, hundreds of kids disembark. As one bus rounds the corner into the line, another immediately takes its place. I later learn that on this chilly May day, more than 9,000 junior high and high school students will pass through the entrance doors at DeVos Place.

I enter the grand lobby and see tables full of registrations and drawstring backpacks in an array of four colors. The kids quickly find their names and color groups while the impossible-to-miss ushers, who are all volunteers, wave huge “swim noodles” that match each backpack color. Incredibly, despite the cacophony of hundreds of teens simultaneously talking, the students quickly group themselves by vest color. I notice a walkway above the grand entrance hall that affords a better view and find my way upstairs. Looking out across the expanse below, I now notice a few hundred more students grouped at the west end as well that I hadn’t seen when I was downstairs. What a sight!

As I start to wonder how this is all organized, music begins to blast through the loudspeakers and on cue, doors open and the noodle-wavers lead their groups into the exhibit halls. By the time I get back downstairs, almost all of the students are inside, and while I’d hoped for at least somewhat-controlled chaos, what I watch is as close to choreographed ballet as you get with teenagers this side of North Korea. The marquee above proclaims “Welcome: West Michigan CareerQuest 2016!”

In the hall, the four colors the students wear correspond to the colors of four industries, and that shows them where to start. The four industries are: advanced manufacturing, construction, health care, and information technology. Each group gets 30 minutes to spend in each sector, and when the music starts again, they rotate to the next industry. Now, you may presume that with students of this age, construction takes a back seat to the more glamorous health care and IT exhibits, but you’d be wrong. Construction is packed, and the kids are engaged, animated, and having fun.

THE LECTURE-FREE ZONE

No lectures here. This is hands-on stuff and the students are busy. One section proclaims “Become an Electrician!” and kids line up to play a cool game where you have to throw switches and select wires in different combinations to complete a circuit. Each kid I watch smiles broadly when the lights and sound indicate success. For those who want to go deeper, a young man enthusiastically explains a portable power management system, the kind used in emergencies—and yeah, he knows how to relate this to the kids’ world. “What happens if a big storm hits and you’ve got no TV, no computer, and your cell phone runs out of power?”

Passing by a masterfully done framing and drywall exhibit, students use power drills to drive drywall screws through the wallboard into studs, and they love it. Just as many girls as boys take their turn. A guy at the concrete area shows a cool new electronic leveler that shoots signals to receivers around the hall to get elevations exactly right. Also on display is a huge ride-on concrete finisher with a big video screen alongside showing how this machine speeds up finishing time by more than 500 percent. If you think these students would be bored by concrete, you’d be totally wrong.
This show, just two hours across the state from me, and learn
He called and challenged me to get over to Grand Rapids for
read one of my laments here in
about how
builder in the Grand Rapids area. A couple of months back, John
John Bitely is president of Sable Homes, the third largest home
Now I spot the builder who invited me to this amazing show.
THE PIED PIPER
Next, I’m drawn to a big wooden deck with rails and the con-
tinual “zip-and-ratchet” sound of Milwaukee screw guns. Three
or four kids at once run deck screws into the planks in less-
than-more of a straight line. The guns are stand-up self-feeders,
and the bright yellow strips of gold star-bit screws go fast. The
kids beam when they get it right, and if you’ve ever done it, you
understand. It’s that particular feeling when the screw bites at
the right speed, then almost magically pulls itself into the wood
and finishes with a high note that says, “Good job!” OK, it’s hard
to explain, but you know it when you hear it. For these students,
it’s a new experience that puts grins on their faces. I watch four
20-something guys help the kids, explaining the methods and
the tools and talking about lumber, screws, building process,
and all manner of things that I’m sure the kids’ parents would
find hard to believe these students care one whit about.
I see the “old guy” in the bunch, must be 35, and introduce my-
self. Chris Heyduk is marketing manager for Zeeland Lumber &
Supply, the stalwart West Michigan firm that built this exhibit.
He describes how Zeeland is a big supporter of MiCareerQuest.
“After all,” he says, “Who’s going to install all the materials we
sell and deliver to builders?” He points out the other guys from
his company who work with the kids. They’re young and casu-
ally but sharply dressed with MiCareerQuest shirts and slacks,
all smiling, talking, and listening to the students while helping
them run a never-ending series of deck screws into the planks.
It’s noisy, in a good way. Then Chris makes an interesting point,
which I try not to take personally. “See how young our team is
here? That’s no accident. The average framer is in his mid- to
late 40s. Brickmasons average around 55! The industry is aging
at an incredible rate. We want these students to associate con-
struction with young faces, not the old guys.” Looking as seri-
ous as I can, I ask, “So you’re saying old guys like me shouldn’t
hang around the booth too long?” Chris just smiles in response.
THE PIED PIPER
Now I spot the builder who invited me to this amazing show.
John Bitely is president of Sable Homes, the third largest home
builder in the Grand Rapids area. A couple of months back, John
read one of my laments here in Professional Builder about how
the entire industry has dropped the ball on trade development.
He called and challenged me to get over to Grand Rapids for
this show, just two hours across the state from me, and learn
something. John’s attitude was so infectious that I couldn’t say
no. I watch John now as he engages with a group of five students.
He sports a big smile, looks each of them right in the eye, ex-
plains the high-points in the home building exhibit, and leaves
them thinking home building may just be a cool profession after
all. A big, colorful board stretches along the back of the display
showing specific trades at work while pop-outs show how much
money, on average, each earns annually in the Grand Rapids
area. To these students, it looks like big money.
One kid, I’d guess a high school junior, asks John how much it
costs to become a tradesman compared with going to college.
John explains that it’s anywhere from nothing—although you
get paid less when learning—to some number of thousands
to get a specific trade certificate at the local vo-tech or junior
college. But it’s certainly a tiny fraction of the $12K to $50K
annually it costs for traditional four-year college degrees. John
is careful not to denigrate the college degree, but points out
that too many kids go off to college with no plan, leave with
$50K to $100K of debt, and can’t find the job they hoped for.
He compares that to learning a trade, where you make good
money right away and have the opportunity to have your own
successful, high-paying business by the time you’re 30—with
no debt. Now he points out that Grand Rapids was named by
Forbes magazine as the No.1 housing market to invest in for
2016 and how much opportunity there is right here, close to
home. I look at the kids. Clearly, he has them thinking.
John’s enthusiasm and energy are unfailing as I watch him
work multiple groups. The kids all listen. For most of them
on this day, they hear about job options they’d never consid-
ered. Whatever they decide, how much better is it that they’ve
learned about opportunities in building as well as in health
care, manufacturing, and information technology, many of
which don’t require a full four-year degree?
Out front of the Zeeland booth I now watch another animat-
ed fellow with a group of willing students. When we exchange
business cards, I learn that his name is Tom Pueler and that
he’s from Fox Brothers, to my knowledge the largest supplier of
roofing and siding in Michigan. With four sites covering most
of the state, Fox Brothers is a material supplier only, and all of its
material is installed by subcontractors who are usually directly
hired by the builder. Yet Tom’s job is to spend almost all of his
time helping those subcontractors find, develop, and train good
workers. How progressive is this? While it’s obvious that sup-
pliers have a vested interest in the quality of independently

contracted installers, I’ve never before heard of a supplier directly working with them—unless they’re captive crews. Tom spends a ton of time talking to kids about construction opportunities and how to get qualified. He proudly relates how he brought five female students into the business in recent months. Tom also spends a lot of time talking with high school counselors and reports that they’re beginning to see the folly of the “four-year college or nothing” thinking that’s so prevalent with students, teachers, and especially parents.

John grabs me again saying there is someone I just have to meet. We cross the floor and I’m introduced to Jen Schottke, a tall, striking woman with a presence that says, Things are going to get done. Jen is director of workforce development and external affairs for ABC—Associated Builders and Contractors—Western Michigan. ABC is a pure commercial construction association and John and Jen tell a tale that’s hard to believe. Historically, HBA and ABC have seen each other as rivals for trade talent. To their knowledge, this is the first time ABC and NAHB chapters have actively worked together on trade development. Jen tells me so much about everyone who came together to make MiCareerQuest (micareerquest .org) happen—more than I can write and more than I can cover in this article—a consortium of committees, companies, trade schools, community colleges, builders, suppliers, trades, and of course, associations. Last year around 6,500 students participated. This year more than 9,000 signed up and, as a bonus, the group with overall responsibility for the event, West Michigan Works, added a “CareerFair 2016” from 4 p.m. to 7 p.m. where job seekers will be able to connect with employers in the four industries represented.

I stayed at MiCareerQuest half a day and marveled at what I witnessed. The energy of everyone involved was contagious, and I didn’t find a single cynic. This year Kalamazoo will hold its first CareerQuest event, with Lansing planning to launch in 2017. When I wrote the first two articles on the growing and crippling nationwide trade shortage (“America’s Trade Shortage: Failure of an Industry,” in the March issue, and “Brick & Kick, Open the Borders or …?” in May) I made an appeal to anyone doing anything special—and effective—in the arena of trade development to contact me in hopes I could feature them in an article. I learned about great work being done in far-flung places, from northeast Nebraska to far southern Arizona and Texas Hill Country to, of course, Grand Rapids. And there are many more out there. As much as I’d love to feature each one in this monthly column, that’s not really practical. The takeaway here is that you don’t need to reinvent the wheel. Help and experience is out there, if you know how to find it. What’s needed is a searchable national clearinghouse where anyone can go to find which associations, builders, schools, and individuals are making things happen. In my view, the only logical place for that to reside is with the NAHB.

THE CHALLENGE … AGAIN
I hate to put any negative spin on MiCareerQuest, but it does highlight issues that must be confronted. At this remarkable event, just one local builder of significance was involved. One. Why not five or 10? There were a fair number of commercial suppliers and contractors, but just a few on the residential side. Why not 15 or 20? There was no one there from NAHB national, the state of Michigan HBA, or anyone from the Detroit side of the state, which is far larger and is also desperately seeking trades. I challenge you: How can this be? At a recent event in Florida, I asked the 75 builders from around the country in my session to show me something concrete and specific they’d done in the past two years to develop trades. There were many good builders in that room, yet the number of hands that went up was zero. Stunning, depressing, mystifying … pick your morose adjective … they’re all appropriate and well-earned.

A builder friend suggested that my assessment in previous articles was a bit harsh. Was I too harsh, really? So let me apologize—for not being harsh enough. And I defy anyone to prove me wrong. Home building sat back and watched its most precious resource dwindle and has done next to nothing about it, save the efforts of a few heroic folks working without much support in the hinterlands. Yet the experience of the folks in Grand Rapids and other places proves there are models that work, models that, if adopted at a level of critical mass, could solve much of our trade shortage—maybe even all of it. We are builders. We are attracted to this industry because it’s hands-on with a physical product people love. We make things happen. We fix things. Isn’t it about time we quit complaining about the nationwide trade shortage and fix it? PB
THE BEST-KEPT SECRET IN SOLVING THE TRADE SHORTAGE

THE HOME BUILDERS INSTITUTE IS DEDICATED TO PROVIDING A PATH TO EMPLOYMENT FOR THOSE WHO NEED ONE—AND IT’S HELPING ALLEVIATE THE LABOR SHORTAGE IN THE PROCESS

By Scott Sedam, Contributing Editor
WHAT IS AN HBI?
For more than a year now my campaign to find concrete examples of how people or groups are attacking the nationwide trade shortage and seeing results has been disappointing, to say the least. But I have discovered some great examples and will feature more of them in future columns.

Media attention about the problem has grown, yet, given the size of the industry, our generally meager efforts are nothing less than an embarrassment. Virtually everyone suffers under the trade shortage. We complain about it, yet few are willing to step up and do anything proactive to address it.

So, when a contact at NAHB directed me to the HBI, my first question was, "What's an HBI?" (And, it turns out, in a quick, informal poll I did of builders I know, most of them didn't know either.)

HBI, the Home Builders Institute, is an organization that traces its roots back to the late 1940s. One click on the hbi.org homepage reveals the organization's mission: "To advance and provide education, career development, training and placement of men and women serving the building industry," and its vision: "To be the recognized source for career technical education in the building industry." That sounds like something we should all know about.

The HBI—a 501(c)(3) nonprofit—is a partner with the NAHB but officially independent from it. With 300 total staff members in 42 states, the HBI is having considerable success. I spoke on the phone for an hour with Lynne Harris, VP of corporate communications, and John Courson, HBI's president and CEO.

SOUP TO NUTS ... AND THEN SOME
The first shock to me was learning that the HBI has 8,000 to 9,000 students in its programs at any given time, and that those programs can turn out a certified trade in 120 to 180 days. At that rate, the HBI could process 20,000 to 25,000 students annually. The potential to add 250,000 trades to the base over a 10-year period has huge positive implications for the current trade shortage. That's an average of 5,000 trades for each of the top 50 U.S. housing markets. The certifications are recognized by the U.S. Department of Labor, and 50 percent or more of the training is done in the field, so graduates have a pretty good idea of real-world jobsite conditions and requirements. At this time, the HBI offers certification in the following important industry areas of need, with more to come:

- Brick masonry
- Building construction technology
- Carpentry
- Electrical wiring
- HVAC
- Landscaping
- Painting
- Plumbing
- Solar installation
- Weatherization

With 12 to 14 students per instructor, there's little danger of participants getting lost in the system. But perhaps best of all, the HBI places 85 percent or more of its students following program completion. Consider that for a moment. With just four to six months of training, a student can graduate into a high-demand, well-paying position. Compare that to, well, I can't think of any career track to compare that to, can you?

John Courson adds, "We are the only group on a large scale that takes an interested student all the way through training and places them in a job." He goes on to describe how the HBI has long focused on underserved 16 to 24 year olds, many coming out of the military without a marketable skill, some who have had past trouble with the law, others even homeless. Now, if that gives you pause, I'll ask you to pause a bit longer and think it through. My experience with these young people is that given support, a chance, and some training, most respond quickly, appreciate the opportunity, and make great employees. Add to that the societal benefits of getting young people into meaningful work instead of dependency, and the HBI proposition pays off on multiple fronts. The HBI website details a number of its success stories.
WORKING MIRACLES

One such case history that jumped out at me was Dakota Andekin, a former addict who was homeless and totally adrift. He "stumbled into" HBI’s Inland Empire Job Corps, trained as an apprentice plumber, took a job with a local company, then launched his own plumbing business. Now a married homeowner and in a partnership with his brother, their Sewer Ninjas Plumbing firm just launched its second location. No surprise, Dakota is a frequent speaker for HBI Job Corps. Who wouldn’t want to hear that story? But a more important question for the Professional Builder audience, who wouldn’t want to support that story and be a part of it for other aspiring tradesmen and women?

Now try to imagine the reaction of the average builder—or anyone else—to hearing about a guy who is serving his fifth jail sentence for stealing to support a drug habit. Throw away the key, right? Some folks are just beyond rehabilitation. If you’d done that, however, you wouldn’t have Nate Coleman, who learned about HBI’s Pre-Apprenticeship Certification Program at the Sheridan Correctional Facility north of Chicago. Nate did so well in the program that he was quickly accepted into the regular masonry apprentice school. Fast forward to today and Nate is an instructor who absolutely loves his work training others. Can you imagine the impact his story has on other struggling young men and women? Nate made it, so they can, too.

Army veteran Leonard Thompson was coming off a four-year tour of duty in Iraq; a single parent desperately seeking a new path to support his daughter. Today, he’s a fairly typical success story for HBI’s Veterans Program. Leonard took a variety of HBI courses—including HVAC, electrical, and carpentry—and promptly found good employment as a metal fabricator. He’s now working toward becoming an underwater welder. With the HBI’s help, the future for Leonard and his daughter looks bright. The HBI now has programs on site at various military bases and is planning more. These are just a few examples. Not all are as dramatic as the stories of Dakota, Nate, and Leonard, of course. For many, the HBI simply provides a great alternative and better fit than going to college.

SOLID STUFF

You’ll be impressed by the HBI’s detailed curriculums, including a series to train site superintendents, and will be inspired reading about some of HBI’s instructors. To cite just one example, HBI electrical instructor Josh Torres from the Roswell, N.M., Job Corps Center was recently named “Top Teacher of Character.” It’s noteworthy that HBI recognizes this critical aspect of teaching skills, and it’s a good bet that Josh’s students are getting their electrical knowledge down pat as well.

The HBI makes it clear that—as well as providing job skills—character-building experiences that promote self-esteem and interpersonal skills that enable success in both work and in life are essential. In addition to the Job Corps, which focuses on at-risk youth at more than 70 sites, and the Veterans Program, which helps transition vets to good civilian jobs, the HBI’s Pre-Apprenticeship Certificate Training (PACT) operates at more than 100 sites across the country. HBI students complete significant community-service projects as part of the hands-on training. One example recently completed by HBI students at the Tahlequah, Okla., Job Corps Center is Zoe House, a safe shelter for the area’s homeless. Another is a massive remodeling project of an old greenhouse into a new HBI workshop at the Cypress Creek Center, in Lecanto, Fla., that involved high-risk youth aged 13 to 21. It doesn’t take much research to predict that kids working together and learning building skills in this workshop was great for creating a positive outlook and offering hope for the future. One instructor, Justin Rosato, summed up the project saying, “The students were overwhelmed with joy because of the knowledge they received during this training. It was hands-on, and they fell in love with it. ... Miracles were performed and memories created that’ll never be forgotten.”

To support all these programs, the HBI Residential Construction Academy...
has spent years developing an extensive and impressive series of residential construction skills standards-based textbooks and teaching aids. This is an ongoing effort with regular contributions from HBI instructors across the U.S.

WHAT ABOUT THE HIGH SCHOOLS?
In John Courson’s President’s Message in the HBI Summer Quarterly (you can sign up for these on the website), he absolutely nailed one of the keys to progress on the trade shortage. While recently attending high school graduations for two of his grandsons, Courson noted, “I was struck at both ceremonies when school administrators gave special recognition to those going on to two- and four-year colleges and universities. I wondered, ‘What about those who are going on to the military or have earned trades credentials or other vocational training?’”

It’s tricky to pinpoint just how and when the tide turned against vocational training in this country, but it’s something against which we have to push back. This year, the HBI is launching its Building Careers Program, a course for grades 9 through 12 that will provide industry-recognized credentials for graduates so they’re ready to work in construction trades. There are about 37,000 public and private high schools in the U.S. What if we could get a little over 10 percent of them to offer this program; let’s call it 4,000. And what if, on average, each school graduated 25 students per year in this program? That would annually provide 100,000 fresh, young workers for the industry. With some effort and the right people onboard, that number could dramatically increase in short order.

We’ve all seen statistics about the aging construction workforce. An immigrant population of younger workers in framing, drywall, concrete, and landscaping to name a few, holds down this average somewhat, but for skilled mechanical trades we often hear about average ages of 55 or older. What’s wrong with this picture? Add to that political trends toward making immigration—legal or otherwise—tougher, and home building is headed for a crisis. The trades aren’t jobs that people typically migrate to in their 30s or 40s after trying something more “white collar.” We have to get young men and women engaged early in their work careers. The HBI now has the tools to enable that at a much higher level.

OVERCOMING THE OBSTACLES
At the end of my phone conversation with Courson, he emphasized that the primary obstacle here is funding. Go back to the HBI’s website and look at its list of supporters—those who provide funding—and you’ll be struck by who’s missing. Most of the money comes via grants from foundations and government entities. Yet the parties that stand to gain the most from the work of the HBI and other organizations that are actively developing trades are manufacturers, suppliers, home builders, and trade contractors themselves, yet few have engaged in the process upstream.

Yes, for individual companies, there is training once a new recruit is hired. But efforts to develop new prospects are meager, at best. I’m at a loss as to how that can be. Perhaps it seems too long-term. Yet Courson insists, “We can train any population in any location in our certified trade programs and be up and running in 90 days.” Add to that the time it takes to train, and if you made the decision on Oct. 1 to launch an HBI program or to support an existing one to a higher level, you could see graduates by May 1.

So here’s my challenge: If the HBI isn’t in your market, get it there. If it is, support its growth. How hard should it be for builders, suppliers, and trades to join with their local HBA/BIA to make this happen? The knowledge and expertise is there, and you’ll soon see a return on any investment you make, as your local supply of quality trades grows. There’s also nothing wrong with helping your community and providing kids with a brighter future. Can you think of any better ROI?

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ward the end of eighth grade, I was called to the principal’s office after school—not an unusual event for me. As I tried to figure out which prank had caught up with me this time, I entered the office to face the stare of our stern-faced principal, Mr. Smith, who barked, "Sit down, Sedam." Within a minute, the always smiling industrial-arts teacher, Mr. Hopkins, walked in, followed by ex-college-jock, GTO-driving, hearthrob history teacher, Mr. Derheimer. Smith cut right to the chase: “Sedam, I should disqualify you for any number of reasons, but it seems both Derheimer and Hopkins picked you to receive the gold medal in their courses this year. You’re only allowed one. Your choice.”

Our junior high had a tradition of giving out a “gold medal” for the top student in each class. This was a bad idea back then because, well, is there any group more brutal than adolescent eighth graders? Today, I question a process that produces just a few winners and perhaps 100 times as many losers—a big net loss. Regardless, I was up for two of these and had to choose. Mr. Hopkins, my favorite teacher, taught shop class. Each year the eighth grade classes took on projects to build something to sell and make money for a charity, such as a bookshelf. The typical take was about $75 (in 1966 dollars, worth about $550 today) from the 25 kids in a class, each making their own item from a common plan, then selling it for an average of three bucks, usually to a parent or grandparent. The quality ranged from quite good to virtually unpresentable.

Then fate intervened. For our eighth grade Honor Roll trip, we ventured to Detroit to tour the new Ford Mustang plant, right before the first model came out. It made a big impression and each of us was given a book about Henry Ford’s assembly line for the Model T and other pioneering manufacturing methods. I actually read it and found it fascinating. So much so, that I proposed to Mr. Hopkins a system whereby we sell a far better bookshelf that we could build in quantity with an assembly line, much faster, and with superior quality. This bookshelf folded up with hinges and had movable dowels that fit into predrilled holes across the base, providing 100 options for adjustment. It turned out that students at local Earlham College loved them and we sold more than 100 for an average of $5. That $500 ($3,700 today) blew away every other class, and we were all proud of our work. So for that project, Mr. Hopkins had decided to award me the medal.

What had I done in history class? I guess it was this very involved report on the Battle of Gettysburg that I got carried away with, but in truth, I was much more proud of my shop-class achievement.

The end of the story is that Mr. Derheimer took over the meeting, explaining that since I was “college material” (my mother was a teacher in the system and my father was a college professor), it made sense for me to take the history medal, while one of the guys going the “trade route” (he knew then?) would benefit more from the shop class award. Everyone nodded, so I nodded along and it was thus decided.

Later, at my high school, where exactly 12 of our 103 graduates went to college, I was always vectored away from the shop classes where I wanted to learn how to rebuild an engine, turn wood on a lathe, and weld. Instead, I was steered to Calculus, Spanish IV, and Advanced Physics. Most of that other stuff I’ve picked up over time, but welding … well, I still want to take a welding class.

College Night

Fast forward 25 years and I am attending my first “college night” with my oldest son at our local high school, one where 97 percent of the graduates enter
There were no shop classes at this high school. Just about every college and university of any note was represented—all the Midwestern schools as well as many from the East Coast, South, and even the West. The military branches were there, hoping to attract ROTC candidates for the various schools. I stood next to the principal, a good guy now long-since retired, and observed to him that there was an entire category of schools missing. In response to his puzzled look, I explained that I saw no booths from the various vocational and technical training schools in our area—from HVAC to hairdressing to the two-year health sciences programs. He looked at me, sighed, then explained how he'd fought that battle in the past and lost. The simple fact was that in a school where better than 95 percent of the students go off to college, parents saw vocational-technical training as a distraction from the norm of what they expect from their kids. Hence none of those schools were invited.

This scenario has played out across the country to the point that shop class has virtually disappeared from high schools and middle schools. Presuming they'd even learn of the opportunity, if kids want to take a stab at learning a trade, they must first finish school, or if they're lucky, they may have a local vo-tech school that's cooperating with their high school. Plus there's the parental and societal “four-year-college-or-bust” mentality to overcome. This is decidedly not the case in Canada or most European countries, where obtaining a trade certificate or two-year technical degree is considered an honorable pursuit. Our nationwide attitude to trade education and trades as a career is a huge part of the trade shortage problem we face today.

In my article last month about the Home Builders Institute (see “The Best-Kept Secret in Solving the Trade Shortage,” October 2016), I noted that one of the biggest obstacles was moving the training that HBI offers back into high-school curricula. Researching HBI led me to many hardworking and innovative folks around the country who are having success at the high-school level. One group among many impressive efforts struck me because, in the process, they had cracked the nut on perhaps the greatest hurdle of all: getting builders involved at the local level. If you travel to Colorado Springs, Colo., you'll quickly see what I mean, including a radical model that solves a third major obstacle: funding for the new curriculum, instructors, and space to conduct the training.

George Hess, president of long-time Colorado Springs builder Vantage Homes, had fretted for years over the declining trade base and the way in which schools were leaving students who may have shown an interest in vo-tech out in the cold. Hess worked on multiple efforts, such as a job fair for women in construction, and served on the board for the Career Building Academy, where they tried to start a separate school focused on trade and technical education. Although that effort was abandoned, he saw young people get excited about something they did in school, for a change. The carrot was that if students did well in other classes such as math or English, they got to go work on a construction site.

Hess found those schools that did teach what was commonly called “Industrial Arts” went beyond what home builders need. His search for basic skills in carpentry and mechanical trades led him to HBI and its curriculum. As I mentioned last month, Hess and his team saw the HBI coursework and were shocked. “We had no idea this existed!” he says. In 2015, after linking up with the Colorado Springs HBA and getting buy-in from HBI, the so-dubbed “Careers in Construction” team went to local school districts with some trepidation, saying they could supply the school with curriculum and some funding for an instructor and equipment, but would the school step up and take the risk? To everyone’s surprise, each school said yes. It had dawned on the schools that not every kid should go to college—and here was a solution.

The new curriculum was launched first in the Harrison District for at-risk students, but soon the program went mainstream. Hess and his team found private donations for the instructor and got grants for tools. District #49 launched last spring and several more will launch this year, bringing the enrollment above 250. By the end of 2018, Hess expects 12 to 15 high schools to be participating, with enrollment as high as 1,500 to 2,000 students. The team found a few older schools with unused shop facilities, but, like most things, money was an
obstacle. The per-student cost of vo-tech training is higher than more typical high-school classes. Instructors with the required knowledge are more expensive and equipment and space demands are greater. Then, in one of their meetings, out of a long group discussion emerged an idea, one that I’d never heard of or imagined: What if we could get builders to voluntarily add another $25 per house permit to fund the student training? And what if we could get $6 per permit for roofing, electrical, HVAC, etc.? It would be to their own benefit and it would add up fast. In Colorado Springs, this is now called the “Building Futures Fund,” and today it’s a reality.

And the great news is, the fund is working. Six-figure dollars are coming through and there is the potential to generate $400K to $500K. Meanwhile, other local Colorado Springs builders are involved with the HBA in helping to develop lesson plans for the HBI curriculum, selling the permit fee idea to builders and trades, recruiting students to the program, and doing mentoring. One builder engaged in the process is John Bissett, president of JM Weston Homes, who served as president of the local HBA in 2013. John himself is proud of and quick to point out that despite his mother’s protestations he came right out of high school into auto-body work because he was good at it and wanted to be independent at age 19. Although John eventually earned a college degree, he is adamant that kids need alternatives and that parental and societal norms and expectations must be reset. Bissett describes how a group of builders led by Joe Loidolt, president of Classic Homes, got together to work with the local HBA and HBI to nail down the parts of the curriculum that were most needed. They also got suppliers to contribute and involved groups such as the Associated General Contractors. Finally, he notes that the Regional Building Department and especially the “front-counter folks” were very cooperative and just wanted to help wherever they could. Very quickly, this became a win-win for all constituencies—most of all for the students.

Wait-Listing Progress

Marla Novak, director of government affairs for the local HBA, is vocal about the HBA’s commitment to the Careers in Construction process and working with builders and school districts on programs such as matching mentors to get the skills placed where needed. Novak describes how remarkable it is to see so many different elements—sometimes with competing interests—come together to make a dream a reality in Colorado Springs. She relates that “school districts are on the waiting list,” including both public and charter schools. The HBA won’t put schools onboard, however, until it’s confident about funding. Yet today, the single-family permit participation rate in the funding is 84 percent; better than the original goal of 80 percent, and it’s growing. With that level of contribution, the future of the process appears to be secure. The HBA is now working with HBI to make Careers in Construction a “franchiseable process,” eliminating the need for other cities to reinvent the wheel. Meanwhile, the HBA is happy to answer inquiries about the program and what it has learned to date.

I asked John Bissett how to get builders involved at the local level because I’m convinced this is the ultimate driver. When builders finally accept that trade development enables their own success, funding will cease to be an obstacle. “This process isn’t attractive to those looking for overnight change,” Bissett says. “The attitude of the industry, the high schools, and the parents must change. But should you get involved? Absolutely! This is an investment in your business and future. Some things we do just because it’s the right thing, and now is the time to be doing it.”

Shop class is back and it can have a huge impact on the trade shortage. Do the math. Colorado Springs is the 79th largest MSA in the country. Just imagine if the top 100 markets could graduate an average of 500 students per year. An addition of 50,000 annually to the skilled trade pool will make an incredible difference, but these students need your help. You can organize, recruit, mentor, teach, fund ... no end of roles are available. The industry needs this training. The industry needs your company. The industry needs you. You can just move on and figure someone else will take care of it, or you can call your local HBA/BIA and offer your help, or maybe the help of your entire company. Meanwhile, I am off to welding class. It’s about time.

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You don’t have to be at the mercy of trade shortages. Streamlining your scheduling and operations, and paying quickly can move you to the front of the line.

By Scott Sedam, Contributing Editor

Last month while traveling through a southern city, a time slot opened up unexpectedly, so I emailed an old client suggesting we meet the following day, catch up, and discuss his 2014 plans. The next morning as I finished my first appointment a text popped up from Rick, the company president, “Can you be here at 11:00? Important field construction meeting!” Evidently there was something he wanted me to see. If I left immediately I could just make it and, besides, the site was close to my next meeting.

I arrived at 10:55 to find Rick speaking to a large group that included everyone from construction, purchasing, and warranty along with the entire management team. He was pretty worked up, telling them how critical it was in their market to become the “Builder of Choice” for the best suppliers and trade contractors. Rick admitted that was something they had not achieved, and the trade shortage had now reached epidemic proportions. He smacked his hand in his fist, proclaiming that their schedule was suffering, costs were rising and, without a change, cash flow would become a serious problem. Just when he was getting really wound up, Rick turned to me and said in front of the crowd of 50 plus, “And now I would like our old friend and consultant Scott Sedam to give us some input on this.”

I was taken aback, thinking Rick did not even know I had arrived. As I walked to the front, my mind raced with thoughts, examples, war stories, what works and what doesn’t work on the subject of trade shortages. I had written multiple articles on various aspects of the problem, including one recently on the industry’s refusal to engage in grass-roots trade development. As Rick shook my hand, he whispered, “About 10 minutes.” What could I tell this eager but frustrated group in 10 minutes that would alleviate a nationwide epidemic?

My strategy was to empower them, to help the superintendents,
construction managers, and purchasing staff believe the trade shortage problem was actually solvable. So I asked a simple question that initially confounds people, “What percentage of the trade base in this market do you use?” I got nothing back but quizzical looks. I asked again to let it sink in. Then after a moment, I asked, “What percentage of your market do you have?” This was a fair-sized builder in a top-10 U.S. market but still, the math came to only about 2 percent. Next question, “So if you build 2 percent of the market, you use what percent of the trade base?” Out of the confusion in the room finally came an understanding of the obvious answer—2 percent.

I then noted that we are in the midst of a nationwide trade shortage, which will get nothing but worse very soon. Industry growth was up 16 percent last year, immigration bills are stalled, and tradesmen who left construction are reluctant to return. I asked one more question, “So if you need 2 percent of the trades in your market, what does that tell you?” Now they were stymied and perhaps you, the reader, are as well. I ask you as I asked my group that day to ponder that question for a moment before we move on, because the implications are both huge and empowering.

To simplify the example, let’s say you, too, build 2 percent of the homes in your market and there are 100 electrical contractors. Let’s say 20 percent of them just cannot cut it, quality-wise. Another 20 percent cannot meet your schedule and/or volume. Still another 20 percent price themselves out of consideration. Finally, 20 percent more just can’t do business the way you do in terms of systems and process. That leaves you 20 percent left to consider; 20 electrical contractors who have genuine potential. Consider that if you build only 2 percent of the market, you need only two of the 20 who made the cut. That means there are 10 good electrical contractors for every one you need. That is what the late Stephen Covey called “a world of abundance” even in times like these. The ultimate query thus becomes, can you get one of those 10? Surely, you are good enough to get one? But the real goal is to be so good that all of those 10 want to work with you. Achieve that and you still have options and control, even during a shortage, and I know builders—just a few—who have done it.

**CHANGE THE QUESTION**

So how do you achieve it? For starters, I refer you back to two articles previously published in *Professional Builder* magazine: “Managing the Coming Labor Shortage,” October 2012, and “The 10-Step Labor Shortage Immunity Plan,” November 2012. Let’s think a bit about what trades want and note that this applies to your supplier base as well. Most will immediately respond, “More money!” That is not only wrong, it is the very obstacle getting in our way. Your trades do not need more money, they need more profit. That’s not mere semantics. Behaviorally, it’s a genuine paradigm change requiring significant transformation in thinking to get your brains around it. So let’s change the question to one that will set you on an entirely new path. “How do you help your trades become more profitable, so that you become more profitable?” I fully expect that to feel a bit uncomfortable at first, and if you truly believe building is a zero-sum game, then it’s doubtful I or anyone else can help you. You’ve come this far, though, so let’s try an example.

Joe, a Chicago-based electrician, has developed a strong reputation for high quality at a reasonable price, having good people, working and playing well with others, keeping sites clean, and staying on schedule. Joe had worked for years with a strong local builder that sold out to a national. Most of the original employees were gone within a year and the builder hired replacements from near and far. With deep pockets and a strong market, the operation was soon big enough to warrant two construction managers, one North Side and another South Side. Joe quickly realized that working the North and South sides meant two very different things. The product was the same, but the similarity ended there. When the next round of bids came up, Joe told purchasing he would only bid on the North Side projects. He explained that he made money.
on the North Side and lost money on the South Side. Take a minute and consider how that could be.

I asked this of the group and, at first, they targeted the usual suspects. The southern projects were farther away? No. There were more options in the south than the north? No, again. Finally, someone hit the big kahuna—schedule. The construction manager in the north was a veritable mad-man about schedule. Joe’s shop was actually located to the south, but the schedule was so bad down there, he actually traveled more miles per unit on the southern houses, which averaged twice the number of trips to complete. The north ran like clockwork. Jobsites were clean and both HVAC and plumbing were out when Joe’s crews arrived. The light fixtures were always ordered correctly for the northern units as well. The field superintendents were knowledgeable, and they got along with the inspectors, with virtually no yellow tags, red tags, or delayed inspections costing extra days. In the south, it was the opposite. Trades on top of each other; site is a mess; fixtures ordered wrong; and drywallers covering up outlets. There were red tags, yellow tags, and delayed inspections, plus the plumber refused to hook up the pigtails on the hot water heater, necessitating an additional trip.

It got so bad that Joe had to pay a guy to check every southern house to see if it was ready before he sent out a crew. When Joe brought these problems up with the North Side construction manager, the reply was, “That guy and I came from two very different companies with two opposite philosophies. Where I came from, schedule was everything and everyone in the company from sales to purchasing to construction was committed to doing their part to keep it on track. As a result, we got the best trades and the best crews. It’s harder here, for sure, but my guys know it’s job one. My counterpart down south just doesn’t get it. He’s thinking if he could just get his 90-decibel mouth to 100, he’d solve the problem.”

Joe finally agreed to do them all for a 5-percent overall raise, but neither he nor purchasing was happy. A better route would be the builder’s resolution to bring the entire

A builder’s “dialed-in” plan (with input from 25 suppliers and tradesmen).
operation up to the North Side’s standards. How many suppliers and trades would actually agree to work for a lower bid price if they knew they’d make more profit? The trades do better; the builder reduces cost, and the customer gets a better home. Everyone wins.

I have a computer full of examples, and the picture here is one of my favorites. The marked-up plan on page 60 (used by permission) is a house the builder—a very good one—had been constructing for a number of years and believed to be quite well “dialed in.” Starting with a clean sheet on Monday morning, this is how the main floorplan appeared by Wednesday afternoon, after 25 suppliers and trades brought in all of their ideas for improvement during one of our LeanWeek sessions. If you blew the picture up, you would find the number “137” labeled on one idea—the total number of improvements suggested. Some ideas are simple things like missing dimensions that require phone calls to clarify. Another is a conflict in door openings that aggravated customers. Another is a cabinet layout requiring extra filler pieces that could be easily resolved. Still another is a conflict with HVAC duct routing due to the roof-truss layout that caused significant rerouting and compromised efficiency. Still 133 to go … but you get the picture.

If a builder was to resolve all of these issues, how much time, frustration, and money would be saved for everyone? And which builder do the suppliers and trades want to work for? How about the one who puts out fully detailed site-specific plans with all required specifications, right the first time, ready to build. And here’s a bonus: The trades actually build the same house they bid on. All of this equates to profit.

HOW TO GET THE BEST

We are just getting started, and there are many other opportunities for attracting the best suppliers and trades besides merely paying more. Most obvious, and so often abused, is paying quickly and always on time. You say you pay monthly but often let that slip to 60 days or worse? After working with more than 3,500 suppliers and trades in our LeanWeek sessions, I can guarantee you that any nickel you believe you save on the float is burned up five times over in response time, schedule, and warranty. Do what you have to do to get caught up. Thirty days without fail is barely table stakes in this market. The smart builders pay twice a month or even weekly. One of the best, DSLD Homes, pays twice a week. Each week, your suppliers and trades have to decide where to send their crews and more importantly their best crews. Where will they send them and at what price? To the builder who pays them now, or the one who pays them later? What would you do?

You also need to think hard about what you are willing to pay for. Would you consider accepting a higher bid price for a trade with better, well-trained crews that deliver consistent quality, stay on schedule, and keep the sites clean? If the total cost is lower, why wouldn’t you? How about two framers who bid a project the same, and one has a state worker compensation factor of 0.8 while the other sports a 1.2. You do look at those factors, don’t you? What do they tell you about the trade, other than that the former is safer and pays 50 percent less for insurance than the latter? Should you recognize these trades with your pay scale? You would if you knew the true economic value. What do you care about, bid price or profit? No different than your trades.

I wrote those two articles I cited earlier in 2012 before the trade shortage hit hard. This January, I wrote another one about how the industry is doing virtually nothing about the lack of trade education and development in this country. Despite that, there are very practical steps to take that will improve your trade position significantly. Of course, that all depends on the fact that 95 percent of your competitors will not be thinking at your level. Count on it. PB
10-step LABOR SHORTAGE IMMUNIZATION PLAN

By Scott Sedam, Contributing Editor

Last month, I revealed the proverbial “elephant in the room” for both this year’s elections and the home-building recovery — a growing labor shortage that is spreading to more markets each month (see “Managing the Coming Labor Shortage,” Professional Builder, October 2012, page 38).

The election is over now and no matter who won, despite prognostications both left and right, the republic will survive. I predicted that neither Obama nor Romney would raise the issue because it is a notorious “third rail,” and now you know if I was correct. Besides, most of the public and the media are fixated on the 7.8 percent unemployment rate. How can there be a labor shortage with so many out of work? The notion of a labor crisis with serious consequences for home building (along with hospitality, healthcare, agriculture, and food service) does not yet register.

The only real solution to the problem, as discussed last month, is a guest-worker system, but the odds of seeing that soon enough to help are slim to none. Yet there are very specific, tactical moves available to insulate your company from most of the labor shortage. The goal is build resistance to the threat in three ways:

A. **Become as efficient as possible in field construction.** Reduce the amount of labor needed to build the house, including in-process rework and warranty.

B. **Become as effective as possible in operations.** This includes eliminating errors, omissions, glitches, and headaches — all the things that cost your suppliers and trades hidden time in bidding, options, selections, contracts, scopes, POs, VPOs, scheduling, etc.

C. **Become the “builder of choice.”** You want to be the one that trades would rather work with than anyone else because you do everything in A and B so well. Plus, you always treat suppliers and trades with dignity and respect, and you pay consistently, fairly, and on time.

If you achieve these three goals, no matter how great the shortage, you’ll be immune. Suppliers and trades will take care of you first because it’s in their own best interest. Reaching these goals, however, will not come through proclamations, memos, or exhorting the troops. Einstein said it best: The definition of insanity is doing things the way you have always done them and expecting different results.

So make your choice. Sit around and hope for some government action, keep doing what you have always done and join the bidding war, or take some positive action to head this off. If you resolve to take action and do things differently, here’s a 10-step labor self-immunization plan:

1. **Lean the Plans.** My colleagues and I at TrueNorth have completed more than 100 Lean process implementations in 30 states, four countries, and two continents, and have learned some important realities. First, the great majority of architects have little or no knowledge of cost and cycle time. Second, engineers may have the knowledge, but they rarely show concern for cost and time. Third, the vast majority of builders do not understand the cost and time implications of inadequate plans and thus will not pay for fully analyzed, fully detailed plans with working drawings. That’s called a perfect storm for waste. The result is that homes take far longer to build than necessary — too much for initial construction, too much for in-process rework, too much for return trips, and too much for warranty. They all contribute to the labor shortage.
As the housing market bounces back, more builders are certain to face a scarcity in qualified contractors and laborers. Here are 10 ways to protect your business from the coming labor shortage.

**2 LEAN THE PRODUCT.** Each house we have studied in our 100 implementations, no matter the price point or amenity level, can be simplified without negative impact on design, quality, or salability. The choices builders make for components have tremendous implications on both labor and schedule. The plan can be technically right, but the design choices or materials in many cases may be wrong, or just too pricey or too many. Antoine St. Exupery said it best: “Perfection is achieved not when there is nothing more to add, but when there is nothing more to take away.”

Get rid of the extra kings, jacks, cripples, oversized headers and beams, excess can lights, overextended ducts, unneeded outlets, unused chases, etc. Build that stairway more intelligently and save $500. Get rid of anything the customer will not pay for or does not value. Make the house easier and quicker to build for the trades, and the labor burden goes down.

**3 LEAN THE PROCESS.** Form a few small groups of your trades and your staff and ask for no-tears answers to this question: How can our company be easier to do business with? Then do it. Really, it is that simple if you provide a safe environment, you are willing to listen, and you respond to their input. As soon as you start throwing “yes, but” or “tried that, didn’t work” at them, the communication stops cold. Even with the best builders, we find significant process issues in the way bidding is done, contracts are specified, options and selections are processed, POs are issued, VPOs are processed, warranty service is assigned, etc. All of these take excess time for the suppliers and trades. Resolve these and they’ll have time to do more important things, like build your houses.

**4 LEARN TO SCHEDULE.** In a perfect world, we’d go straight to step five, but all six of TrueNorth’s consultants spend the majority of their time with builders, suppliers, and trade contractors in the field. Each reports the art and science of scheduling, with a few notable exceptions, has deteriorated significantly during the housing recession, and the negative impact on the trades is huge. Before you run off and start fixing it (see step six), it is essential to stop here and pay homage to one of the greatest lessons of the late quality guru Dr. Deming: You must stabilize a system before you improve it. Literally hundreds of millions of dollars have been wasted on software automating bad systems in home building due to violation of this simple truth. There is no more powerful moneymaking concept in home building than “even flow” production — if you understand total cost as opposed to mere bid price. So teach your people how to schedule first — on paper — then buy that great new program and make it really cook. The money saved in labor — both your own and your suppliers and trades — will pay for the software 100 times over.
5 LEAN THE SCHEDULE. Presuming you have developed basic scheduling competence, now attack the wasted time and effort. Start with the elimination of wasted or otherwise unnecessary trips to the jobsite, something the builder predominately controls. This multi-billion dollar industry problem is 98 percent buried and rarely appears on any line item, yet the average builder incurs more than 50 unnecessary trips at an average cost of $200 per trip. That’s $10,000 per unit!

If you say they are not charging you for those trips, go back to “Go” and do not collect $200, because you need a remedial lesson in Lean operations. All dollars count and these costs are in their overhead, so one way or another, you pay. If that number still does not sound right, it is most likely low, and we have the data to prove it. After running more than 2,000 suppliers and trades through our Lean process implementations and having them work through our trip cost calculator, the evidence is inarguable. Imagine if you could capture half of that time and money and let your trades keep half—everything gets better, including the house. To continue to look the other way on this issue is wanton disregard of perhaps the biggest single controllable cost factor in home building, which, when controlled, will produce tremendous reduction in labor requirements.

6 LEAN THE SUPPLIERS AND TRADES. The right number of suppliers and trades is almost always less than you have, and when facing labor shortages, the best strategy is to sole-source trades that will treat you as their number-one builder. This works if and only if you find the right trades with established financial strength, high transparency, and all the other factors of maintaining quality, delivery, schedule, and service.

Recently, we worked with a 100-unit-per-year builder whose previous purchasing manager was in the habit of spreading the business around to five or more framers,机械s, finish-trades, lumber companies, etc. The new manager came in from outside the industry, chose the best suppliers and trades, and established sole-source relationships with the great majority. Now he gets much better attention, response time, and cost control. Scheduling is greatly improved. He is a major part of their business, not someone they can push off if they are in a jam.

For the builder, everything is easier to manage with far fewer companies and invoices in their system. With the extra time they save there, they can spend it on any pricing and product issues. But here’s a caution: There are no shortcuts allowed. Start sole-sourcing without due diligence and you are asking for trouble.

7 DEVELOP THE SUPPLIER AND TRADE RELATIONSHIPS. A bright, 30-something builder recently said to me with a shrug of his shoulders, “We don’t really treat our trades all that well,” as if it did not matter much. With the looming labor shortage, that’s a prescription for disaster. I have heard from innumerable suppliers and trades during the past five years that when business picks up, they will not forget who treated them fairly and who did not. For many builders, the reckoning will be painful. Now is the time to develop and deepen supplier and trade relationships to the degree that you are without question the builder of choice. All of them have to decide every Monday morning: Where do we send our guys? Who gets first delivery? Whose customers are first in line for warranty service? Ask yourself the tough question: Will it be you? Unless you are 100 percent positive, you have work to do.

“ARE IMMUNIZATIONS PAINFUL? DO FLU SHOTS HURT? SURE, BUT IF YOU ARE SMART, YOU ARE WILLING TO ENDURE SOME UP-FRONT PAIN TO PREVENT DEBILITATING SICKNESS DOWN THE ROAD. THIS IS YOUR OPPORTUNITY TO TURN THE LABOR SHORTAGE INTO JUST ONE MORE COMPETITIVE ADVANTAGE.” — SCOTT SEDAM
COMPONENTIZE WHEREEVER POSSIBLE. In 1989, I attended a two-day workshop by Bill Pulte where he stated with no small sense of irony, “Manufacturing techniques applied to housing are a revolution just on the verge of happening for more than 40 years.” Here we are, almost 24 years later, and there have been more starts and stops with millions spent on “almost getting there” than any of us can count. But if you were not sure that trusses and panels made sense in the past, that formula will change as labor becomes scarcer. You will find the same for other components that have, at some time in the past, been wholly or partially assembled offsite, including stairs, door assemblies, SIPs, plumbing trees, pre-cut and coded wiring bundles, and modularized foundations, among others. Anything that can be done offsite, consider it and make sure you are looking at total cost.

Let’s say you are highly successful in four or five of these and make some progress in three or four more, what will have happened? First, you will have significantly reduced the need for labor in your product. Remember that even more than the actual labor to build, you are saving the labor and time involved in rework, extra trips, warranty, supervision, inspection, and process failure. All of this combines to increase margins, which leads us to an idea antithetical to most builders: You could pay more for labor in order to make more money.

Would I ever suggest you pay more for labor and receive nothing in return? Of course not. Once again, we are talking about total cost, not bid price, and those are never the same. Would you pay a bit more to be first in line to get more reliable trades, even during a labor shortage? That translates to better homes, happier customers, cleaner sites, shorter cycle times, higher asset turns, and more profit. Your competitor down the road, who is laughing because you are paying a nickel more a square, does not get it and never will. You get four turns a year while he gets three, making your gross and net much higher than his.

Now here is the really great promise: If you do all of these things right, before long you can get the best trades and not pay more. How? Because you are so good, so organized, you schedule work so well, your people know their jobs, that the trades make more margin on your projects. That is the best of all worlds. I have seen it done too many times to deny the opportunity.

Are immunizations painful? Do flu shots hurt? Sure, but if you are smart, you are willing to endure some up-front pain to prevent debilitating sickness down the road. So toughen up, bite the bullet, and roll up your sleeves. This is your opportunity to turn the labor shortage into just one more competitive advantage. PB

Scott Sedam is president and founder of TrueNorth Development. His articles appear monthly in Professional Builder and his Lean Building Blog appears each Tuesday on www.HousingZone.com. Sedam welcomes your questions and feedback at scott@truen.com and encourages budding “Leanistas” to join the LeanBuilding Group on www.LinkedIn.com.
GRACE UNDER PRESSURE

A DAY IN THE LIFE OF CARL GRACE,
HVAC CONTRACTOR*

By Scott Sedam, Contributing Editor

5:00 AM:
Carl Grace, president and owner of Grace HVAC, awakes right at 5 a.m., as always, even on a Monday morning after a busy weekend. No alarm necessary. After 30 years in the business, that and many other things are on automatic. Not so much for his son Jeff, a college sophomore-to-be majoring in, “I’m not sure yet.” Carl rouses him and says, “Be ready in 15 minutes.” Jeff is working in the warehouse this summer for Fred, a long-time employee. A former field installer whose knees can no longer take the climbing and ladder work, Fred knows how to get the loads organized and keep the inventory down to the “low end of insane.” Carl shakes his head just contemplating that. If only builders could learn how to schedule, manage their options and selections, and stop with the late change orders already—even half as well as his best builder Able Brothers Homes—Carl knows he could take the inventory down 50 percent. It hurts to just imagine the six-figure money that would save.

5:30 AM:
In the truck on the way to the shop, Carl thinks about everything on his plate today, which among many other things includes submitting final bids for two big projects that could fund half of next year. He had hoped to spend these morning drives with Jeff talking through business issues but Jeff, like most other 19-year-old college kids, had a long weekend himself and is already leaning against the door snoozing. When Jeff was small he followed Carl everywhere, wanting to be just like him. But after watching what his Dad went through during the housing crash, Jeff is not convinced HVAC is the right career, even as the heir-apparent. Carl is unsure as well. Jeff is a smart kid and could probably go any direction he desires, but the dream that Jeff will take over from Carl just as Carl did from his own father is on the sidelines for now. Carl’s wife Linda is adamant that Jeff make up his own mind so Carl plays it low-key.

* The story you are about to read is true. The names have been changed to protect both the innocent and the guilty.
5:50 AM:
Almost to the shop, Carl thinks through “the Jeff plan.” Fred keeps putting off having those knees replaced, and the delay will help with managing the warehouse this summer. But the surgery will come and Carl has no idea what he will do during Fred’s months of recuperation. Next summer Jeff will work with Tony, one of his best crew leaders and a great teacher for the young ones. The summer following, maybe in the office working with Rudy the estimator and Wanda, the fast-graying woman who spends all day, every day, chasing down POs, VPOs, plan errors, mistakes in options and selections, and God knows what else. He smiles just to think of Jeff having to deal with Wanda and what she calls her “stupid builder tricks.” Wanda is tough on them but somehow most of the builders maintain a grudging affection for her. Carl knows he’d be lost without Wanda. Would working with her turn Jeff off to the business forever? “We’ll see,” Carl says aloud softly as he passes the doughnut shop he finally weaned himself from. “We’ll just wait and see.”

6:00 AM:
After a quick stop in the darkened office to start the coffee, Carl and Jeff greet Fred as they walk into the warehouse. “You’re late!” That’s Fred, probably here since 5:00, getting things ready for the week. On the left side of the staging area Fred has five loads all together with a big green check on the pick list. Carl knows without looking those are for Able Brothers. They always have their orders submitted well in advance and exactly how Grace HVAC wants them. On the right side, Carl sees multiple pallets for McCain Properties, largely in disarray with multiple red question marks on the pick lists. Carl sighs. In between Able Brothers and McCain sits an assortment of loads for smaller builders, in various stages of readiness. “Hey, Junior,” Fred shouts. “Make copies of every one of those McCain pick sheets and meet Wanda when she walks through the door at 6:30.” Jeff hates being called Junior. He is named Carleton Geoffrey Grace III, but in addition to using his middle name, he has always insisted on spelling it “Jeff” instead of “Geoff.” Asserting his independence. “She’s gonna be real glad to see you this fine Monday morning, Junior!”

6:15 AM:
Back in his office now, Carl sits down to make the crew lineup. Every week he resolves to get this done on Sunday night and each week he puts it off until Monday morning. Why ruin a good weekend? Twelve crews now, quite a bit better than the five Grace HVAC dropped down to during the housing slump. Still far short though of the 20 crews they were running just before his dad, Carleton, retired. He was glad his parents moved permanently to their place in Florida before the business completely tanked. Carleton offered to come back and help, saying he’d even cut tin, but Carl refused to consider it—45 years of toil was quite enough for one man. As he looked down at his own hands he could easily see the difference between the scars earned during his early days in the business and the more recent ones. When Carl dropped out of college after two years, Carleton’s idea of penance for wasting the tuition money was to put Carl with the very worst crew leader, on the worst job, no matter what. The fact that Carl worked twice as hard to prove his worth over any other apprentice was carved across his hands and forearms. When Grace HVAC reached its low point and Carl returned to the field for two years to install equipment in addition to running the business, he was surprised how much he had missed the simple joy of building something well with his own hands. Carl frequently planned to get out there again and bash some tin with the guys, but the current growth and requisite headaches just didn’t allow it.
6:30 AM: Carl is jarred awake from his daydream as the back door slams open and Wanda’s chalkboard-scratching voice calls out, “Another week in the salt mines!” Fifteen minutes and the crew lineup is still blank. The guys would pull in any time now. The first ones were easy—the five best crews went to Able Brothers. No-brainer. The loads are ready and 100 percent correct. Each job ready for the guys when they arrive. Sites always clean. With Able’s detailed, site-specific plans, clear specifications with accurate options and selections, Grace HVAC got the bid right the first time and they could actually build what they bid exactly according to plan. That should not be rare, but that’s the reality. Able Brothers also gets Carl and his team together to review the new plans in the early stages, along with the framers and other mechanicals. The time saved when there are no mistakes, redos, and wasted trips cannot be overstated. Why can’t all builders operate this way? Well, Carl thought, they could, but only a couple actually did. And Able pays on time, every time, like clockwork.

Everything is different with the big multidivision builder, McCain Properties. Their plans stink. The PO’s are never 100 percent complete nor are they accurate, and their field supers seem to believe in a correlation between the decibels of their voices and effectiveness. Even worse is the quality of the framers that precede Grace HVAC in the house and the plumbers and electricians who follow. McCain’s new regional vice president of supply chain, fresh from one of the big box retail outfits, recently declared a new strategy of being the “low cost provider.” Yet it is evident that the only factor in his cost equation is bid price. The results are new suppliers, trades, and crews that Carl’s guys have never seen before. With bad plans to start with and trades that understand less, it’s a perfect storm. Whereas at Able Brothers, there is almost no trade damage. In the rare case that it happens, the trades and suppliers all know each other and work it out. At McCain projects, the situation escalates into a war. Carl cannot even recall the last time he saw a back-charge from Able Brothers and his anger rises as he eyes the stack from McCain on his desk, all of which he feels are unwarranted.

Grace is never invited to work upfront on McCain’s plans, let alone walk the first model at frame stage with the other trades. If they had, the chases would be in the right places, properly sized with virtually all conflicts and collisions with framing and other mechanicals eliminated in the beginning. McCain’s schedule is so jammed as a result of their lack of upfront detail work that you can virtually guarantee the plumbers and electricians are coming in on top of you—if, that is, the house is ready when you get there. And with that Carl begins to panic as it dawns on him that Gus, his faithful “scout,” is off on vacation this week. That means Carl will have to check the new jobs each afternoon to see if they are ready, something he never has to do with Able Brothers and a few other good locals. With McCain, it’s standard operating procedure.

“IF THEY WERE ONLY HALF AS GOOD AS THEIR EGO THEY’D BE TWICE AS GOOD AS THEY ARE.”

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6:45 AM:
A honk to open one of the warehouse doors tells Carl the first crew has arrived. Carl staggers them—four at 6:45, four at 7:00, four at 7:15—otherwise too many guys are just standing around. A few more good deals and he can install more doors and stage everything more efficiently. As much as McCain Properties drives him crazy, he needs their volume to fund his plans, which he hopes includes his son Jeff. “That’s the rub,” Carl thinks. McCain says they want five crews today, which would leave him only two for the loyal locals. Most of them are small fry, but they are great to work with, they look at more than just bid price and many began working with his dad years ago. How these guys love to tell stories about Carleton in the good old days. Now that Carl is older he finds it funny how sometimes they’d change a story or even stop in the middle of one, thinking they might divulge something Carl should not know. He loved those guys. They taught him as much about the business as his father did, and he hated to shortchange them. But McCain needs the crews and they will decide on his bid for 200 units this week. “This just sucks,” Carl says in a voice that he hopes no one else hears.

From the outer office he hears Wanda’s voice rise and the undeleted expletives flying. Carl half groans and half laughs at the thought of Jeff standing there, handing over the pick lists covered in red marks from Fred. “Those $%!#@$ McCains will be the death of me, I swear!” Wanda shrieks. “This is getting to be their standard freakin’ operating procedure! And do you know what’s even worse, Jeff? Well, do you?” Carl walks through the door just as Jeff is stammering, “Uhhhh...I hear they aren’t very nice?” “Nice?” Wanda replies incredulously, “Nice?! When I call them to straighten this mess out, they will act like complete jerks, as if it’s my fault they can’t draw plans, get simple specs right, get the options down, and quit letting their customers change them after the rough is finished! If your dad had half a brain, he’d tell those $%!#@$s to...”

“Good morning, Wanda. Nice weekend, dear?” Carl already knew what Wanda wanted him to do with the McCain account and thought it was time to let Jeff get back to relieve Fred’s aching knees.

“Why, yes, Mr. Grace,” Wanda said in a syrupy sweet voice, with artificial charm and a wink toward Jeff, “Thanks for asking, sir. If you will excuse me I need to call our dear friends at McCain Properties and see if I can help them from wasting any more of your son’s hard-earned inheritance.” Wanda drives Carl nuts half the time, but she knows the business and the clients inside out and is as near to irreplaceable as anyone he’d ever hired. While this is going on, Sherry, the company secretary, accountant, expediter, scheduler, and smoother-of-feelings-hurt-by-Wanda has settled in at her desk after snatching the crew assignment sheet from Carl as she walked by.

7:00 AM:
Sherry looks up at Carl. “Okay, crew numbers one to five for Able Brothers and I know who they are, but another five for the Evil Empire? Which five? And are you really going to stiff Yancy and Prestige today, not to mention Chuck Ellis and Nelson Polsby? ’Just wait, Sherry,” Carl says and turns back toward Wanda’s desk. Before he can ask her, she sticks out two pick lists attached to McCain POs at arm’s length, holding them like they were dirty underwear. “These stink so bad even McCain cannot expect to see our guys on these jobs. Well, they will anyway but here’s your ammo, boss,” Wanda says.

“Alright, so let’s go with Chico, Ralph, and Ned for McCain, send the other four crews to our homies however you like, except for Nelson Polsby, don’t send Rick there, he doesn’t get along with Nelson’s superintendent. Push Prestige back ‘til Wednesday. Call in a favor.” Sherry looks up and says, “I think we’re all out of favors owed, boss, but I will make them an offer they cannot refuse.” Carl shakes his head and flees back to his office sanctuary, not even bothering to ask. It’s a few minutes after 7:00, the first trucks are just departing for the jobsites, and already things are in disarray—and most of the problems are due to one renegade builder. “If they were only half as good as their ego,” Carl thinks as he sits back down at his desk with his third cup of coffee, “they’d be twice as good as they are.” A lot of big decisions to make yet today, and he’s just getting started.

Coming in next month’s issue: “Grace Under Pressure—Part II.”
Carl Grace has already faced down a boatload of problems, and he’s hardly had his coffee yet; but the day is just getting started.

A protracted argument develops between Chico and Willy. Chico is not at all happy about one more McCain Properties job. "How about I go to Yancy’s project this week? I never get Able Brothers, so at least you could send me to someone else good instead of those McCain morons. Willy always gets the Yancy jobs, and those guys are a dream." He had a point, but Chico was a junior guy and seemed to bear up to the abuse and insanity better than most of the older crew leaders. Besides, Willy was getting up there and had a hip Carl suspected was as bad as Fred the warehouse manager’s knees. All of Yancy’s homes were single story. "Please Chico," Carl pleaded, "I need you on this one. You can handle them, and it means a lot to me. That’s important business for us." Chico throws up his hands, "Alright, boss, that’s how you reward your best guy, give him the worst job. Whatever you say, but it’s wearing me out. And I think if you add up the cost of all the wasted trips on the McCain jobs, all the tear-outs and late changes, we probably aren’t making a dime. There’s always an extra trip and sometimes two.” Chico spun around and headed back to get the load as Carl calls out a sincere, “Thanks, Chico,” wondering if he is right about the profit. “Smart kid,” Carl thought. “Probably have his own shop someday, and sooner than later if I don’t do something.”

As the last van pulls onto the highway, Carl’s eyes wander across the big GRACE HVAC logo with the “Grace under pressure” motto written in cursive script underneath it. Corny as hell. Carleton, his retired father, told everyone that the idea came to him while sitting in church, singing “Amazing Grace.” How could he just ignore that? What the heck, people brought it up all the time. Didn’t that marketing guru from Florida say, “Half of marketing is just getting people to talk about you.” So maybe it worked? Carl looks at his watch. The day was just beginning, and he was already exhausted, but here comes Wanda on the warpath. “Boss! You wanna hear what those idiots from McCain just told me?”
7:35 AM:

Wanda proceeds to unload on Carl about how the construction manager at McCain is furious about only getting three crews, and that Grace is responsible for holding up his schedule and costing him money. “I faxed over their poor excuses for spec sheets that showed up Friday at 4:45 p.m. and told them it is a miracle we can get three out for them today—presuming their jobs are actually ready—and you know what Hal over there said?” Carl knew that all he had to do was wait, and Wanda would tell him everything Hal said. “Hal says the problem is that our system is not set up to handle a big builder like him, and the nature of their customers means blah, blah! Here’s the killer: Hal had not even looked at the sheets I sent him!”

As Wanda goes on, Carl thinks about the implication of Hal, McCain’s director of purchasing, claiming that Grace wasn’t sophisticated enough to handle them. This is completely preposterous, Carl knows, but does it matter? Carl knows that Hal is golfing buddies with Carl’s competitor, Efficient Heating and Air, and that they have even gone on out-of-town trips together. “Maybe Hal is trying to build a case against us.” Carl wonders.

8:00 AM:

All crews are now out at long last and Wanda has calmed down. They sit down and go over the damage from McCain Properties. Grace HVAC has spent long days pricing packages with different-sized compressors, air handlers, multiple zone systems, humidifiers, even high-velocity systems, according to McCain specifications. That’s how Grace does its bidding. The problem is, as it has been ever since the downturn, the specs change constantly. McCain regularly adds and deletes options and requests non-standard options with no regard for the impact on Grace, always wanting the lowest price right now. One woman had even asked for an eight-zone forced-air system because her sister had seven-zones on a hot water baseboard system, so why not? We have to price that out? Really? Can’t McCain just teach their salespeople that sometimes saying “no” in a nice way is the very best option?

9:30 AM:

Hal from McCain and Wanda are mixing it up again, and Hal calls Carl directly to complain. Somewhat to Carl’s surprise, Hal backs right down when Carl suggests they review the two rejected jobs line-by-line. Hal even acknowledges that Wanda is just doing her job. “So what’s the real problem, Hal? Help me!” Hal then unloads on Carl, but not about Grace. Hal is at his wit’s end about the decisions coming out of the McCain corporate office. They keep dictating options and selections as if all McCain customers were exactly the same, buying identical product, none of which is true. “You won’t believe this, Carl, they just demanded we get our labor rates down to within 10 percent of the Southern divisions. Everyone knows that is simply impossible up here. Hell, they know it, too. They just delight in messing with us. And look, I can get in a lot of trouble for telling you this, but you always bust your can for us, and there is something you need to know.”

Carl wants to know, but then again, he doesn’t. This cannot possibly be a good thing. “Wait a minute, Hal, I appreciate you wanting to help, but I don’t want you to get into trouble on my account. That big Phase II project bid is due in tomorrow and if you tell me something that could affect that, well, somebody may figure it out.” A long silence ensues. “Carl, look,” another long pause, then Hal just blurts out, “I have a totally reliable source at corporate that says they are writing a supplier national deal with WhisperTemp and kicking General Heat to the curb. Everybody, and I mean everybody, will have to change. I know this is going to screw you up big time.”

Carl’s bad day just got worse. “You have got to be kidding, Hal. You know WhisperTemp equipment has never been good in a cold climate and even down South, their compressors have the worst failure rate in the industry!” Carl thinks about the long relationship with General, begun by his father. He has relied on them for the very best equipment and advice since his apprentice days. They are usually competitive, price-wise, but never the cheapest. Yet no one can argue with the quality of General’s equipment or their warranty. “Carl, I just want you to know that I fought it. Rumor is we will be buying air handlers and compressors direct. Grace will just get labor, ductwork, maybe thermostats, and the odds and ends.”

Carl’s mind is racing now. How can the McCain corporate purchasing guys be so blind? “Hal, you know WhisperTemp’s local distributor is primarily a commercial business. His market is two-story swamp-coolers on top of hospitals, schools, and office buildings. What will your home-office boys say when your schedule falls apart because the local distribution is just not there?”
The conversation with Hal continues until after 10. Hal explains that the corporate guys claim all the distribution issues are solved. It is a waste of time to fight it. Is Carl willing to take Grace down that road? He has heard this is an emerging trend, but what little direct-buying Carl has seen has mostly evaporated during the housing recession. How much can McCain really save, Carl wonders? $500 per house? Maybe $750? But what will the inevitable schedule delays cost? Of course, the corporate purchasing bonus probably has nothing to do with schedule and everything to do with showing a bottom-line reduction in hard cost, however brief. Doubtful that warranty cost and the inevitable customer dissatisfaction is figured in, either. Whatever, Hal’s message hits Carl hard. Will all of the work on this bid be a waste of time 30 days from now?

As the brothers part, Carl decides to postpone the planned meeting with the IT guys who are promising that they can bring Grace HVAC a gazillion in new business through a better website and social media, and heads right back to the office. He knows most everyone there is working on the bids and will not have their parts done until 4 o’clock at least, but Carl has his own figuring to do. He makes notes on a pad driving back and, lost in thought, nearly runs a red light. When he arrives, he tells everyone that he cannot be disturbed for the next two hours and shuts the door. On the whiteboard he lays out every profitability factor he had thought of and that generates several more. Then he draws lines and creates two columns, one labeled Able Brothers and the other McCain Properties. He makes notes and rates each one as positive, neutral, or negative, by builder. How do they handle POs? Able is excellent and McCain is okay once they decide what to build, but as to VPOs? McCain is a disaster. Most of them are just rejected or, even if approved, they can languish in the system for months. Able pays weekly. McCain pays in 30 days, in theory, but the truer figure is more like 45 days. What does that cost Grace?
4:00 PM: ++ −
Carl asks everyone to come into his office. He gives them all marking pens and a question: “What do our builders do that make us profitable or unprofitable? Indicate everything you agree with, with a plus. Everything you disagree with a minus. Then list whatever I missed. You have until 4:30, then we’re going to spend 30 minutes discussing it together.” “But what about the bids?” Wanda asks. Carl freezes her with a raised hand. “I’ll call both McCain and Able right now and tell them I will hand-deliver their bids by 10 tomorrow morning. You get to work.”

5:45 PM:
The spirited discussion goes on for well over an hour and two things that come out really surprise Carl. The first is how much his people agree. The second is how everyone seems to understand the reality of the situation better than he does. No one believes that the McCain Properties business is profitable at the current bid price. Carl sees three options. First, to keep his bid as it is and hope the WhisperTemp versus General thing just turns out to be a rumor. Second, raise his bid by the 5 percent he needs just to break even and hope for the best with McCain. The third option is to just walk and not bid at all. Carl has never truly considered it, convinced that he needs the volume to keep everyone busy and to maintain his own buying power. Yet as they wrap up, it is his son Jeff who makes the most compelling observation. “I’ve been listening to you all for the last month, and it seems pretty clear to me. For about the same volume as Able Brothers, McCain takes about 50 percent more time in the field. For our staff, it’s like three or four times as much. So if we drop McCain, we can both do a better job with our current customers and develop new ones that will be profitable.” From the mouths of babes ...

6:00 PM:
This drive home is different. Jeff is animated, talking about everything he has heard and observed in the past month. Carl is stunned. Jeff had been paying attention all along, far more that he imagined. As they pull into the driveway, Jeff asks Carl what the decision is. “Let’s sleep on it, Jeff, and during the drive in tomorrow, we’ll make the decision—together.”

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