

HOW DEALERS USE SAAS TO MODERNIZE THE PRO BUILDER RELATIONSHIP



Staying Ahead of the Transforming Custom Home Building Industry

Executive summary

The current turbulent economic and global environment requires the custom home builder to manage their business more accurately than ever before. Building materials dealers and suppliers have a role to play in helping builders modernize and work more efficiently. It is only through true collaboration that dealers can guarantee a loyal, lasting customer base.

Yet, new research by Buildxact and The Farnsworth Group reveals that dealers and builders often use outdated business practices that lead to misalignment. In one case, dealers are assigning critical sales team members to preconstruction tasks, like takeoffs, that builders, who participated in this research study said they would rather do themselves.

By modernizing business processes using a digital platform based on SaaS solutions, builders and dealers can work together to their mutual benefit and eliminate these misconceptions.



A changing landscape presents risk, opportunity for dealers and custom home builders

Today's dealers face global pandemic, supply shortages and war in Ukraine. Each contribute to costly materials, uncertain supplies and labor shortages. Added to this is the entry of newer players into the market. Home improvement stores are adding additional options and complexity for material purchasing and services, and a younger generation of homeowners expects a seamless, often immediate, customer service relationship with the builder.¹

Among these external forces is recent survey data revealing that dealers are operating under misaligned assumptions about their builder customers. In some cases, there are fundamental disconnects between what the dealer sees as a critical service and what the builder or remodeler considers of utmost importance to the success of their business. Misalignment leads to wasted time. Thus, it's up to the dealer to create time for their team members to better understand today's building professionals. This leads to true competitive advantage while simultaneously finding new sources of revenue.

Notably, new research conducted by Buildxact and The Farnsworth Group finds that 53% of builders and remodelers say they are open to doing their own preconstruction tasks, such as takeoffs and estimates, when preparing quotes for homeowners. However, only 20% of dealers believe their customers want to do their own takeoffs.²



Buildxact and The Farnsworth Group research data also indicates dealers, in providing what often is a mistakenly prioritized service, are using about 45% of their outside sales representative's time to perform these very same takeoffs. This occurs while these same surveyed dealers say that takeoffs are among the least efficient uses of an outside sales representative's time.³ Clearly, a rethink on the use of time is warranted.



Whatever the nature of the challenge, whether externally felt from world events or internally generated from misperceptions and assumptions, industrywide dealers and builders can be working more collaboratively to navigate the changing landscape of construction.

To date, a path to a higher level of collaboration has been a challenge because it requires not only honest self-reflection and change but also finding the correct digital solution to get the job done. However, the use of newer, cloud-based software, while not yet fully embraced by the custom home construction industry, presents a simple and straightforward way for dealers and builders to build long-term collaborative relationships that can serve builder needs while generating the workload and profits for both dealer and builder.⁴

Both dealer and builder who aptly use technology and modern software to navigate change are well-positioned to succeed in a market seeing record high demand for home remodels and new home builds.⁵

Global events, spiraling costs and increasing complexity

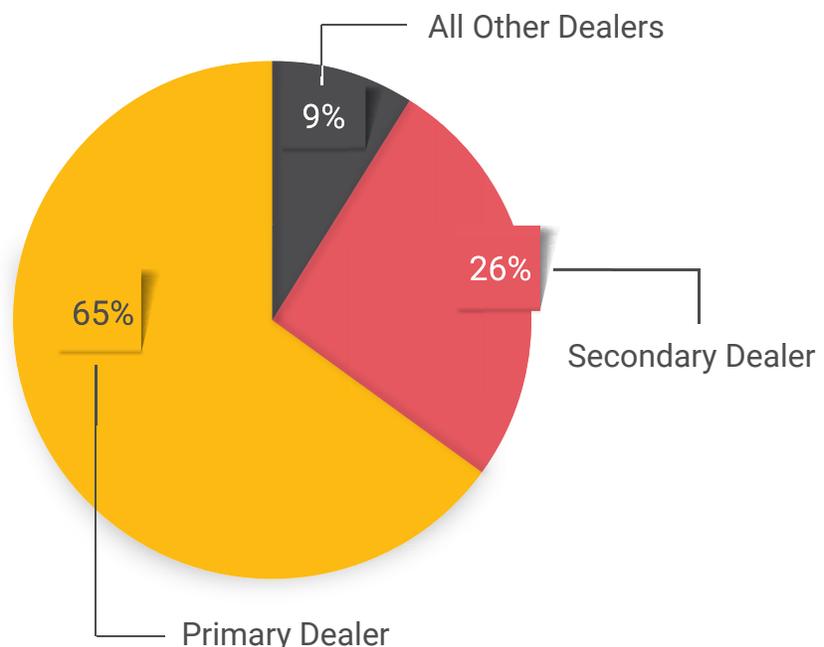
The whole-of-house cost of residential construction increased more than 14% in 2021-- the highest jump since the late 1970s, fueled in part by rising material costs.⁶ A separate measurement of construction costs from the U.S. Commerce Department pegged the increase at about 12%. Whatever the specific measure, economic forecasts predict costs will continue to rise through 2022, partly due to the more recent concern with war in Ukraine, as war-related shipment interruptions are expected to increase the cost of fuel, copper and aluminum.⁷ Even before the war, copper and aluminum component costs at the end of 2021 increased year-over-year by 23% and 55%, respectively, according to U.S. Produce Price Index data compiled by The Associated General Contractors.

Spiraling costs also are taking their toll in the United Kingdom. British Steel announced a 25% increase on some products in early 2022, and UK dealers are telling builders to expect timber prices to rise 15% to 20% over the course of just one month.⁸

This magnitude of price fluctuation makes it difficult for the builder to estimate costs confidently and consistently. Mistakes with cost estimates eat builder profits. Typically, the builder sees a 33% gross margin on a project, but those margins can run as low as 20% and are especially vulnerable during inflationary periods when costs can easily be miscalculated due to fast-moving material prices. This is especially concerning when considering builders, even before more recent inflationary periods, pass on cost increases less than a third of the time.⁹ And it's no wonder that builders often do not pass on price increases. Today, many custom home builders and remodelers simply do not properly understand their profitability when signing on to do a project.

Nearly 30% of custom home builders say they don't analyze their costs against their revenue until after a project is completed and another 18% of those recently surveyed said they have no predetermined method at all for figuring profitability.¹⁰

Today's builders increasingly use multiple dealers to supply their home construction projects.

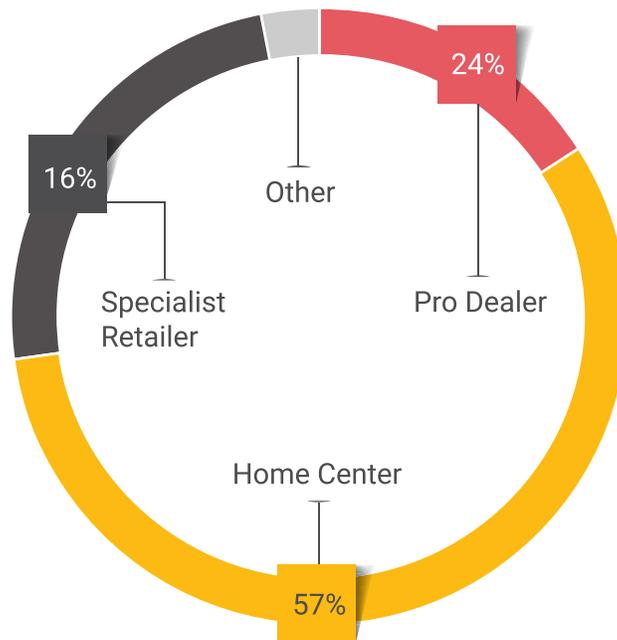


Clearly, dealers can play a role to help builders become better skilled at organizing and running a business. But dealers need to find the time to do this while also finding and closing new, loyal customers. This duality is especially important when considering the wealth of options in today's market when it comes to sourcing their supplies.

For example, while today's builders often identify and use a primary dealer for their supplies, those primary dealers are not the only go-to source for supplies. Typically, builders spend about one-third of a project's material budget with a secondary or tertiary dealer.¹¹

In fact, home centers, with 24/7 availability via desktop, mobile and tablet devices, are increasingly becoming a convenient source of materials for pros. When asked in Buildxact's recent survey conducted by The Farnsworth Group where supplies are most frequently purchased, 57% of builders answered home centers, and home centers are recognizing the growing role they play with this customer.

Where Building Materials are Most Often Procured



The custom home builder increasingly turns to home centers for building materials

Home Depot sees \$132 billion in annual sales from construction pros and is setting up special distribution centers to meet those needs.¹² North American competitor Lowe's has introduced many on-site features, such as reserved parking spots and mobile device ports, to increase their appeal to builders. In 2021 Lowe's offered pro builders in-store technology to ease purchases and a video chat service to connect with and educate builder's customers more efficiently. Lowe's also released a 2022 annual report dedicated to its pro customers, and in that report, pros call out mobile applications that work with specific material retailers as an exciting technological development.



A similar home center environment exist in Australia. Australia's Bunnings offers an online builders hub detailing multiple services for the home builder, including prefabricated timber frames and trusses manufactured in specialized facilities. The company also outlines greater engagement with pro customers and digital tools as keys to future growth. Dahlsens and Mitre 10 also are incorporating technology to organize their builder customers and improve customer service. As a result, the Australian home market saw a record calendar year in 2021, with 147, 760 single-family homes beginning construction; an almost 12% increase from the previous record set in 1988-89.¹³

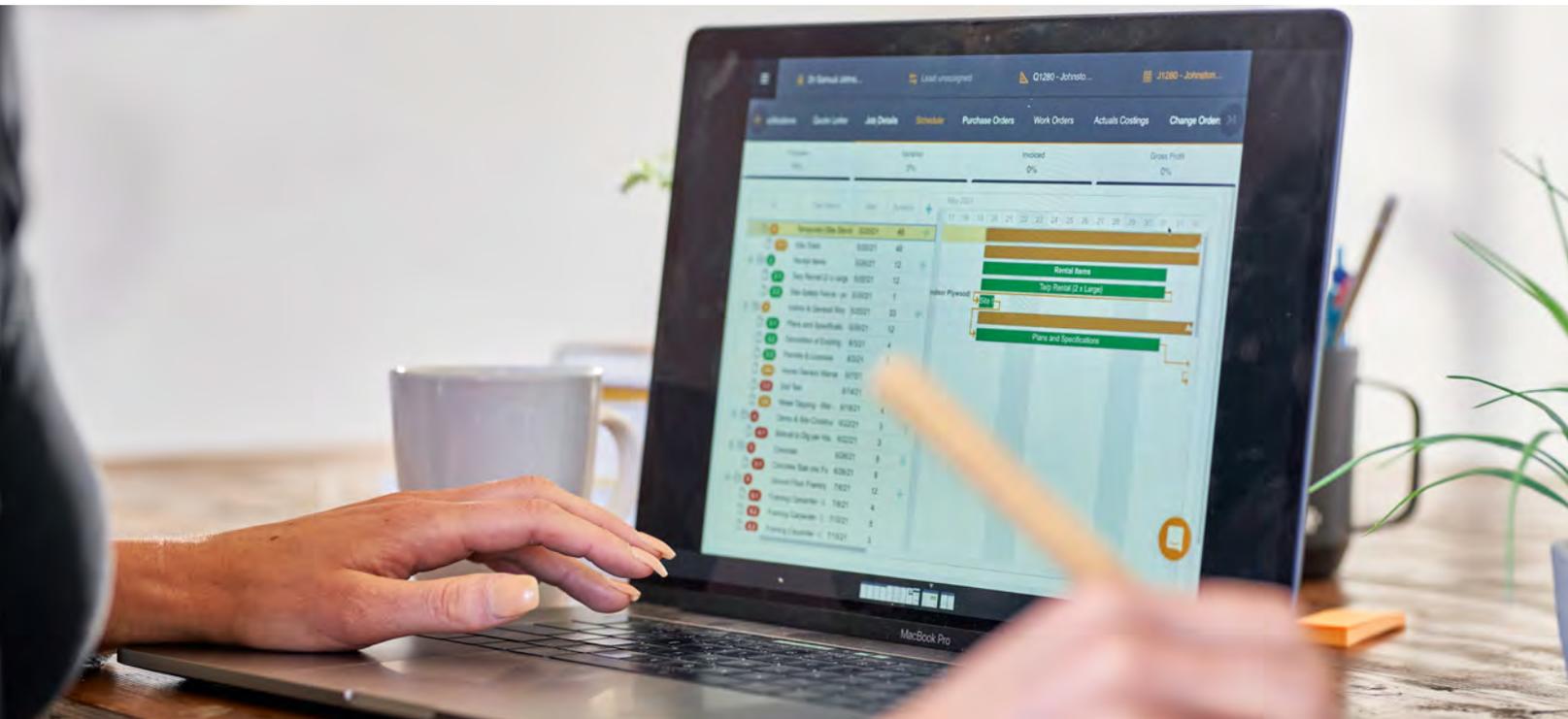
Notably, at a time of growing competition from well-financed home centers, too many dealers are not optimally organized and positioned to use software technology to modernize their client base. It is a concern because their installed base of customers naturally degrades over time.

Typically, dealers have a client for about 8 to 11 years, depending on the size of the builder.¹⁴ The U.S. Census Bureau also reports that the five-year survival rate for a construction business is about 35%. This kind of turnover requires dealers to constantly deal with tectonic shifts in their client base.

However, smaller-sized dealers say they have no formal process for finding new business while larger dealers rely on a team of outside sales representatives.¹⁵ Plus, dealers report that 45% of the time, an outside sales representative is doing an administrative task like a takeoff, and these same sales reps report that they spend half their time meeting builders or answering their questions - and when they do this, it is more than likely with an existing customer.¹⁶ Certainly, in this kind of environment, finding time for growing new business or truly partnering with an existing customer is a tremendous challenge.

Technological transformation can meet the needs of dealer and builder

Despite these trends and the challenges they present, builders and remodelers cannot afford to sit on the sidelines and miss out on today's opportunities. Angi, a digital marketplace representing nearly 250,000 home services pros, estimates the U.S. home improvement market at \$376.9 billion, and in 2021 U.S. homebuilders generated an estimated \$113.2 billion in revenue, according to IBISWorld. And with demand for housing high across North America, activity in the industry will not abate. According to real estate website Zillow, the U.S. inventory of homes must increase over the next two years to meet the rising demand for affordable housing, and that holds true for markets across the globe as well.



Dealers and builders can help each other successfully rise to the occasion by using a new generation of cloud-based construction management software commonly available via monthly subscription.¹⁷

Today, key SaaS products offer the custom home construction industry access to end-to-end solutions that assist with customer management, estimation, scheduling and invoicing all in one package.

Without digital advances like these, builders become entrenched in unnecessary and time-consuming administrative and manual tasks. In some cases, modern SaaS enables builders to complete takeoffs up to 80% faster than traditional manual methods using pencil and paper.

Using collaborative SaaS tools speeds up administrative tasks but also enables both the builder and their dealer to better anticipate future costs and profitability, which are a vital need in today's fast-changing custom home construction industry. Software and technological innovation can help builders understand their profitability at the beginning of a project by helping them accurately calculate and include the correct markup into their cost estimates and associated customer quotes.¹⁸



Even when profit margins are appropriately calculated, dealers and their builders have still other challenges to face. For example, an estimated 72 million new homeowners ages 25-to-40 are entering the market and these younger generations have expectations for quick and easy digital interactions with builders.

Tellingly, a 2021 survey from Zillow found that nearly 40% of millennials are comfortable with the idea of purchasing a home online¹⁹ and the National Kitchen & Bath Association's 2022 Design Trends Forecast found that millennials are a growing market share among dealers and remodelers.²⁰

Even without considering the specific needs of the millennial homeowner, builders say that time is already of the essence when it comes to winning bids.

**19
hours**

The length of time it can take a dealer to return a materials quote to a builder

**28
hours**

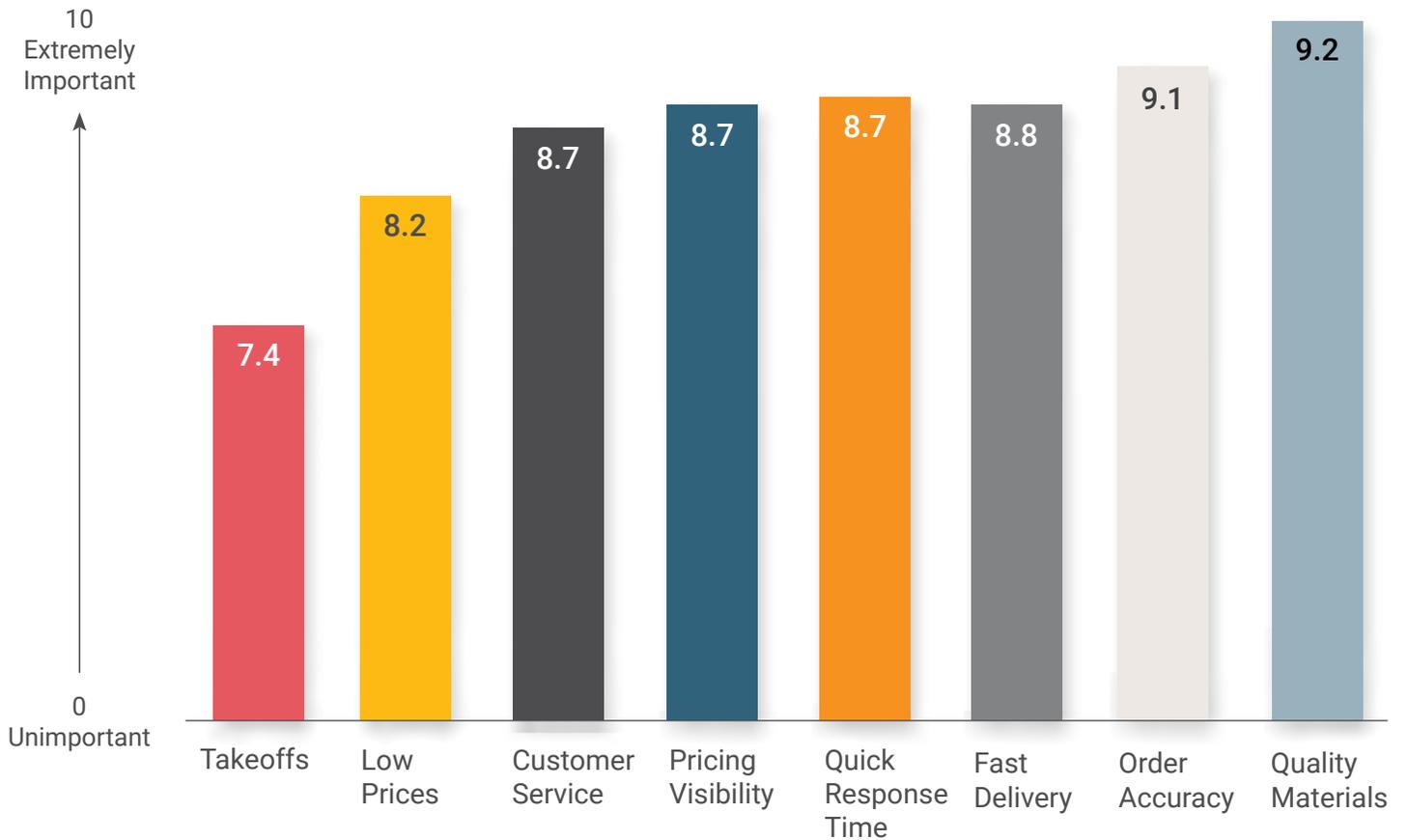
The subsequent length of time it can take a builder to respond to an RFQ from a homeowner

Buildxact / The Farnsworth Group ²¹

Builders rank speed of dealer response as more important than price when it comes to winning a project.²²

Builders responding to the Buildxact/Farnsworth survey agree that dealers can better help them by quickening their response to material requests and by offering better quality materials.²³

The Most Valued Dealer Services



Builders and remodelers value quick response, fast delivery, accuracy and quality over takeoffs and low prices.

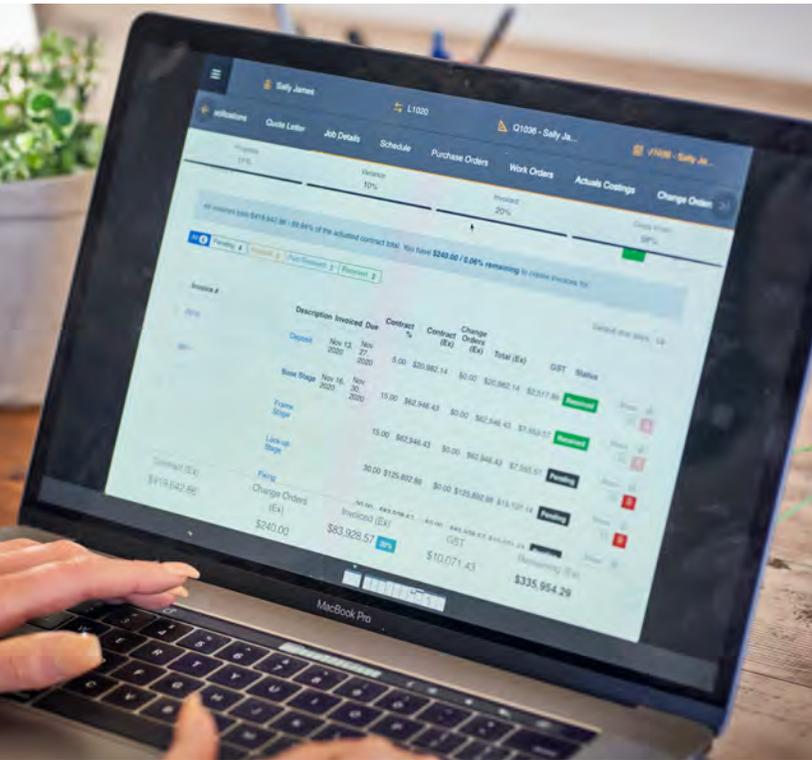


Technological trends can benefit custom home builders

Again, builders and dealers can use collaborative tools to meet this challenge. SaaS tools designed for the custom home building industry set up the basis for an online platform whereby builders can give dealers more organized and accurate information within a quote request. And dealers can respond more quickly to builder requests by offering digital pricing information integrated into the builder's online workflow. As a result, the builder responds more quickly to the homeowner with a professional, well-documented quote. Another advantage is that SaaS-created digital platforms also provide other end-to-end construction management solutions, like scheduling and invoicing, at a low, pay-as-you-go monthly cost.

Digital transformation strengthens the custom home building industry

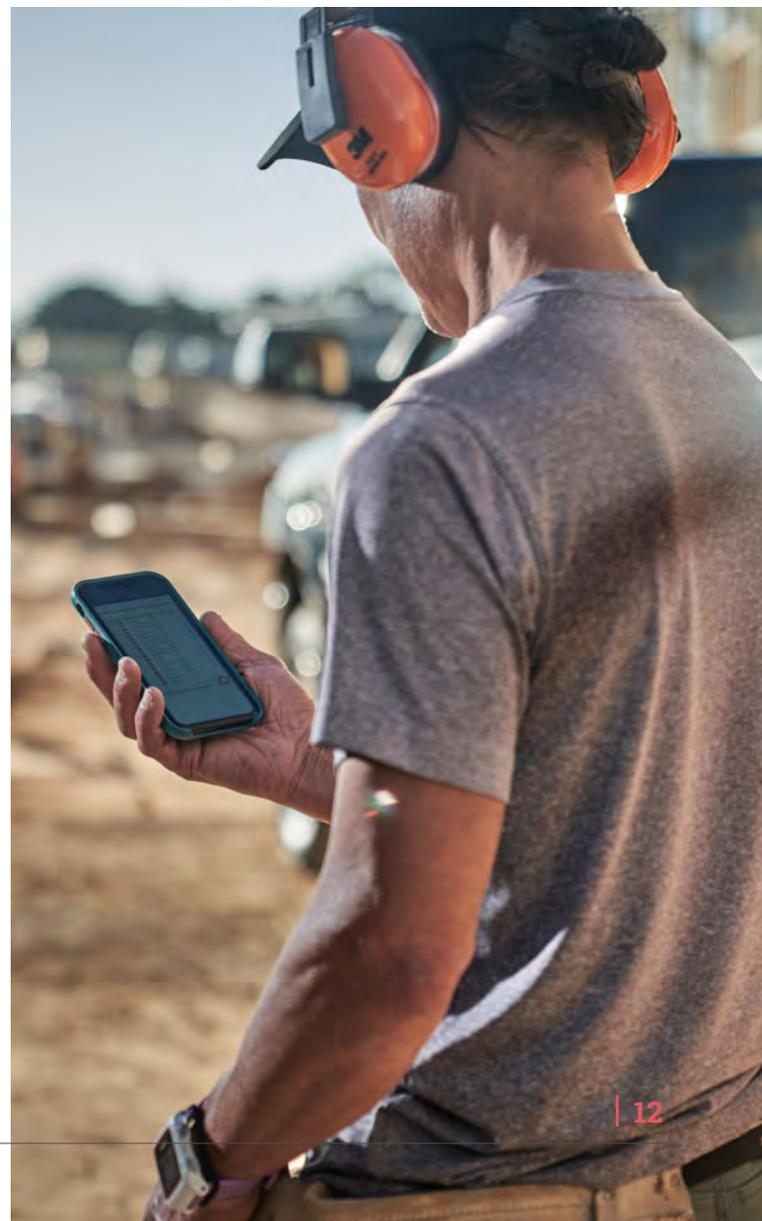
SaaS establishes a collaborative digital platform



A shift to cloud-based software is a primary key to digitizing the custom home construction industry because of its ability to connect all participants 24/7 from any online location.²⁴ In fact, the ability to immediately communicate in real time is a far superior business practice to the current ingrained practice of sending paper or PDF documents back-and-forth by mail or email.

Cloud-based SaaS platforms solve for the current lack of efficiency. They also carry much greater promise for dealers who consistently base their work with builders on a platform of software features and services. The digital platform connects the homeowner, builder and dealer in a single network of frictionless collaboration and communication that generates powerful data critical to financial planning, customer service, sales operations, inventory control and more.

Digital platforms like this are a growing trend in both home and commercial construction. They create sticky environments that grow ever more critical to all the industry participants as software features improve and automate more manual tasks.²⁵



How the digital platform benefits the entire builder network



The builder network begins, naturally, with the builder's customer, the homeowner. Ideally, the builder plans and organizes projects around homeowner contacts and prospects that are stored online. Project estimates are quickly built using digital takeoff and material estimation tools that generate online quotes faster than outdated manual methods. The quotes are made available by the builder via client portals. The portal allows homeowners to digitally accept high-quality, highly accurate quotes that generate a profit for the builder.

And once a project is under way, the client portal also can be used by the customer to approve any necessary change orders. This digital interaction is not only a time saver but is what the homeowner has come to expect based on current retail experiences, such as online grocery or gift shopping.



Also with the digital platform, when dealers share price information online, this pricing integration allows the dealer to give the builder access to vital costs and materials information whenever needed from anywhere that has an internet connection. The builder can be confident that the shared, integrated pricing from the dealer is the most recent, accurate information. The process becomes even more efficient when the builder can actually place highly accurate material orders 24/7 using a dealer's Enterprise Resource Planning (ERP) system.



Using digital platforms frees the dealer from manually managing multiple and frequent price changes, which is time intensive and error prone. Using a digital platform, builders can accurately self-quote at a time most convenient to them and dealers can include material templates and item assemblies that ensure builders have complete estimates that also increase the size of the order for the dealer. Dealers today assume they are publishing pricing catalogs frequently, but in reality, less than a third of dealers publish updates weekly, and only 7% of builders say they receive daily updated material prices.²⁶ This lack of timeliness simply does not work in times of quickly escalating prices. It creates far too much risk that the builder will underestimate his or her material costs.

4

Average # of hours the typical builder spends generating a quote

6

Average # of communications dealers send to builders to discuss pricing

3

Average # of suppliers asked to quote each job



Integrated pricing also saves time on pricing conversations. This is critical because the typical builder spends up to four hours generating a customer quote and dealers today typically send up to six emails to a builder discussing pricing. As mentioned previously, this is often done by an outside sales representative whose time is better spent prospecting new business and driving revenue for the dealer. Additionally, a builder usually reaches out to as many as three dealers when researching a quote that is likely to win work for the builder only about 70% of the time.²⁷ By saving time, builders can quote more jobs, win more work and increase total spend with their dealer of choice.



Once a project has begun, dealers can access and coordinate online scheduling with builders. Dealers then setup delivery prompts to ensure materials are on a job site at the right time. Late material deliveries cost builders up to \$5,000 for the average project, so coordinating with an online platform can lead to big cost savings.²⁸



However, the digital platform offers still other ways to ensure on-time deliveries for the dealer and builder. The digital platform generates data the dealer can use to build customer insights and predictive analytics that can lead to better inventory control and workforce management. As builders large and small use the digital platform, the dealer has a window into the purchase behavior and preferences of his entire customer base. That same data set can then benefit the material manufacturers who sit upstream of the dealers in the builder network, creating a better managed, more efficient supply chain that extends all the way back to the homeowner.



Conclusion

To meet the demands of today's challenging economy, dealers and builders must digitize many aspects of their relationship that historically have relied on manual methods. By working on a collaborative platform built off SaaS tools, both the builder and dealer cut time wasted on administrative tasks and multiple phone calls and emails. Using a digital platform to handle material and supply orders protects the builder's profits, grows revenue for the dealer, and reduces errors such as incomplete orders. Also, the digital platform helps to keep up with inflationary pressures that are difficult to pass on to the homeowner.

Dealer account managers and sales representatives who spend less time on administrative

tasks, find they have more time to consult with customers. Once in a more collaborative environment, builders tend to quote more work to prospects, win those jobs, and in turn, return to the dealer for more transactions.

Also, using SaaS tools enables the dealer to capture transactions across a wide spectrum of customers. Once this data is aggregated, dealers can better understand the needs of the builders using the digital platform. This kind of transparency leads to improved inventory planning and more effective conversations with builders about their purchasing decisions. In these instances, dealers can find themselves winning back sales they might otherwise lose to competitors.

Visit Buildxact.com to learn more how dealers are effectively using digital platforms to organize their builders and grow their business.

Sign up today to **begin a free trial** and see for yourself how Buildxact is making end-to-end construction management easy.



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About Buildxact

Buildxact gives custom home builders, contractors and dealers control of their business to get jobs done. Using easy-to-use features, job estimates take less time and ordering supplies is possible 24/7 using online price lists. Buildxact cloud-based software ditches pen and paper making admin simple so builders can take back control of their business and have time for the things they love.

Buildxact is a software company dedicated to building tools to connect homeowners to builders and builders to their dealers. We are advancing the residential construction industry through innovation. Our award-winning software is improving the residential construction industry, and that's good for everyone.

Founded in 2011 in Australia, Buildxact continues to expand globally, operating in the United States and Canada from its regional headquarters in Austin, Texas. Buildxact also does business in New Zealand and the United Kingdom.

The company recently secured \$14 million in capital investment to boost its growing presence in North America and expansion into the United Kingdom in 2022. Buildxact ranks among the fastest-growing companies in Australia as recognized by *The Australian Financial Review's 2021 Fast 100* and the best overall construction estimating software of 2022 by *Forbes Advisor*.

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