

KEY  
ELEMENTS IN  
A TOTAL COST  
EVALUATION  
MODEL

no such thing as a “commodity buy.” Whether you are purchasing plywood, shower bases, trim carpentry, or cleaning services, “all else being equal” does not exist in the real world. There are always differentiating factors. If you don’t believe that, you simply have not yet learned how to measure. This simple, observable, and measureable fact has profound implications. The goal is not cheapest bid price. The goal is lowest total cost of operations. The frustrating part is so many purchasing managers and directors really do get it. The problem is they, like Ryan, are handcuffed, forced to work under directives from someone above or in an office 500 miles away, that does not. What would I have them “get”? What follows are the things I hear from senior purchasing and operating managers in the best companies, the ones who are growing and making good margins even in this lousy market. These represent basic tenets of purchasing that a builder must practice and internalize that enable lowest total cost:

- **Initial bid price is very important, but is just one of many factors we consider in choosing and maintaining supplier and trade relationships.** We operate by defining and measuring lowest total cost of operations. Using bid price alone is fiscally and operationally irresponsible.

- **A preeminent goal is to help our suppliers and trade contractors become more successful.** We do this because it helps us become more profitable.

- **A dollar saved is a dollar saved, and that counts, no matter who it goes to initially.** If we show no interest or reject an improvement that generates greater margin for our suppliers and trades, we will find far less for ourselves.

- **We have to harness the brainpower of all contributors.** For each of our people there are at least 20 others in our supplier and trade base who supply labor and materials for our homes, only a fraction of which are the managers.

- **Frequent mass-bidding means our suppliers and trades simply cannot take the time to do good takeoffs and bid effectively.** The result is the exact opposite of what we intended.

- **The only way to get the bids right and do apples-to-apples comparison is to get the plans and specifications right, in detail, up front.** Any money spent there pays 10 times in execution.

- **We do our own takeoffs, then sit down with our suppliers and trades and compare.** The numbers virtually always get better, not by beating them down, but by dealing with accurate quantities, the right products, and using preferred methods.

- **We find the very best suppliers and trades by total cost, build solid relationships, and get them involved all the way back in the design process, then every step of the way.**

- **We continually evaluate our suppliers and trades and give them feedback via our total cost model.** This has required much more discipline than we had imagined.

The companies that are leading the way in purchasing do not always have their total cost model written down, but they always think in these terms. Yet there is tremendous power in getting it formatted on paper and sharing it with your people, as well as the suppliers and trades. Here is a list of elements to consider adding to your total cost evaluation model:

1. **BID PRICE**
2. **CAPABILITY AND CAPACITY**
3. **DELIVERY**
4. **QUALITY**
5. **SAFETY**
6. **COMMUNICATION**
7. **PARTICIPATION IN PRODUCT DEVELOPMENT**
8. **PROCESS INTEGRATION (WITH BUILDER)**
9. **PRE-CLOSE REWORK**
10. **POST-CLOSE WARRANTY**

From personal experience, I can share that supplier/trade reaction to the introduction of total cost criteria ranges from fear to cautious-yet-interested to outright enthusiasm. For the best outfits, builders who genuinely consider everything their suppliers and trades have to offer represent pure opportunity. Using a total cost model quickly sorts the wheat from the chaff.

There is so much more that I can say about all 10 of these total cost categories, and you have to clearly define your metrics to use them effectively in purchasing. We will do that in detail in the June issue. In the meantime, challenge yourself. Sit down with your people, read aloud the list of “overheards” above and see how you stack up. What do you believe and what do you practice? And what would your suppliers and trades say if I asked them off-line?

Meanwhile, if you’re another Ryan, hang in there. Fight the good fight. I understand you need to keep your job, but don’t give up your ideals. The new world order of purchasing is on its way. **PB**

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