



Logan Homes Use Specitup® to Achieve 10-12% Margins on Annual 150 Starts

Logan Homes, based in North Carolina, is among the most successful homebuilding companies, larger or small, in the U.S. today. The company will start approximately 150 homes in 2012, solidly placing it on the list of top-200 American homebuilders. But that alone is not what makes Logan Homes so remarkable and the recent winner of a notable "gold" Vision Award in 2012 for technology innovation. Indeed, the most remarkable thing about Logan Homes is that the company consistently achieves 10-12% net margins on its sale price. With a \$300,000 average sale price and 150 starts, it doesn't take much math skill to calculate that Logan Homes is one of the most profitable builders in the U.S. today on a per-start basis.

ACHIEVING HIGH PROFITABILITY

How does Logan Homes achieve such high profitability, when industry averages are around one quarter of what Logan achieves?

First, it's a given that Logan Homes has adapted the latest technology for workflow (BuilderMT) and sales (Sales Simplicity). But a primary driver of Logan Homes' success is how the company manages options. D Logan, the marketing and operational mastermind behind Logan Homes, has taken a remarkably innovative approach to organizing options. The Company uses Specitup, created and implemented by Rick Cosgrove. With Specitup, D Logan has so much flexibility in his option configuration that he can wake up with a new home design in his mind, and be able to offer that new model – fully priced out as a base model, with Community and Series options – by the end of the day... without even having to rely on his CAD or estimating departments to get involved.

Before we get into the specifics of Specitup approach, let's look at some basics about Logan Homes.

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With Specitup, I can very quickly option out that house with the standard options that my competitor is offering for his \$300,000. If I find I can pack in more standard options, and still make a profit (Specitup will tell me), then I've got a real advantage, because the customers notice that stuff.

– D Logan
Logan Homes

PROFITABLE OPERATIONS

Logan Homes has found success in letting customers freely option out its 78 base home plans, as they navigate through the options-selection process. Through Logan Homes' web-based systems and a showroom, which offers traditional samples of tiles, trim, carpet, etc., Logan delivers high-quality products to an ever-

larger base of satisfied customers. (Although Logan Homes runs a physical design center and a sophisticated web-site, the Company also builds and maintains as many as 40 model homes over the course of the year, all of which are eventually sold as communities close out.) Logan Homes builds in seven communities, and consistently starts around 12 homes each month. Logan Homes' average home size is 2,200 to 2,400 square feet, and house prices vary, depending on the community, ranging from \$125,000 to \$500,000. The average sale price is \$300,000.

With a staff of three superintendents and a sales team of 12 – which works with area realtors – Logan Homes has base plans and option packages (with “options on options”) that allow for a grand total of 275,000 possible options, across all operations, a stunningly large number.

HOW OPTIONS WORK: THE INNOVATION

Logan Homes implemented Specitup to do what every other production builder wants to do: Get control of his options, while offering a highly customizable home. But in addition to that, D Logan has also found that changing market dynamics have forced him to compete at a very intense and detailed level for new buyers.

D Logan wanted to be able to fine-tune his sale price, and have such control that he can pack as many

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If I can't compete, Specitup has told me that ahead of time, and I wouldn't have even bought the lot. I do all of this without having the new house drawn up in CAD.

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Logan Homes

standard options into a model as possible, while preserving an optimum and competitive square foot cost. That's why he brought in Rick Cosgrove's team and Specitup, because it's an ideal tool for just this type of competitive market options management. Here's why: Specitup can be used to manage option tiers and configurations to an extremely granular level, adjusting and optimizing the home to the lot-specific level, to make sure the house is extremely competitive in pricing, and in the options it offers as standard...and as upgrades.

D Logan can manipulate Specitup so quickly that he regularly creates a “spec'd up” house on the fly when he is deciding what he should pay for lots. And he doesn't have to pick up the phone to call in his estimators or CAD team to create BIM models.

D Logan explains Specitup this way: “You have to understand that I can take the same 1,700 square foot base model – which we know the precise cost of delivering – and place it on three different lots in three different subdivisions. But in subdivision A, it's vinyl sided with no sun porch, in subdivision B it's Hardie sided with a sun porch, and in subdivision C it's brick sided with a sun porch and a third bay in the garage. (We know all the costs of those options as well.) So, we have created a base model for each home we sell, and the house exists at its lowest common denominator. Then, I can add the options and see the prices recalculated on the fly, as I add or remove options to manage the price and achieve the optimum square foot prices for the lot where I am selling that specific home. For pricing, I just use the worst-case price for the option, and use that for my calculation, knowing that I will always make a profit installing that option. Let's say one of my houses is listed at \$300,000. With Specitup, I can very quickly option out that house with the standard options that my competitor is offering for his \$300,000. If I find I can pack in more standard options, and still make a profit (Specitup will tell me), then I've got a real advantage, because the customers notice that stuff. If I can't compete, Specitup has told me that ahead of time, and I wouldn't have

even bought the lot. I do all of this without having the new house drawn up in CAD.”

HOW SPECITUP CAN WORK FOR YOU

Specitup Community and Series Optioning. Rick Cosgrove picks up the description of what Specitup can do for any homebuilder: “The foundation of Specitup is to start with a true Base House, just as D Logan describes. From there, you will be able to Specitup as needed per Community and Series, creating a correctly spec’d house with a complete list of standard options. You also have a correctly priced upgrade or downgrade list of options.

Pricing the Home. With Specitup, Cosgrove explains, the house selling price is a calculation of the (true base cost) + (% markup for that Series in that Community) + (the community option selling price) + (all the spec’d options selling prices). As you calculate this, fine-tuning the house so it has the optimum “mix” of price and options, Specitup, can adjust the “mix” to meet marketing requirements on the fly, without having any impact on the rest of the company, especially estimating and CAD services.

Prep is Required. “To make Specitup work, option selling prices are needed in advance, but these can be adjusted once actual costing data is available. These selling prices are set at a Master or Series level. With the option selling prices set, the sales team can really learn them,” Cosgrove explained.

Moving Up, or Down. “The sales team can even credit buyers with option credits if they move up and down in the Series,” Cosgrove added. “You have to be prepared for the client that wants to downgrade to save money. Given the way Specitup calculates option-selling prices, the sales team can downgrade an option to make a sale. Here’s how. Say you have a Series B house with a \$5,000 granite counter top as a standard option, and the buyer wants to go to a laminate countertop which is standard in a Series A house, then there is a \$5,000 credit against the sale price. That’s a great selling tool. And isn’t that what’s it’s all about? Specitup gives the builder enormous flexibility to configure and competitively price his homes, and it works very quickly. Logan Homes achieves record profits with the tool, and so can you.”

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LOGAN HOMES’ TECHNOLOGY

Logan Homes runs a complement of best-of-breed software to drive operations forward. The company has implemented Sales Simplicity for customer relationship management, sales workflow and dynamic website content. A cloud-based solution, Sales Simplicity offers dashboard-based reporting that can parse out status updates at any level, from a lot-specific options report and contract analysis, all the way up to eMarketing that’s based on individual prospect’s website visitations.

For its operations workflow, Logan Homes uses every module available from BuilderMT, collectively called the Workflow Management Suite (WMS). BuilderMT manages Logan Homes purchase orders and scheduling (plus mobile scheduling). Logan Homes also uses BuilderMT's Trade Portal for managing subs, as well as the Superintendent Portal, for allowing Logan Homes' supers to have on-demand, at-a-glance status updates on any project in the Company's portfolio.

ABOUT LOGAN HOMES

At Logan Homes, we believe that you deserve a well-built home, one perfectly designed to reflect your unique personality. For over 20 years, we've specialized in building quality homes in Wilmington and along North Carolina's coast. And with our straightforward process and straight-talking team of professionals, having your dream home has never been easier.

Building dreams since 1986, Logan Homes has earned the reputation for exquisite home design, attention to detail, and the commitment to superior craftsmanship and service. Through the unprecedented combination of genuine integrity, exceptional quality, excellent customer service and unparalleled value, Logan Homes is consistently raising marketplace standards.

Each home we build within our masterfully planned communities is designed and constructed by creative, skilled professionals to perfectly suit your desire for a carefree coastal lifestyle. Logan Homes uses the latest building technology to ensure that every home is completed on time and within budget. We listen carefully to our customers and offer a wide variety of customization options through our accessible, responsive Design Center.

At Logan Homes, our philosophy is simple: We value and take care of our people...so our people will value and take care of our customers.