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SPECIAL ISSUE REPORT: **Brand and Positioning Strategies**

The Brand Factor—How clarifying brand positions improves the bottom line

Matzel and Mumford transforms to survive New Jersey's no-growth market

Builders like Toll Brothers take a closer look at second-home buyers

T.W. Lewis' high profile in Phoenix is a testament to the power of brand differentiation

BRAND LEGACY

Tom W. Lewis, president and CEO, T.W. Lewis Company

BRAND LEGACY

T.W. Lewis' discipline to be different has created a powerful brand. But can the company keep its edge as its founder prepares to step back from 70-hour workweeks?

A DOZEN YEARS AFTER FOUNDING HIS COMPANY, TOM LEWIS' convictions about what he believes distinguishes T.W. Lewis from other home builders, and his zeal for spreading that message, are as passionate as ever. In the company's newest oversized marketing brochure, the Tempe, Ariz.-based builder speaks in elegant type as much about "Fairness and Integrity," "A Better Buying Experience," and "Proactive Service" as it does in pictures portraying stylish "Homes for *particular* people."

T.W. Lewis may not rank among Greater Phoenix's largest home builders. But its outsized reputation for meticulous construction and personalized customer service has helped this profitable David stand out in a market increasingly overrun with Goliaths. The company also has gained a reputation for something else: Its success despite heavy-weight competition is a testament to the power of differentiation and the ability it affords in exercising greater control over pricing and costs.

With its annual production ranging from 250 to 350 homes, T.W. Lewis builds about 1 percent of Phoenix's current yearly demand, and less than 10 percent of homes in the \$300,000-plus price point that is this builder's niche. But it has managed to vault beyond its relative market share and modest ad budget—it spends only 0.5 percent of its annual revenue on media—to create a brand whose strength rests on buyers' enthusiastic word of mouth about its honesty, integrity, dependability, and product quality.

The credibility of those testimonials has given T.W. Lewis license to increase the prices for its homes at a much higher rate, on average, than other home builders here. Those hikes have fueled its revenue growth, especially during the past five years when annual sales more than doubled.

For Phoenix home buyers, the embodiment of this upscale tract builder's brand is its owner and guiding spirit, Tom Lewis. His smiling, white-haired visage peers over the Phoenix Valley from the company's ads on billboards—and in local newspapers and lifestyle magazines. He is T.W. Lewis' diplomat with buyers and communi-

ty ambassador through a foundation he started two years ago that aids children in need and college-bound high school students.

Lewis has come to appreciate how "being different" distinguishes one builder from another in buyers' minds. One of T.W. Lewis' primary differences, he says, is how consistently every department in the company reinforces its commitment to customer-friendly service, right down to the interior design and signage of its nine sales offices that duplicate the main office. "It's exceptional and reflects what Tom's about," said Don Zach about the presentation at the sales office he manages in Peoria, Ariz. This consistency complements a corporate culture which places a premium on cost control that keeps operating expenses at around 18 percent and contributes to this builder achieving its net income goal of 10 percent of annual sales.

Lewis' mission is for his company to be recognized as the No. 1 home builder in America, based on product quality, customer satisfaction, and profitability. Whether he will be around to realize that dream, and whether the company can transcend the charisma of an owner whose imprint is visible throughout its operations, may soon be put to the test.

"Tom sees the big picture and the little picture," says Pat Adler, T.W. Lewis' vice president of land acquisition and development. "He's involved in every detail of the business." Director of architecture Patrick McGlone says Lewis looks over his shoulder (figuratively) on every new-home design McGlone draws. But after 30 years in the business, the 54-year-old Lewis says he's tiring of the 70-hour workweeks and the 24/7 pressure from exacting buyers. He wants to step back to become "more like an owner and investor" and have more time for physical conditioning and reading Greek

BY JOHN CAULFIELD

“There aren’t many Tom Lewises out there.”
—Tom Teague, co-owner,
Westwood Residential

philosophy. He might even buy a ranch. The oldest of his three sons just turned 22, so there’s no heir apparent in the wings yet, and may never be, according to Lewis, who this spring began searching for a COO.

Lewis sounds reasonably confident that his succession plan won’t crack the foundation he’s poured for his company, or loosen its bonds with customers. To be on the safe side, T.W. Lewis has created ad materials that aren’t dominated by its owner’s headshot. It is enforcing new quality assurance procedures for home inspection and post-purchase customer care. T.W. Lewis also has launched a pilot program to generate more referrals, which have been the backbone of its expansion (see sidebar, page 19).

SIZE MATTERS

Last year, T.W. Lewis ranked 31st in permits issued and 17th in sales among 40 home builders operating in Greater Phoenix. But its brand has seeped deeper into buyers’ subconscious than its building activity would seem to warrant. It tied for 7th in a J.D. Power and Associates customer satisfaction poll in 2002. Internal research ranks the company 4th in unaided awareness with buyers whose household incomes are \$250,000 and up. More than 90 percent of its customers say they’d refer T.W. Lewis to a friend, and the builder converts one-third of those referrals into sales, a rate that’s three times the industry average.

Lewis estimates that two-fifths of buyers choose his company’s product based on its image alone. “There’s a kind of Mercedes Benz mentality about our homes,” whose average price is approaching \$500,000. That image is bolstered by the “excitement” created around their communities by this builder’s preferred land developers. (Dennis Herring, T.W. Lewis’ vice president of sales and marketing, says the builder has been sending out more direct mail that highlights those com-

munities’ amenities.)

But Lewis insists that the company’s brand derives its potency from each of its departments keeping the promises it makes. Accountability is a very big deal for Lewis, and his favorite symbol for that brand identity is a lighthouse—“something that people rely upon,” he states. That beacon is electrified by a set of precepts that, to an outsider, may sound like a parody of every book written about management during the past 25 years—five “pillars” of competitive distinction, six corporate values, five guiding customer philosophies, and an 11-point customer communication program—but clarify the company’s primary objective: to make all transactions and business arrangements as problem-free as possible.

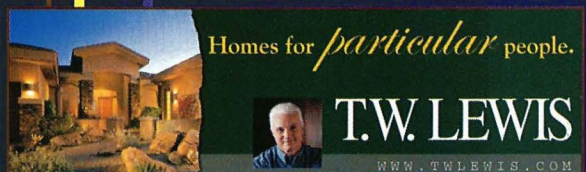
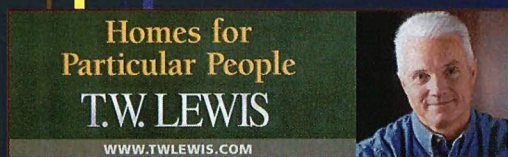
“Being private gives T.W. Lewis a real ability to live by its commitments,” said Curt Smith, COO for Sunbelt Holdings, a Scottsdale, Ariz.-based master planned community developer. “With Tom, there’s not a lot of bureaucracy, and the quality control is based on trust, respect, and authority. This makes our life easier getting to the closing.”

Sunbelt Holdings is one of a select few land developers that T.W. Lewis works with regularly. An important, albeit behind-the-scenes, contribution to the company’s customer service brand is its preference for single sourcing which Lewis says “gives us the benefits of being their best customer.” Nick McKee, T.W. Lewis’ vice president of operations, notes that of the 30 suppliers and trades involved in the construction of a house, all but six are single sources. “When we find a defect, we can fix it across the board quickly.” Gina Self, the builder’s CFO, adds that single sourcing helps the company negotiate land deals quicker—usually within 30 days—than many competitors. “That’s a big deal if you’re not a cash cow like Pulte or Centex.”

The benefits of single sourcing appear to be reciprocal. Bank One has been T.W. Lewis’ main lender for fin-



Having built a brand around its founder, T.W. Lewis is putting new emphasis on its distinctive homes.



ished lot construction for 11 years, “and they have always followed through on their end,” says Paul Engler, that institution’s first vice president. “They’ve even gone beyond what they’ve promised” on covenants and other financial criteria. “There are other [builders] that never go beyond what they are bound to legally.”

BUYERS MEET THEIR MATCH

During his career, Lewis worked for several large builders, including Ryan Homes, UDC, Sea Pines, and Trammell Crow (from whose residential division he acquired what became T.W. Lewis). The seminal lesson Lewis took away from those stints was that customer service suffers when growth is defined by unit count. Consequently, he keeps his company’s production low to avoid diluting its standards for customer service.

“Tom puts the well-being of customers at the top of his flagpole,” says John Woodland, owner of Woodland, O’Brien & Associates, a Minneapolis-based market research firm that has interviewed every buyer T.W. Lewis has sold a home to since 1994; and provides the builder with data that track buyers’ satisfaction levels. This information has been invaluable to the company that actively pursues a more demanding buyer. But because its owner keeps raising the service bar, T.W. Lewis always risks tumbling into a trap of its own making by promoting itself as the market’s builder of “Homes for Particular People.”

T.W. Lewis’ brand claimed the attention of those buyers in the late 1990s after two high-end competitors altered their marketing strategies. Geoffrey H. Edmunds & Associates was acquired in August 1995 by Toll Brothers, which Lewis contends diluted Edmunds’ brand. Then Monterey Homes went public and diversified into lower-priced home construction.

Lewis says his company had been heading toward a more affluent buyer anyway and didn’t have to change its operations materially to capture more business. The emerging clarity of its reputation actually made T.W. Lewis more attractive to upscale developers in Scottsdale, opening the door to better land offers. The results started manifesting themselves in 1998, when T.W. Lewis’ revenue increased 18 percent and its profits jumped 37 percent. The following year, the builder’s average home price increased nearly 36 percent and has been rising ever since.

More than one-fifth of the price of a T.W. Lewis home comes from interior, landscape, and pool options that buyers choose from the builder’s two-year-old, 6,500-square-foot design center, which the NAHB awarded as the best facility of its kind in the United States in 2002. Buyers have up to 90 days after being issued a permit to make their selections, and Kay Price, the center’s manager, notes that a typical buyer spends 15 hours with design consultants at the design center, whereas prior to opening this showroom, the builder would send buyers scurrying around town to different suppliers.

The design center is one component of an elaborate home buying process that T.W. Lewis details in the 132-page binder titled “Road Map to Your New Home,” which includes the names and phone numbers of each person who is responsible for addressing any concerns a customer may have. The book encourages buyers to participate in every stage of the buying process, including inspections for construction flaws that T.W. Lewis conducts prior to applying dry-wall and seven days before buyers are scheduled to move in. T.W. Lewis recently hired a second quality director to oversee those inspections, which get scored against a 40-point variance checklist. Compensation for direc-

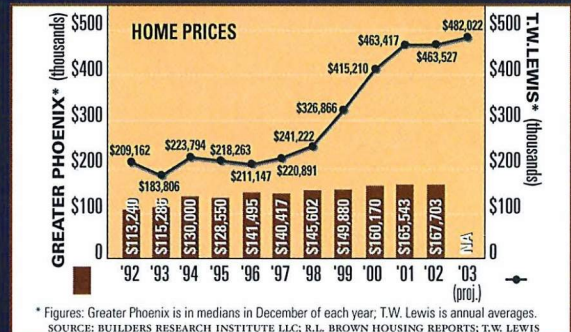
“Tom [Lewis] sees the big picture and the little picture. He’s involved in every detail of the business.”

—Pat Adler, vice president of land acquisition and development, T.W. Lewis

IT PAYS TO DIFFERENTIATE



Controlled production keeps service levels high... and revenues rising...



...allowing T.W. Lewis to move up-market...



...and boost margins and profits.

STANDING ON REPUTATION

(Unaided market awareness ranking vs. number of permits issued—2002)

1. Pulte (956)
2. Shea (2,014)
3. Geoffrey Edmunds/Toll Brothers (286)
4. T.W. Lewis Company (305)
5. Hancock (814)
6. Monterey (225)
7. Continental (2,213)
8. KB Home (1,922)
9. Maracay (594)
10. Fulton (1,522)
11. Del Webb (2,008)
12. Lennar (634)
13. Richmond American (1,940)
14. Dave Brown, Beazer Homes, Ryland Homes (720, 1,188, 675)
15. Trend (1,192)

SOURCES: WEST GROUP RESEARCH (RANKING); RL BROWN (PERMITS)

T.W. Lewis ranks 4th in unaided awareness in Phoenix, despite the presence of much larger builders.

CUSTOMER CARETAKERS

Software and incentives help harvest referrals.

T.W. Lewis has long taken a proactive approach to sustaining its relationship with buyers after the sale. Now it's attempting to capitalize on those relationships to generate new business.

Thirty days after they close on escrow, buyers meet with one of the builder's customer care representatives for a follow-up review of the home's construction. That's when scratched countertops or sticking doors are addressed, as well as warranty coverage on products that might not be working properly. Subsequent reviews, which take between one and two hours, are scheduled three months and 11 months after buyers move in.

In recent months, it has taken steps to automate and streamline the repair and maintenance process. It purchased five new vans so service reps can do more repair work themselves. Each rep is armed with a laptop so he can generate purchase orders and send them to building products suppliers.

Since January, Goldmine scheduling software has been prompting salespeople about different ways they should be contacting buyers after the sale. "It also allows the sales supervisor to look over the salespeople's shoulder to see how hard they are working," says the builder's own-

er, Tom Lewis. The results so far have been mixed, he says. "We're finding that some of them are working a lot harder than we thought." Lewis adds that this new system is providing his company with a wealth of demographic and psychographic data, which it wants to use to predict customers' expectations, says vice president of marketing, Dennis Herrig.

Those buyers are also viewed as sources for new leads. At contract, salespeople are required to ask buyers if they know of anyone who is in the market for a home. In the back of the "Road Map to Your New Home" binder it issues to each buyer, the builder places business reply cards that buyers can

send out to inform acquaintances about T.W. Lewis. At the close of escrow, the company sends out a letter thanking its buyers and reminding them to tell a friend about their home.

"We're looking for referrals, of course, but we're pitching this as a service," says Herrig.

Goldmine reminds salespeople to send buyers a gift basket after they've move in, which includes a \$2,500 certificate with a one-year expiration date. If that certificate is redeemed at any of the builder's nine sales offices, the salesperson who sold the home that got the gift basket receives \$500.

TAPPING REFERRALS

(Customers willing to refer T.W. Lewis)

1994	80%
1995	91%
1996	91%
1997	95%
1998	92%
1999	85%
2000	90%
2001	88%
2002	94.3%

SOURCE: WOODLAND O'BRIEN

tors and their superintendents is now based on that scoring, says McKee.

FUTURE GROUNDED IN THE PAST

Company officials insist these quality control measures are the key to preserving the brand as T.W. Lewis enters its next growth stage. In June, Adler said he was in the process of securing 800 lots for future development. Lewis is pushing his company toward community development as a fertile source for new revenue and profit. T.W. Lewis' first master planned community sold 300 homes in 18 months, and it's currently working on a 240-acre, 425-home community called Valencia, in Chandler, Ariz.

Lewis states that his company could handle \$175 million in business without any significant re-tooling. Self, the company's CFO, envisions T.W. Lewis as a \$300 million builder that more aggressively provides third-party mortgage financing, which represents only 10 percent of its current portfolio. McKee sees future profits coming from efficiencies that help accelerate the construction schedule (from its current six to eight months) and reduce warranty costs.

Much depends on what notions T.W. Lewis' next COO may have in moving the company forward. That won't be an easy position to fill, say those who know Lewis. He may prefer a protégé he can mold to carry the existing brand forward, rather than a boat rocker.

Lewis describes mentors at other companies as men of action, and admits that he is not very patient when employees stray from his script. He acknowledges he can be headstrong, a perfectionist, and quick triggered. He fired the company's previous ad agency after only four months. His skepticism about technology has tended to limit investment in systems that have become the norm at many other companies.

Lewis sees his next COO as someone who "has a history of success," and who "understands the business." But Tom Teague, a colleague at Trammell Crow who now co-owns Westwood Residential, a Dallas-based multifamily housing developer, suggests that Lewis might sacrifice experience to hire a person who reflects his values. "There aren't many Tom Lewises out there," Teague says.

Lewis probably won't step off stage entirely, either. He's committed to raising the T.W. Lewis Foundation's endowment to \$10 million from its current \$3 million. And as long as he's involved in the company, Lewis has no problem with it using his image.

But his real legacy in building the T.W. Lewis brand runs deeper than a portfolio of consistent messages to the public. It is embedded in the business infrastructure and culture of the company that reflect his personae. Those collective practices are expected to ensure the kind of personal service attention that can sustain the brand even if Lewis is no longer picking up the phone. **BB**