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Pulte Homes – Reimagining the Homebuilding Industry

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PULTE HOMES – REIMAGINING THE HOMEBUILDING INDUSTRY[1]

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ABSTRACT

In 2016, William J. (Bill) Pulte, founder, and Pulte Homes' largest shareholder called for the resignation of CEO Richard Dugas. In his letter to the board of directors, Bill stated the value creation strategy first proposed by Dugas in 2005 had been a major failure. Dugas had a bold vision and intriguing rationale for radically reshaping what he termed the "sleepy" homebuilding industry. Drawing from Toyota and Walmart's strategies, Dugas argued that Pulte Homes could create greater value by scaling purchasing, improving construction processes, and collaborating with suppliers to lower overall costs while simultaneously refashioning and updating Pulte Home's product line. By reshaping Pulte Homes' strategy, Dugas re-imagined the homebuilding industry to be a more efficient and integrated competitive space. This case prompts students to evaluate and critique the validity of Dugas' reasoning by analogy and underlying assumptions. The case also prompts students to identify industry structural and firm-specific factors that could impact the implementation of the business model.

Keywords: board governance, reasoning by analogy, industry structure, strategic change

Learning Outcomes

In analyzing this case, students should be able to:

1. Apply analytical frameworks to critically evaluate the assumptions and logic of a proposed strategic change.
2. Evaluate differences in industry structure that could impede the ability to imitate strategies used in other industries.
3. Assess how organizational structure and culture may inhibit or enhance the implementation of a strategic change.

Application

The case is most appropriate for undergraduate and graduate courses in administrative strategy and policy, strategic leadership, and strategic change. The case was written based on secondary sources where cited. The first author was an employee of the company during the events described in the case. An epilogue highlighting actions taken by the company following the resignation of Dugas is provided in the Teaching Note.

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INTRODUCTION

In April 2016, William J. (Bill) Pulte, founder of Pulte Homes, wrote a letter to the board of directors calling for Richard Dugas' resignation. Pulte described the appointment of Dugas to CEO as "perhaps the biggest mistake of my career" (Kirkham 2016). Pulte went on to argue that Dugas lacked sufficient homebuilding experience to lead the organization and the "Value Creation Strategy" launched by Dugas in 2005 had proved a major failure and was the most crucial reason why Dugas needed to resign. Pulte further stated, "In my opinion, Richard's 'Value Creation Strategy' ignore(d) creativity around product and sales, which (was) the lifeblood of our company and which can be pursued while having a return-focused land investment strategy and a strong, conservative balance sheet" (Kirkham, 2016).

While it was true that Dugas' new strategy faced internal challenges, the 2008 housing and financial crises further compounded those issues. From 2001 to 2005 an average of 1.63 million homes were built each year (US Census Bureau 2019). That dropped to 689,000 homes per year from 2009 to 2013, representing a 58% drop in new home construction across the United States. The median new home price also dropped 11.6% from 2007 to 2009, which meant homebuilders had to drastically lower their prices to compete (US Census Bureau 2019). Managers seeking to implement the value creation strategy at Pulte Homes faced additional challenges of reducing headcount, consolidating operations, and finding other ways to cut costs.

During the 15 years Dugas was CEO, the company's stock price (NYSE: PHM) increased by 48%. However, Pulte's stock price growth actually fell behind three main homebuilding competitors: Lennar Homes' stock price was up 64%, DR Horton's stock price was up 146%, and NVR's stock was up 489% over the same period. See Appendix 1: Comparison of Financials for additional information.

The debate about whether Dugas should step down early played out in public over several months as the board began looking for a replacement. Bill Pulte urged the board to select a new CEO with substantive homebuilding experience (Grantham 2016). In September 2016, the committee chose Ryan Marshall, who had 16 years of homebuilding experience in operations and finance, as the new CEO (Gorman 2018).

THE NEW VALUE CREATION STRATEGY

"Toyota sells Corollas to entry-level buyers, Camrys to the middle market, and Lexuses to the top…why can't we do the same in homebuilding (Muller 2009)?" That is one of the bold statements CEO Richard Dugas made in 2005 when introducing his proposed strategy. By implementing this new strategy, Dugas planned to drastically change the company's operational approach which had already enjoyed remarkable success. Inspired by industry revolutionaries like Sam Walton and drawing from his experience at Pepsico, Dugas sought to challenge the homebuilding industry's existing assumptions and approach. While the potential to reshape the industry was appealing, what was unclear was whether mimicking strategies from the automotive and retail industries in homebuilding was feasible. The initial rollout of the new strategy in 2006 was hampered by significant implementation problems. Is it a reasonable comparison to think that a highly fragmented industry driven by subcontractors and regional building codes could operate like consolidated industries with national standards? Was the strategy doomed from the start, as claimed by Bill Pulte, or did the company just need to be more fully committed to its implementation?

ORIGINS AND STRATEGY OF PULTE HOMES

From humble beginnings, Pulte Homes had grown to be one of the largest and most respected homebuilding companies in the United States by 2005. In 1950, Bill Pulte built his first home, a 5-room bungalow, near Detroit, Michigan. Bill sold that house for $10,000 and continued to build custom homes in and around Detroit. By 1956, the company was operating as William J. Pulte, Inc., and in 1959, the company built its first subdivision called Concord Green in Bloomfield Township, Michigan, where homes sold for $29,000. During the 1960s, the company expanded into the Washington, D.C., Chicago, and Atlanta markets, and in 1969 the company went public as Pulte Homes Corporation ("PulteGroup, Inc. - About Us - PulteGroup History" 2019). That same year, the company purchased American Builders, Inc., a Colorado Springs-based homebuilder, to enter the first-time buyer/affordable housing market. As the company grew and became publicly traded, Bill realized the company needed a CEO with more financial expertise. He appointed James Grosfeld, who served as CEO from 1974 to 1990. Grosfeld came from a law and finance background but had no in-depth experience in homebuilding. In addition to serving on the board, Bill remained active in company operations as the "house expert" and mentored Grosfeld to help him better understand the ins and outs of homebuilding (Duggan, 2010). Bill was known for his ability to walk through a house and identify ways to make the construction more efficient or the plan more marketable. When Grosfeld retired as CEO in 1990, he remained a member of the board of directors.

Bill Pulte served as interim CEO following the departure of Grosfeld until the board appointed Robert Burgess as CEO in 1993. Pulte Homes enjoyed remarkable success under CEO Burgess, and the company grew organically and through acquisitions (Maynard, 2000). This growth enabled Pulte Homes to diversify its consumer base across their lifespan, ranging from first-time homebuyers to empty nester retirement homes, as well as different family and housing requirements. The growth also diversified the company's geographic footprint. When Pulte Homes celebrated its 50th anniversary in 2000, the company competed in 41 metropolitan markets in 25 states and had operations in Mexico, Puerto Rico, and Argentina ("PulteGroup, Inc. - About Us - PulteGroup History," 2019).

In the early 2000s, the company focused more intently on differentiating its product by increasing its quality and measuring and rewarding customer satisfaction. The company also became even more consumer-centric in its processes, such as offering a unique extended home warranty. Construction and customer relations employees would also walk through the house with the new homebuyer multiple times as it was being built. These walk-throughs provided an opportunity to get input from the buyer and educate them on how to care for their new home. Those efforts helped Pulte Homes win several J.D Power and Associates awards and a National Housing Quality Gold Award ("PulteGroup, Inc. - About Us - PulteGroup History" 2019). In addition to the strong customer satisfaction performance, Pulte Homes was one of the top builders in the United States based on revenue, home count, and profitability and took pride in maintaining a conservative balance sheet relative to competitors. Bill had returned to the board of directors when Burgess became CEO and was proud of all the company had accomplished. A strong focus on customer satisfaction and quality had enabled the company to charge slightly higher prices; however, it also meant the company suffered from higher overall costs and some inefficiencies relative to its direct competitors.

When Burgess retired in 2001, Bill helped to choose Mark O'Brien as the new CEO (Smith 2001). However, O'Brien only lasted a year as CEO, and employees described the time of his tenure as problematic. O'Brien faced the challenge of integrating the Del Webb merger which significantly increased the company's size and made O'Brien one of the top 10 paid CEOs on the Fortune 500 list (Francis 2003). But employees questioned the benefit of the merger when the significant operational and cultural differences between Del Webb and Pulte Homes became apparent. In particular, Del Webb was much more of a command and control, corporate style culture at the time of the merger, whereas Pulte Homes was a decentralized entrepreneurial culture (O'Toole 2001).

> "'We did not think our guys were ready,' Mike O'Brien says about the five regional Pulte presidents who are given broad authority to run their groups. 'We saw that Webb was building and selling houses, but they were doing a whole heck of a lot more. They have food service. They have baseball fields. Our guys would have probably gone in and taken a lot of cost out, but at the risk of ruining the brand. So we decided to leave them separate for now and see how far we can take this in terms of getting best practices in place in Del Webb, to get to know the business and visit the question of integration [within Pulte's geographic divisions] maybe a year or two out.'
>
> For now, Del Webb is the largest of six Pulte divisions. But Mariucci and her team will not be alone in their effort to build trust between the organizations as well as to find commonality on cultural issues. The plan calls for a lot of cross-pollination, with Webb people moving to the Pulte side and vice versa." (O'Toole 2001)

The significant operational differences led to challenges in integration between the two companies and led Bill to make leadership changes.

Frustrated by the uncertainty and discord during O'Brien's time as CEO, Bill was determined to select a new CEO who could strengthen the company in the years to come. After considering various candidates, Bill chose to promote Richard Dugas to CEO in 2003. Dugas was COO at the time, had previously served as a Pulte Homes division president, and had prior process improvement experience. Bill remained chairman of the board of directors to provide support and oversight as Richard transitioned into his new role. As CEO, Dugas took a radically different approach than his predecessors. While Grosfeld came from a legal and finance background and Burgess from management consulting, both had perpetuated the entrepreneurial culture and operational strategy first created by Bill. In contrast, the strategy proposed by Dugas was focused on remaking the industry and transforming the company, rather than maintaining traditional structure and processes.

When CEO Dugas first presented his new strategy in 2005, Pulte Homes functioned in a multi-division structure where each division operated almost entirely as an independent unit. This structure followed industry norms and Bill's managerial preferences as the founder. Each market division contained all the essential business functions such as marketing, finance, construction, customer relations, land, and accounting personnel. This structure enabled each division to navigate the differences in municipal requirements and location preferences of consumers. Each division had significant autonomy to customize its marketing, product, sales, and land positions to enhance performance within its given market. Each division was supervised by division and area presidents and staff who reported to the corporate home office. The corporate home office allocated capital for new communities and coordinated human resource policies.

The entrepreneurial culture and decentralized structure of Pulte Homes reflected the tendencies of its founder, Bill Pulte, who was known for his passion for designing and building homes, his familiarity with all aspects of the homebuilding process, and an informal, hands-on approach. Even as the company grew to be the largest in the industry, Bill was not a suit and tie kind of guy, known instead for his casual attire and colorful sweaters. A favorite (albeit unconfirmed) story about Bill's visit to Wall Street reflects his down-home, problem-solving nature. Bill had been invited to ring the opening bell and wore a suit for this auspicious occasion. But when he hopped out of the cab, Bill tore his suit pants. With minutes to spare before he needed to ring the bell, Bill found an office worker, asked to borrow a stapler, and dashed into a nearby bathroom to staple shut his pants before calmly heading up to ring the bell.

In contrast, CEO Dugas had a more formal leadership approach. Bill was known for being entrepreneurial and often unorthodox and preferred frequent and informal discussions with division heads. CEO Dugas, however, dressed more formally and visited divisions on an annual scheduled basis, where he would deliver a PowerPoint presentation to the staff and describe the rationale for strategic changes in the company.

During the housing market boom from 2000 to 2005, the Pulte Homes' divisions that opted to develop subdivisions, as well as build homes, were associated with higher profitability. As a result, more divisions in the company became vertically integrated. That vertical integration included buying raw land, securing the necessary approvals, platting lots, and other land development functions (e.g., excavation, sewer, power, water, etc.), and building and selling homes (Mucha 2005). The move toward more raw land development increased the risk and reward of the strategy. Creating the capabilities to buy and develop raw land gave Pulte Homes a competitive advantage through its ability to access land unavailable to merchant builders (Krizan 2002). Vertical integration also enabled Pulte to differentiate their communities with amenities, such as recreation centers, walking trails, water features, and other customization for certain targeted consumer groups.

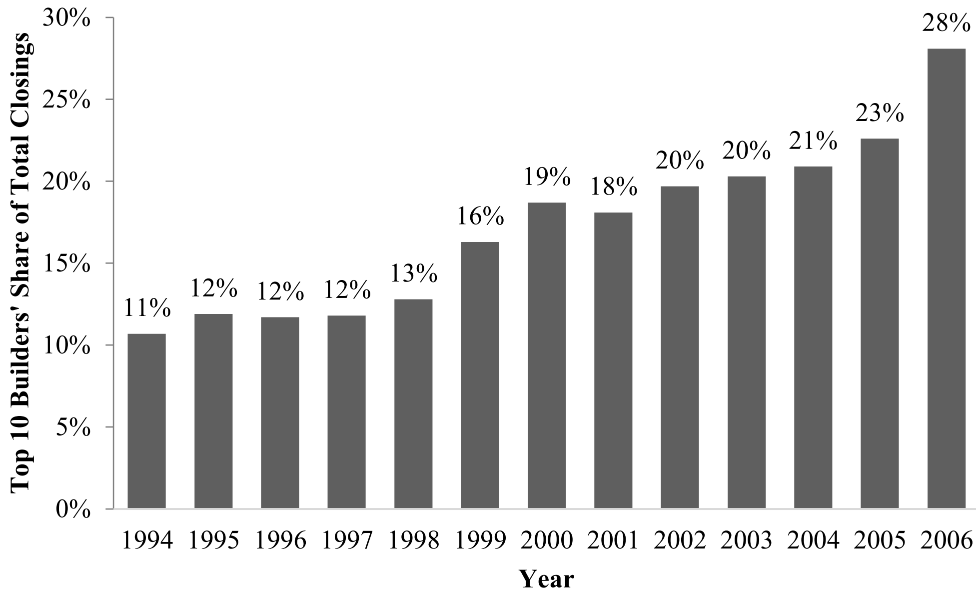
As founder and CEO, Bill had fostered the decentralized approach and entrepreneurial culture of Pulte Homes, which also proved to be an excellent fit for executing the vertically integrated structure. Each division president essentially operated as an independent entrepreneur for his or her division. They would scout out new land opportunities and run estimates on sales pace, average sales prices, and profitability. As CEO, Bill had loved visiting divisions, seeing the land they were considering purchasing, and offering ideas and advice about communities and homes to build. The time required to convert raw land into buildable lots meant considerable uncertainty in the building plan estimates. The decentralized approach also created challenges within the company as there were few opportunities for cross-division synergies or sharing of best practices. Instead, the company historically had a sense of healthy and spirited competition between divisions. When CEO Dugas had first announced the new strategy in 2005, there were concerns internally about how the new strategy might impact the organizational design of the company and offer less freedom to division presidents.

THE HOMEBUILDING INDUSTRY

While Pulte Homes enjoyed a dominant position amongst its direct homebuilding competitors when Dugas first proposed the new strategy in 2005, resale homes dominated the housing market (Barnes 2015). Newly constructed homes represented only 18.1% of the 7.08 million homes sold in 2005 (Rudden 2019). Also, the small local builder often dominated markets rather than big national builders like Pulte Homes. While large homebuilders began to gain market share in the early 2000's through acquisition and growth (Porter 2003)(see Figure 3) the industry remained highly fragmented partially due to differences in permitting and construction processes (Listokin and Hattis 2005). For example, it was relatively more expensive to build a home in Colorado than in Arizona due to Colorado's unique soils that require more substantive foundations and trusses and roofing requirements to handle the heavy snow and wind loads. Although Pulte Homes was one of the largest national homebuilders in the country, it had less than 6% of all homes sold in the U.S. in 2005.

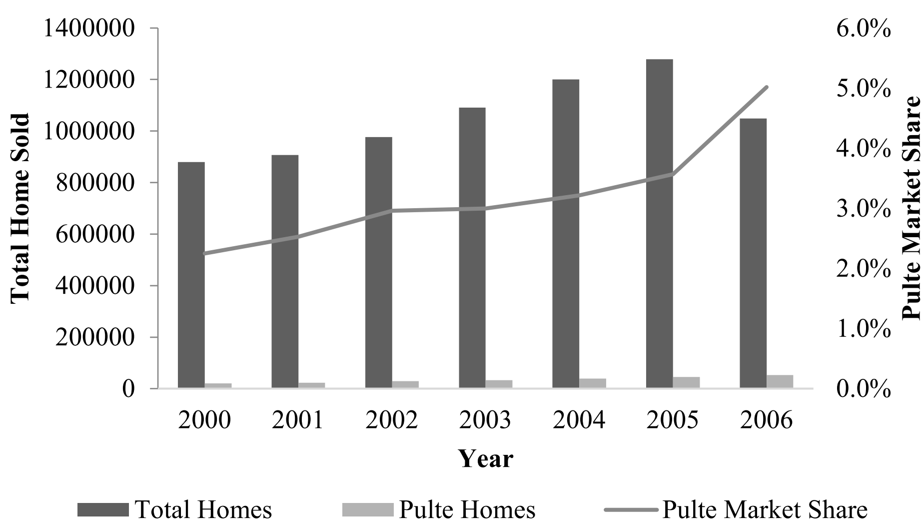
One of the challenges of running a national homebuilding company was how to develop a competitive advantage relative to local and regional builders. Dugas argued that brand recognition and customer loyalty would create an advantage (Muller 2009); however, there were significant challenges to that approach since the home's location, size, and price play essential roles in the home purchasing process, while the builder brand name is largely invisible (O'Toole 2005). Also, because of the low barriers to entry, small new homebuilders entered the market regularly. Diversification was another approach for advantage. Most housing recessions occurred regionally, and geographic diversification was a fundamental advantage of national builders compared to regional builders. However, what remained unclear in 2005 was whether housing recessions would remain regional in the future (Dugas 2005). The cyclical nature, partially due to interest rate changes and tax incentives, also creates problems as it relates to oversupply, price volatility and a lack of inventory discipline.

Figure 3: Top 10 Builders' Share of Total Closings.



(Melman 2010)

Figure 4: Total Homes Sold in the United States and Pulte Market Share

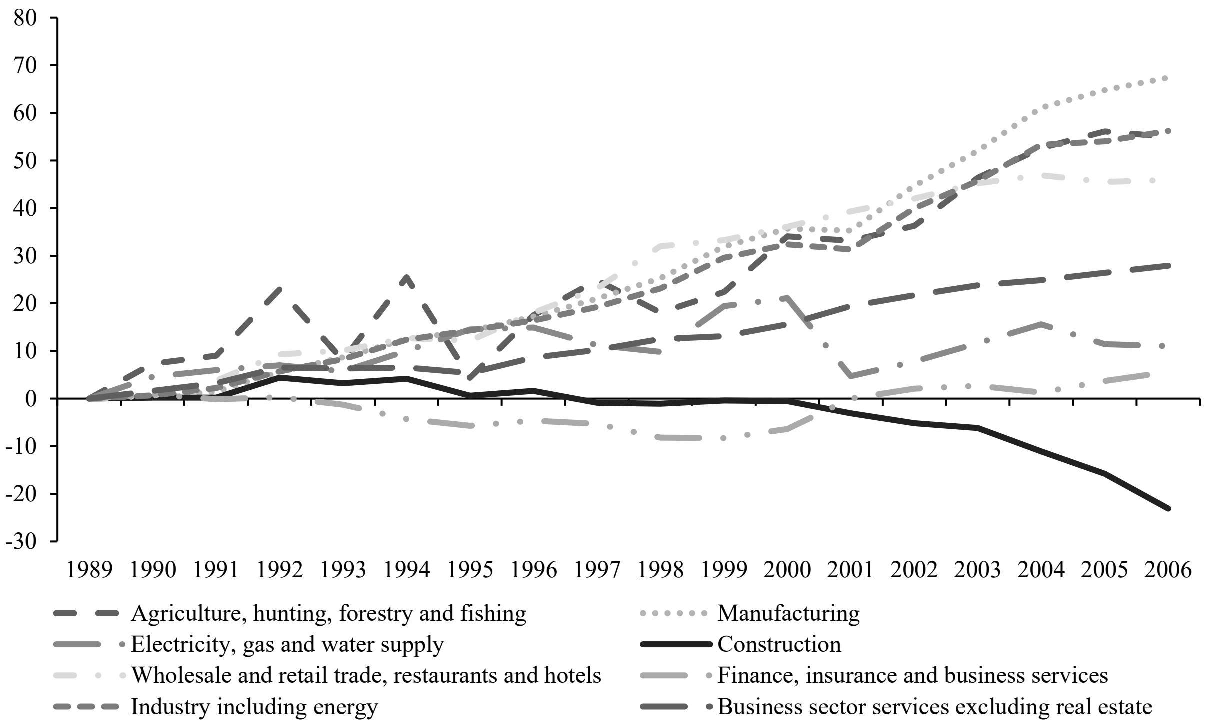


("PulteGroup, Inc. - About Us - PulteGroup History" 2019; US Census Bureau 2019)

Incorporating stronger building processes at PulteGroup, Inc. was challenged by two key factors: the move toward outsourcing and the environmental context of building. Homebuilders typically outsourced the various components of new home construction to a variety of subcontractors. But much of the skilled labor around housing is unpredictable. For example, framing crews often have high turnover rates, are comprised of (il)legal immigrants, and subcontractors face a constant struggle to recruit, train, and retain their skilled laborers. The environmental context of building also presents unique challenges. Home-building does not occur in a climate-controlled environment like that in many other manufacturing industries. Contractors often work at multiple sites within a day or week, and it's common in the homebuilding industry for laborers to work simultaneously for multiple subcontractors and projects. For example, a laborer installing drywall might work on one project in the morning and then go to a different project (with a different subcontractor) in the afternoon. Housing construction workers typically cannot be fully occupied at a builder's particular site over a sustained period, making it difficult to coordinate routines between outsourced suppliers and the building contractor.

That high rate of outsourcing, lack of a consistent workforce, and variability in building processes across homebuilders and subcontractors created resistance to establishing industry standards for building processes and quality. Because homebuilding is so labor-intensive, it is often difficult for builders to create economies of scale, so big builders cannot achieve significant cost advantages over smaller builders (O'Toole 2005). As various builders often use the same subcontractors, it is challenging to create features that competitors cannot easily imitate. The rate of incorporating manufacturing quality processes was very slow in the home building industry (Leonard 2010). For example, many auto industry manufacturers had implemented total quality management (TQM) beginning in the 1950s (Ngubane 2013). However, in 2005, there existed minimal diffusion of TQM processes within the homebuilding industry (see Figure 4). This lack of economies of scale or efficient processes has led to fewer productivity gains in this industry when compared to other industries. Figure 4 illustrates the productivity gains in other industry sectors when compared to construction. Another explanation for why construction has lagged behind other sectors in productivity is because of the environmental context. When compared to manufacturing or agriculture, construction almost always takes place in a new geographic location and outdoors. These environmental constraints make it difficult to leverage capital investment or implement highly controlled processes to improve productivity in construction when compared to other sectors.

Figure 5: Cumulative Change in U.S. Productivity by Sector



(“Productivity by industry (ISIC Rev.3),” 2019)

INDUSTRY REVOLUTIONARIES: WALMART, TOYOTA… AND PULTE HOMES?

Walmart Value Creation Strategy

The new strategic direction proposed by CEO Dugas was inspired by changes in the retail and automotive industries. Sam Walton revolutionized the retail industry by consolidating the purchasing power of his network of stores, cutting out distributors, and negotiating directly with manufacturers. Before Walmart, discount stores were typically supplied by distributors that would collect a 15% commission by aggregating orders within a geographic region (Mohammed 2018). Because Walmart placed early stores outside large cities, they were beyond the coverage of such distributors. By aggregating demand using sophisticated information systems, Walmart efficiently managed the purchasing process for multiple stores. Because much of the regulation is national rather than regional, Walmart could leverage consistent operations across geographies. Using this strategy, Sam Walton challenged the decentralized approach of existing companies by chaining stores together. Investments in distribution centers also helped to coordinate the efficient flow of goods. Also, Walmart’s extraordinary growth made it possible for the company to leverage its size to gain bargaining power against its suppliers. Because the trucks and drivers were owned and employed by Walmart, the company created a culture and routines that removed the costs from the distribution process through high levels of coordination and information sharing. Their consistent commitment to low cost also helped create a brand identity for consumers looking for the best prices on consumable goods. This is also true because of economies of scope the high number of SKUs in a given store reduces travel costs and assists consumers by solving multiple problems in one stop. The low-cost commitment was essential in this environment where consumers have low switching costs and purchase price almost entirely drives decision making.

Toyota Value Creation Strategy

Just as Sam Walton's strategies dramatically transformed the retail industry, Taiichi Ohno, a Japanese industrial engineer at Toyota Motor, identified radical improvements to auto manufacturing processes. Ohno came to the U.S. in the 1950s to study the Ford Motor manufacturing system, which was considered cutting-edge. After a careful investigation of Ford's processes, however, Ohno recognized significant limitations. Ford's long production runs created massive amounts of inventory that had to be stored, were capital-intensive, prone to expensive errors, and limited its ability to produce diverse products to meet consumer demands. The extreme division of labor and lack of employee empowerment also meant Ford workers were lax about quality control and had little incentive to reduce defects.

Ohno organized Toyota workers into teams that jointly covered multiple tasks. This change reduced the need for specialists and provided accountability and redundancy. The new processes created at Toyota also leveraged strong supplier relationships to implement a lean manufacturing model, improve communication, and reduce capital requirements. The TPS was associated with remarkable success as productivity doubled, quality improved dramatically, and inventory levels were reduced.

Toyota also implemented a segmentation and branding strategy to reach different types of customers. Automotive buyers varied in their individual preferences for different kinds of vehicles and the amount they were willing to pay for a car. To capture these differences, Toyota leveraged the Lexus brand to reach luxury customers and the Scion brand to reach a younger demographic of buyer (Aaker 1997). Brand development worked well in this market partly because brands were visible and because of industry consolidation. Toyota designed the cars to have styling and feature differences across brands, and a similar chassis for economies of scale. The consistency of regulatory standards allowed for consistent production across geographies, notwithstanding differences in consumer preferences. Not only did Toyota manufacture vehicles under different brands, but they also developed independent dealerships for each brand to meet the needs of each buyer segment.

Inspired by Sam Walton and Taiichi Ohno's visionary leadership, CEO Dugas was eager to transform Pulte Homes, and perhaps, the entire homebuilding industry. Dugas was mainly concerned with operating margins. He argued the company had left tens of thousands of dollars on the table for each home because of "inefficient construction, undisciplined pricing practices, and simply not operating the day-to-day business as well as we could" (Pellet 2014). Dugas asserted that his new strategic direction of "value creation" was needed to position Pulte Homes for future success.

THE VALUE CREATION STRATEGY

The value creation strategy proposed by CEO Dugas in 2005 included two key initiatives. First, the initiative created a centralized purchasing approach like Walmart to lower costs (Cottrill 2003). Second, Dugas sought to revise the construction process using the Toyota Production System to produce differentiated homes more efficiently with a quality brand. Dugas argued quality finishes with reduced prices along with quality construction with branding would increase profits (Bowman and Ambrosini 2000).

Dugas believed the decentralized purchasing approach used by Pulte Homes at that time had to be changed. While Bill Pulte had built the divisions to be entrepreneurial and independent, Dugas saw the lack of cross-divisional coordination as a weakness. Even as a national builder, Pulte Homes often paid the same or even higher prices than local builders for its inputs. Each of the 41 divisions of Pulte Homes operated independently and negotiated its supplier contracts. By failing to scale its purchasing power, Dugas believed the higher costs paid for these supplies eroded operating margins at Pulte Homes (Kerwin 2005).

Another component of the value creation strategy was to lower costs through greater construction efficiency. A key metric of efficiency in homebuilding is “throughput per floor plan,” – which is the number of times per year a given floor plan is built and sold (Pellet 2014). Repetition in building homes allowed builders to scale the development costs across more homes (Coffey 2003). Repetition also enabled subcontractors and construction superintendents to value-engineer the plan to remove waste, correct warranty failures in production and remove unpopular plans. The average throughput per floor plan for Pulte Homes was three times per year, while its competitors averaged 70-75 times per year (Pellet 2014). While Bill saw these figures as a natural result of serving diverse consumer preferences and giving each division autonomy, Dugas saw it as inefficiency. Dugas committed to reducing the total number of floor plans from 2,200 to 600 by the end of 2005 (Kerwin 2005). In addition to the number of floor plans, there was even more complexity in the finishes and fixtures. The myriad of options made available in 2005 for carpet, appliances, and other options was mindboggling. Dugas planned to imitate Toyota’s approach to simplify selections of homebuyers’ options. “When you buy a Lexus, you get leather...they don’t bother with vinyl or fabric. Now luxury carpets and top-notch appliances can be de rigeuer in Pulte Homes, making purchases simpler for buyers,” Dugas stated (Kerwin, 2005).

To simplify selecting these options, Dugas had directed the purchasing departments and corporate leadership in 2005 to reduce the number of options and have consistent offerings across all divisions. The new strategy aimed to increase Pulte Homes’ buying power by purchasing its fixtures and finishes directly from the manufacturer.

Early Challenges of the Value Creation Strategy

Implementation of the new strategy hit serious headwinds. Problems arose around centralizing decision making away from division offices, re-allocating work on the jobsite, drastically different consumer preferences and managerial cooperation.

Historically, each division head was encouraged to be entrepreneurial and had significant autonomy. But with the new strategy proposed by Dugas in 2005, the decision-making became more centralized, and division heads became responsible for implementation. The lack of autonomy wrangled many division presidents. Also, the national providers selected by corporate did not have a strong presence in each market, so some divisions faced the dilemma of leaving a better supplier to conform to the new strategy.

The new purchasing strategy had also changed the division's relationship with local subcontractors. Before 2005, each division worked directly with the local subcontractors for both labor and products. Now, the local subcontractors only provided labor with supplies coming from a national producer. Unbundling the installer's product components lowered the subcontractor's margins and created friction between Pulte Homes and the subcontractor when components were not delivered on time or were incorrect. Additionally, Pulte Home's construction superintendents were now tasked with managing inventory without significant investments in storage, information systems or training. This new approach created several conflicts as local superintendents were now responsible for checking the timeliness and quality of the installation and managing material deliveries and inventories. By removing the margins of supplies from construction crews some of the more competitive crews chose to move to other builders who still purchased labor and supplies. This left Pulte Homes with some of the less effective crews.

The centralized purchasing strategy also struggled to effectively serve the companies diverse consumer segments. By reducing the number of options and suppliers, divisions such as Colorado Springs struggled to find affordable enough options for their townhomes while the California divisions found the options too pedestrian for their consumers. As a result, salespeople in Colorado Springs faced the challenge of convincing customers that the nice doorknobs, carpet, and appliances were worth the additional cost when purchasing a townhome in a less-than-ideal neighborhood. Conversely, salespeople in California had to persuade their buyers to be satisfied with options that often lacked the desired sophistication and nuance for those higher-end homes.

While some divisions quickly changed suppliers to the new national contracts, other divisions resisted (Kerwin, 2005). As a result, some division presidents decided to ignore the new value creation strategy. When Dugas first proposed the new strategy in 2005, there was no mention of controls or incentives to motivate compliance with the new approach. Word spread quickly through the company about the implementation problems, particularly concerning the inconsistency in quality and delivery times with national contractors.

Questioning the Viability of the Value Creation Strategy

There had been rumblings through the company regarding the new strategy ever since it was first announced by Dugas in 2005. Because not all divisions switched to the new suppliers, the expected cost efficiencies from volume purchases were not being fully realized (Pellet 2014).

Even with the negative feedback regarding the strategy, Dugas remained committed to making his mark on the industry and continued with the value creation strategy at Pulte Homes. His idea of revolutionizing the industry to lower input costs, reduce waste, and create value for customers and shareholders was compelling; however, the company had clearly struggled with implementation of that new strategy. By 2016, founder Bill Pulte was convinced the strategy was a mistake and called for the resignation of Dugas.

Was Bill correct that the strategy was flawed from the beginning? Or is more time and effort needed to fully implement the strategy? Was it a valid analogy to equate the housing industry to the automotive and retail industries? Both Walmart and Toyota implemented these strategies with vertical integration, so why had it proved so difficult for Pulte Homes to implement the strategy with subcontractors performing the labor? When regional codes and consumer differences drive variety in homebuilding is it possible to consolidate preferences in new homes to leverage a national purchasing strategy? Can the apparent lack of alignment between the strategy and the organizational design and culture of Pulte Homes be overcome?

Appendix 1: Comparison of Financials

	ROI %			Net Income ($000,000)			Revenue per employee ($000)		
Year	Pulte	Lennar	DR Horton	Pulte	Lennar	DR Horton	Pulte	Lennar	DR Horton
2004	21.82	25.09	23.32	987	946	975	892	848	1405
2005	25.21	29.38	26.68	1492	2700	1471	1084	972	1503
2006	11.28	11.16	17.41	687	1188	1233	1135	1239	1658
2007	-23.68	-35.07	-8.48	-2256	-3882	-713	1073	1403	1721
2008	-22.42	-7.27	-31.32	-1473	-1109	-2634	1153	906	1622
2009	-28.14	-8.51	-7.75	-1183	-417	-545	679	739	1218
2010	-19.11	2.23	3.54	-1097	120	245	1013	662	1339
2011	-6.01	1.76	1.43	-210	113	72	1104	659	1177
2012	3.55	4.77	4.97	206	657	956	1253	758	1213
2013	8.98	8.69	9.59	2620	505	463	1411	933	1307
2014	9.97	10.31	9.83	474	629	534	1365	1029	1388
2015	11.57	10.76	12.01	494	819	751	1275	1093	1680
2016	12.06	11.3	13.52	603	913	886	1612	1169	1689
2017	11.94	10.35	15.35	447	772	1038	1731	1229	1765

(Mergent Online, 2022)

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