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The Tragedy of the Commons

So there we were in 2004, thinking we were on top of the world; we had it all figured out! We could do no wrong. Every piece of property we bought and developed was a winner; every home we built was a hot seller. We had a waiting list of prospects that would jump at our next new neighborhood and no matter what price we threw at them, they would accept it. Ah the good life!

What in the heck happened over the last three years? Some would say, 'it's the market.' Others would add, 'the whole subprime mess is to blame.' Still others will comment 'it's a natural cycle. What goes up must come down.' Obviously there is truth in all of these statements but I would like to suggest another idea, one where the solution and the cause are one in the same.

The Tragedy of the Commons is a type of social trap, often economic, that involves a conflict over resources between individual interests and the common good. A very simple example of this is our freeway system. Commuters have their own self interest at heart when they are traveling to and from work. Of course, they want to get to work in the fastest time possible so everyone uses the freeway. When this happens our freeway systems (the common good) become overwhelmed with traffic and cause everyone using them a much longer commute time.

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How does this relate to the housing industry?

As a member of the home building/real estate industry, we all have the self interest of earning profits, preferably tremendous profits. Our resource and common good is the market we serve (and **how** we served it!). Obviously every market is a finite resource and for 6-7 years we tapped this resource for all we were worth. In other words, we had a field full of trees and we as homebuilders and developers cut down all the trees.

Consider the differences between our current housing downturn to that of previous cycles:

1. We now have national homebuilders with enough capital to discount their product by \$100,000 and more.
2. Never before have we built so many homes on speculation.
3. Never before have we had such lenient lending practices (you fog the mirror, you get a mortgage).
4. We have 24 hour news sources and the internet to tell consumers just how bad the markets are.

This is the *Law of Unintended Consequences* rearing its ugly head. Take the above four points and ask yourself 'why' are we doing these things. Consider...

-If we didn't keep building the same old designs in the same old neighborhoods, we wouldn't have to discount them thousands of dollars to sell them. How does an automobile manufacturer sell new cars for more money? Change the design!!

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-If we hadn't bought or developed such large groups of lots at a time, we wouldn't build speculative homes as an attempt to move them (of course this cycle continues to be our number one problem).

-If we wouldn't have allowed marginal borrowers to purchase these homes with very marginal mortgage products, we wouldn't be in the foreclosure mess we are now. Does anyone remember 28/36% qualifying ratios? I remember loans going through with a mortgage ratio 60% of the customer's income and zero down. Now we're surprised that these people are in foreclosure!

-If we had trained our salespeople to educate consumers as to the benefits of today's market and the dangers of "herd mentality" we could deal with the confidence issue posed from the media and show them what really matters, improving their lifestyle today.

Our current market woes are the direct results of our own actions and inactions. We are 100% responsible. I know this may be hard to swallow and accept but we as an industry must acknowledge this glaring fact. I remember sitting in a seminar two years ago where the speaker told a story of a developer selling homes in Florida. He told of a conversation where the developer said, "I knew the end was near when local Realtors were purchasing our homes and flipping them to investors prior to closing."

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How does this relate to your own business?

Remember the definition of *The Tragedy of the Commons*: A type of social trap, often economic, that involves a conflict over resources between individual interests and the common good. Your business is a bunch of individuals (with their own interests) trying to sell and build homes (the common good for the company). Here is my question: How are your own practices and procedures, or lack thereof, keeping you from selling homes?

A Quality Builder!

I hate the word “quality” with my entire being. If I could have one word removed from new home terminology it would be the word “quality”. Why? Have you ever met or seen a home builder that didn’t promote themselves as a **quality** home builder? The word quality is the number one reason why consumers think all of our offerings are the same. You have to be a “quality” homebuilder just to play the game! And by the way, what does quality mean to today’s consumer? If your answer is tight miter joints you are sadly mistaken.

To a consumer, quality means the following:

1. You are building in the best neighborhoods
2. You have professional salespeople that create and deliver memorable experiences every time they interact with a prospect or customer.
3. Everyone in your organization knows what everyone else in the organization does and how this impacts the customer.

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4. Your construction people know the difference between talking to your trades and talking to your customers.
5. Everyone in your organization knows why you are the best and will do whatever it takes to exceed a customer's expectations.

In other words, the customer trusts you and has an open and consistent line of communication with the key individuals in your organization.

Every homebuilder has some disconnects and mixed messages that are received by the customer or prospect. The more you have, the less likely you are to make a sale or gain a referral. As an industry, we can't go back and fix our mistakes of the past. As a company, we can:

1. Identify our "quality" issues and fix what ails us.
2. We can make sure the individuals within our organization are not working against one another, costing us the Unanticipated Consequences of missed sales and referrals.

If we are to sell homes today, and sell them for a profit, each individual home builder must fanatically review what experience their customers have with their salespeople and staff. We must eliminate any hurdles that we, as a company, are placing in front of the customer that are keeping them from owning our homes.

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We all can become great, we just need to decide to do it. I hope your decision is the right one.

Happy Selling!

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