

## Case Study: Trinity Homes Limited, Barbados

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Liz and Chris Cupples launched Trinity Homes in 2000, in Barbados. The firm began as an architectural design company producing generic housing plans for homebuyers. Within a few years local developers and house hunters began using the designs and requesting more services such as contracting and project oversight. This took the company toward more residential construction and spurred the development of a complete, end-to-end solution for new homebuyers. The business is a good match for the Cupples as Liz was trained and worked as an architect in the UK and Chris had experience in construction, contract management, and business administration. They launched THL to bring all the services associated with building a new house into one seamless process, a process otherwise seen as difficult to navigate, even arcane. They felt that if they could streamline and manage this process they could offer a valuable service to customers.

### **Business Challenge: High competition or an underserved market?**

In Barbados, residential real estate/construction represents a barbell-shaped industry. On one end, very sophisticated buyers and international investors pay a premium for highly customized services on vacation homes or a Caribbean retreat. This end of the industry has experienced an increase in value through 2007, driven by several international sporting events that were hosted in Barbados. Experienced architects and high-end construction firms have reaped the profits of this surge. In fact, the surge has placed upward pressure on all real estate prices in Barbados. Property values, already among the highest in the region, have risen at about 10% - 15% per year. The other end of the industry, the low-end market segment, offers home construction to the poor, and is heavily subsidized by the government. At this end, profitability is low.

Trinity Homes wanted to present a different model. The founders noticed that design services were the exclusive domain of the top of the market, leaving middle and low-income earners with little choice in home floor plan or customized options. Furthermore, through experience in helping several friends, they found that the processes of obtaining proper permits and hiring/working with a contractor often intimidated people. If they could successfully combine these services and offer them at a price that was affordable to low and middle income earners (considered “down-market” in the industry), they felt they could be among the first to break in to, and profit from, a non-traditional segment of Barbados real estate.

### **Alternatives**

Conventional wisdom suggests that firms seek to position themselves as serving the most sophisticated (and highest paying) customer available, or become the low-cost and volume leader. Trinity Homes, however, wanted to stake out a viable position serving the middle of the industry barbell. This was an intentional move to choose between two options.

*Option 1: Serve the premium market exclusively.* Wealthy clients are willing to pay a premium for highly specialized service, and the high-end of the retail home market has remained profitable. Ms. Cupples worked successfully in the high-end market prior to launching Trinity Homes, and was trained in the UK in architectural design. While perhaps more demanding, servicing this end of the market offers excellent profitability. In high value areas Barbados real estate never experienced the decline of 2009 associated with much of the sector, according to *globalpropertyguide.com*, an industry website. In fact, the high-end market has experienced average growth of greater than 15% per annum in recent years. Furthermore, prior to 2009 Barbados' mortgage market was expanding rapidly.

In 2008, total outstanding mortgage loans for private dwellings had grown to 24% of GDP, more than doubling from the previous decade. Much of this newly available revenue for housing was found in premium design and construction. For Ms. Cupples, the architect of the entrepreneurial duo, expanding the firm's work in this market presented a good option, albeit a competitive one as many quality firms vie for this space.

*Option 2: Move to down-market segment.* Option two included packaging all design, permitting, and building services into a one-stop shopping experience for an underserved segment. While some firms offered architectural services, and others offered construction, nobody offered the entire process in one "store." To be successful THL would need to standardize procedures at each step and maintain some degree of volume to maximize profit margins. The following represents the process chain homebuyers needed to navigate. By managing the process THL could add value for clients.



## Action Taken

Today THL is a one-stop shop for architectural design, permitting, and construction services. In-house architects meet with clients to design homes and in-house contractors execute the construction. In the interim, THL staff guide the permitting process through various government offices. By taking this step, THL has differentiated itself from the majority of the Barbados real estate market by servicing the middle class, an underserved customer group that cannot afford the quality of architectural and building services available to wealthy buyers.

To make this move successfully THL implemented the following three action steps: identify the discrete aspects of design and build process, create scalable procedures at each step, and generate volume sales.

1. Identify process steps. For most new-home buyers the process between design and moving in can seem daunting. Most middle-class Barbadians can feel vulnerable when buying a new house because few have experience in architectural design, obtaining government permits, or home construction. The structure of the industry exacerbates this feeling. The industry is typically segmented into areas of specialty, with firms singly focused on one area of the process. The customer must navigate the independent steps by themselves, and encounters a new vocabulary and new potential misunderstandings at every turn resulting in over-payment or long delays in the home ownership process. THL removed this fear by coordinating the process for the client, identifying the process steps, and bringing them under "one roof."

Services begin with a semi-customized design: clients can expand on THL's standard set of thirty floor plans, depending on their tastes and budget. Once the design is complete THL submits it to the government's Development Planning Office and tracks its progress. When approved, an experienced and known contractor is scheduled to build the house. Construction happens in close consultation with the architect. Finally, THL obtains a "Certificate of Compliance" from the Planning Office and the house is ready to be occupied. Each of these five processes represents a discrete step in new home buying. After taking the time to articulate these discrete steps, THL has developed a "product" for addressing each one in turn. The entire affair was streamlined for both client and THL, keeping costs down for both as well.

2. Create scalable procedures. In most business environments there are high costs associated with strategies such as customization and an emphasis on client needs. Clients that THL was serving could not pay a high price for this service, so costs needed to be controlled. This has been done through creating scalable procedures at each step. "Scalability" means the efficient repetition of similar tasks for many different clients.

For example, buyers can customize their new-home designs, but each design is based on one of thirty standard options. Right now, THL is working on a web-based application where customers can track design features remotely and even propose amendments.

Furthermore, the firm’s management has brought building teams in-house to ensure their availability and maximize economies-of-scale, saving money on both worker hours and the purchase of construction materials. Scalability has allowed THL to consider franchise plans as well: it is currently looking at creating company outposts on other Caribbean islands.

3. Generate volume sales. THL must maintain a certain volume of business to stay profitable because margins are minimal for individual sales. During the past several years the firm has done that by increasing the number of homes sold in contrast to its commercial construction, and by developing a pre-sold residential sub-division. Nearly 50% of revenues were generated from commercial business in 2006, but by 2008 revenue from residential construction made up nearly 100% of the total. This move reflects the firm’s growth in market share of medium-income home construction. THL can also specialize in home building by purchasing residential-oriented materials, and hiring builders with home building experience. Additionally, THL is finalizing sales on homes it pre-sold back in 2008, in two small community subdivisions. Through these projects THL purchased land and pre-sold lots. Customers who bought the lots worked with in-house architects to customize their homes. Now, the houses are being occupied and Trinity is receiving their full payment for services.

### Results

THL has remained profitable in spite of the downturn in the economy proving the viability of its down-market strategy and the latent demand of an underserved sector. Total revenue for 2009 was US \$1.5 million. This was down from four years previous (revenue was US \$2.2 million in 2006), but up from 2008. Gross margins in 2009 amounted to US \$400,000, the highest in the history of the company. After the recession the real estate market in Barbados remains at the top among the Caribbean islands, trailing only the British Virgin Islands and the Bahamas, meaning a healthy outlook for property values.

The COW-F Framework provides a means of assessing the sustainable growth potential of a firm.<sup>1</sup> Sustainable growth can only be achieved if a firm can satisfy all four of its stakeholders: customers, owners, workers, and future generations. The following table offers a summary of the value create for these four different stakeholder groups by THL.

### Trinity Homes Ltd. and the COW-F Model

Stakeholder Community	Current Value Offering
Customers	<ul style="list-style-type: none"> <li>• THL is well differentiated in the market.</li> <li>• Offer customized service for those who want it, and “stock” designs for those who don’t.</li> <li>• Strong competitive position in the middle-income demographic in Barbados.</li> </ul>
Owners	<ul style="list-style-type: none"> <li>• Seeing best return on high-volume home sales.</li> <li>• There is no board of directors or succession plan (owners are young).</li> </ul>
Workers	<ul style="list-style-type: none"> <li>• Construction staff is paid competitive rates and a company productivity award.</li> <li>• Foremen are highly skilled and consulted on construction-related decisions.</li> <li>• Feedback from staffs is solicited, but not for strategic direction decisions.</li> </ul>
Future Generations	<ul style="list-style-type: none"> <li>• THL is the first LEED business in Barbados.</li> <li>• Affordable housing is extended to single mothers – a notoriously “unprofitable” segment.</li> </ul>

<sup>1</sup> The COW-F Model was developed by Michael Fairbanks. It first appeared in *The Natural Advantage of Nations*, Hargroves and Smith, 2005.