

Hello, everybody. Dennis Engelbrecht with the CEO Roundtable Program for Contractors. Today's session of Digging Deeper, I want to talk about growth and, in particular, making sure growth or the growth you're seeking is for the right reasons. So, what are the right reasons for growth and what are the wrong reasons for growth?

Well, this has been sort of my strategic planning season, where I worked with a lot of companies setting forth these long-range plans, and contractors are interesting. Some hate to put a number out there that we're going for or something like that because they don't want to be growth-driven, and then I got others that truly are growth-driven, and then I have to ask the question, "Well, is the growth for the right reasons?"

So, some of the right reasons, one I see a lot because we have a lot of successful contractors, is they're trying to meet their customer demand. We have a lot of contractors right now who do great work, have a lot of negotiated work, and their clients simply want them to do more of their work or all of their work or travel with them. But basically, their customers are demanding more. That's a great reason to have to grow, right? Because you already have pent-up demand, I'm assuming with negotiated work. It's at a good value price for your organization. But customer demand is the best reason. So, if you think about customer demand and growth, always be looking to grow your customer demand and then try to meet that demand with growth of your organization so you can handle that demand well.

Another good reason for growth is employee opportunity. I had the opportunity to work with an ESOP company out of Ohio, a billion dollar plus company, and their number one reason for growth, and really, the number one thing they did most things, was for employee opportunity. And that makes perfect sense being an ESOP company, but it really makes a lot of sense also if you want to have a great culture, you want to be able to attract good people, retain good people. You have to be able to provide opportunity.

And sometimes people can look around and they look at their management team and they go, "Well, they're not going anywhere. They're not going anywhere. This person at the top is certainly not going anywhere, so where am I going?" Well, if the company maintains where it is, if they're stagnant, there's not opportunity, except when somebody retires and then I guess we'll have a competition for who fills the slots going up. But much better if you can create that employee opportunity, and that's a good reason for growth as well. Again, as long as you're not growing for the wrong reasons.

Growth can be very profitable. So just from a pure financial concept, you have a breakeven point where the amount of work you sell and deliver eventually covers all of your overhead. And then beyond that point, most of your gross profit falls through the bottom line. Well, if you can keep that overhead somewhat under control and grow your top line, of course, more overhead falls like rain to the bottom line, hopefully, if you've grown smartly.

But growth can be profitable, again, as long as you're growing with reasonable margins, which oftentimes means it's led by good customer demand. So, if you've got to create that customer demand and grow with smaller margins, that actually may not benefit the bottom line.

A couple other good reasons for growth, certainly diversification, diversification of markets, diversification of sectors, diversification of delivery methods. Each of those can make you a more stable company if you can be more nimble to, when one sector's higher, another sector's low, to be able to take a direction and go that way. And of course, you can be opportunistic. Every once in a while, an opportunity comes along, a niche comes along that's just too good to turn down. And those are good reasons to grow as well.

So now let's look at the other side, which is the wrong reasons for growth. Probably the first and biggest that we see out there is really growth for growth itself, which, I hate to say it, is oftentimes driven by ego. "Well, I want to be a hundred-million-dollar company. I want to be a billion-dollar company." Well, in and of itself, those really are meaningless to success and should be meaningless to your self-worth really. If your self-worth is tied to a number, that's really a bad start to begin with, right? If that's the reason you're going somewhere, that's going to be a hard-compelling vision to really sell your organization with.

So, make sure that's not your reason. And bigger is not intrinsically better. You know, if you think of a bigger organization, well, it's going to take a lot more people, more systems, more structure, more employees. I see a lot of fear of growth where, "Well, we're at 200 employees now. If we get to 250, I'm already having trouble knowing everybody, knowing everybody's name." Well, those things change with growth. You can't know everybody, know everybody's name, touch the four corners of your business anymore. You have to rely more on systems and structure. So, you may not even like that as a leader, or you may not be good at that as a leader, and you and your team might not be good at that as a leader.

So, you have to be careful that the bigger you're looking for is intrinsically better, for some reason, in order to take those steps. And it could be you're a better leader of a bigger organization. You're a better manager of people than you are manager of work. And certainly, there are those folks out there as well as the reverse. But the important thing overall is, again, as you think about growth, growth can be great economically, it can be great for your people, it can be great for your customer, but really, the key is to be growing for the right reasons.

Thanks again for tuning in, Dennis Engelbrecht, Digging Deeper.