



ROUNDTABLE: HOW BIG IS BIG ENOUGH?

How big a company should aspire to be is a subject of much debate. Our roundtable members were asked, **“How do you know when – or if – your business should stop growing?”**

Most participants replied, “I have no idea.” Some went a bit further; “I’ve never really thought about it. We’ve been in business 10 years, and we’ve been the same size for the past six. But, I don’t know if we should or could grow more.”

“Frankly, I’m mad at you for asking the question. I was comfortable with how big we are. Now you have me obsessed that maybe we should be bigger.”

“We haven’t hit the ceiling yet. Every year has been a growth year for us. I don’t know how I would stop us from growing. I guess I wouldn’t know how to stop us from shrinking, either.”

A few roundtable participants felt they had the answer, but all of the answers were different:

“My granddaddy had a saying that you shouldn’t farm more land than you could see from where you stood. I feel that way about my business, in some sense. I don’t want it to be so big that I can’t oversee it, not know what’s happening with some of it. I feel we could still grow some until that happens.”

“Our free enterprise system, I think, is based on the idea that the sky is the limit. Build and grow your business as far and as big as you can. Be competitive. Beat the competition. Growth is healthy; stagnation and decline are unhealthy. My answer is that I know my business should never stop growing.”

“The answer is easy: we need to stop growing when we can do more work than there is available to do.”

“The size of the jobs we can take on really determines how big we can get. That’s why I think our bonding capacity has set our growth limits. Unless we want to use our bonding capacity on one large project, we can’t really ever make a growth jump.”

“I know the answer with 20/20 hindsight. We were doing fine the way we were, and then came along ‘the opportunity of a lifetime.’ We were approached by the owner of another construction company to see if we wanted to buy his firm. They did a lot of commercial work, and we did mostly residential, multi-family, and single family. We jumped at the

chance, and were nearly three times bigger literally overnight. It took us a year to find out that being three times bigger didn't mean a three times bigger net profit. In our case, it actually meant about half the net profit of the prior year. We were not prepared to jump from a small company to a medium sized one. Our overhead costs skyrocketed due to inefficient management, and we nearly lost our new, larger business. It took us 3 years to stabilize the situation, and we are now just slightly bigger than before the purchase, but doing commercial and residential jobs. We are back to being a healthy company. My answer, therefore, is that I know businesses should grow, but not overnight, not by instant multiples of their original size, and not at the cost of making a smaller profit."

"My company has the reputation of being a 'garbage hound.' We go after a lot of the jobs our competition only wants when they're hungry. This strategy has helped us grow in good and bad times into a firm that always runs a large number of relatively small projects. We cut our profit margin to bare bones when we're challenged by the competition, and we earn our best money in the economic sunshine, like right now."

...and one member answered our question by asking a question:

"Why didn't you ask 'What is your business strategy?' That's what you want to know, isn't it?"

How would you answer our roundtable question? Give us a call. Let's discuss your growth options and "talk strategy."