

THE FIVE STAGES OF GROWTH

A study of more than 1,000 closely held construction firms reveals that there are five distinct stages of growth:

- Start-up
- Growth
- Survival
- Maturity
- Success

Which phase are you in? The answer is critical, because the elements that are needed for success in one phase can spell disaster for another.

Long-range planning, for instance, is essential to a company in the latter stages of growth but an energy-robbing waste of time to a start-up, in which the contractor is living day-to-day by the seat of his pants. If his time is wasted he'll *have* no business.

In the first part of this article, we'll take a look at the different stages of business. Read these sections and see which sounds most like your company. When you have a feel for that, read the latter part, beginning with "Owner's Ability," which discusses the relationship between business demands and the five stages.



THE START-UP CONTRACTOR

A start-up is run by a contractor/entrepreneur who does everything—bids the work, sells the work, supervises employees, and provides working capital directly or through a pledge of personal assets.

The start-up lacks any assurance that it will survive the next fiscal year. This is not to say that it is in trouble or that it is not making a profit. It simply has not proven its capability to get and produce

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Author Tom Schleifer

work at a profit on a consistent enough basis to satisfy its owners and/or potential credit grantors.

A company may stay in the start-up stage for 10 years or more, though a few firms progress more quickly. Optimism is a key ingredient to success during these years.



THE SURVIVAL STAGE

In the survival stage the company is stable and the founder and credit grantors believe that the enterprise is more or less permanent.

The company has discovered and exploited a business niche. It is still very much a one-person show but the primary concern is no longer to get from one month to the next. Rather, it is to generate enough revenue to solidify the organization.

Cash flow is the bane of the contractor's existence in survival. The contractor can borrow money because the company is relatively stable but finds out quickly that growth eats cash and more borrowing is necessary.

There is little organizational structure or control. Managers or corporate officers will follow the very specific instructions of the founder.



THE SUCCESS STAGE

A contractor in the success stage generates positive cash flow from its operations. If it owes money, debt is be-

ing reduced. The company may be growing or have fluctuating volume but is financing any growth internally. The company is large enough to maintain its position in the marketplace and earns at least average profits. The risk of failure is minimal and personal assets are no longer the sole basis of credit.

Managers are now functioning at a high level but the founder is still in charge, although he has time now to pursue personal goals. There is a tendency to overspend, particularly on benefits and bonuses. The greatest risk the company faces is maintaining enough cash to deal with tough times, which can materialize quickly.

Planning is more important in this stage and the contractor will need to remain active in all aspects of the organization and be committed to the demands on time and energy. Employees and systems previously put in place may have difficulty growing beyond this stage.

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THE GROWTH CONTRACTOR

The growth contractor increases its annual sales by 15 percent in addition to inflation. The major issue is how to finance that expansion. Growth consumes cash in the form of working capital and retainage. Working capital may be returned if growth stops at a plateau but retainage doesn't come back.

Cash in the growth stage is always a problem. For the entrepreneur that has spent time in the success stage, where cash is plentiful, it can be discouraging. There will be an increase in debt-to-equity ratio that can affect bonding and banking relationships.

The ability to delegate authority becomes critical. This is a difficult transition for many entrepreneurs. And if he puts too-strict controls on those delegated to, he limits their potential.

The growth stage contractor is decentralized and the competence of key people is critical. Systems and procedures that are introduced often become strained by additional growth before they are operational. Long-range planning is critical and probably includes the participation of key managers. The company is still dominated by the owners but other key people also have an important role.

Even at best the growth stage is a dif-

I
N THE GROWTH STAGE, CASH IS IN SHORT SUPPLY. THE MAJOR ISSUE IS HOW TO FINANCE EXPANSION.

ficult one. Demands on time and energy are high. Having enjoyed the cash flow of the success stage makes the tight cash of growth less palatable.

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THE MATURE CONTRACTOR

A mature construction company may be only 10 years old but will more likely be at least 20 years old. It has competent, self-reliant management and the size to dominate a market. Debt, if any, is modest and the company's course is charted through strategic planning.

The management structure is clearly defined and probably decentralized or departmentalized. Separate profit centers or operational units provide necessary opportunity and training ground for future managers of the company.

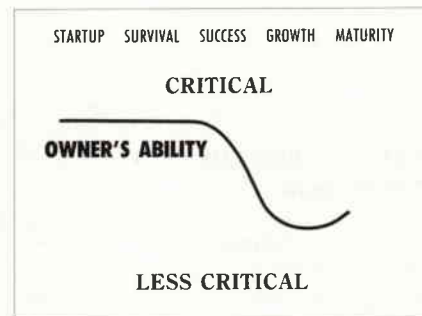
If the owners elect to grow at a rate of 15 percent or greater they enter the growth stage again, and the systems and controls they relied on in maturity will stifle expansion efforts.

The mature company's biggest challenge is to control its future without losing its spirit.

OWNER'S ABILITY

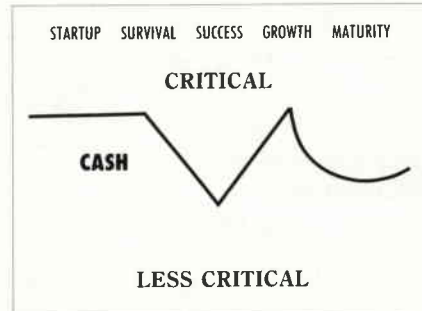
In the early stages of a business, the owner's ability to do whatever the company specializes in may be the only resource the company has. If the owner's ability is sufficient, the contractor is able to sustain a start-up company. It becomes less important in the latter

stages of development, at which state a skilled staff is necessary for survival.



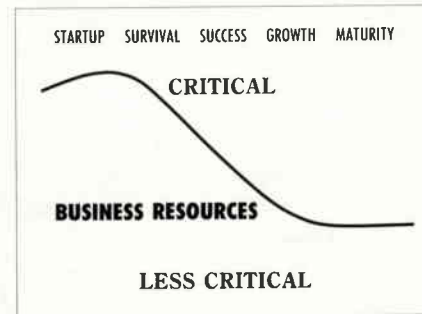
CASH

The start-up can't get enough cash. In the success stage, overspending is sometimes a problem. And in the growth phase there is a tendency to overborrow. Managing cash flow is much easier if there is an understanding of the different cash demands in the various stages of growth.



BUSINESS RESOURCES

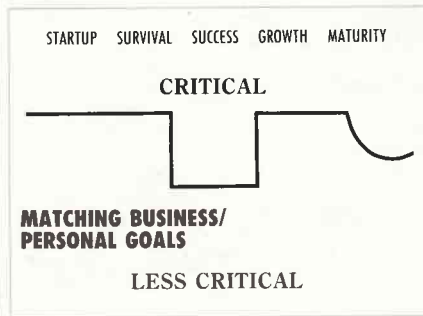
All companies need business resources, such as a customer base, relationships with subs and suppliers, and reputation. But their importance changes as the company develops. Loss of even one customer can be devastating to the start-up or even the successful stage company. The mature or growing company is better able to withstand such losses.



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MATCHING BUSINESS AND PERSONAL GOALS

The start-up contractor will usually have to put all personal goals aside except the desire to succeed in business. In the success stage there is some freedom but not if the company is to grow. In the mature company there are less demands but if a decision is made to expand again, the current principals must be prepared to set personal goals aside. When the torch is passed to a new generation, the sacrifice of personal goals often proves too much for those not prepared for it.



PEOPLE—QUALITY AND DIVERSITY

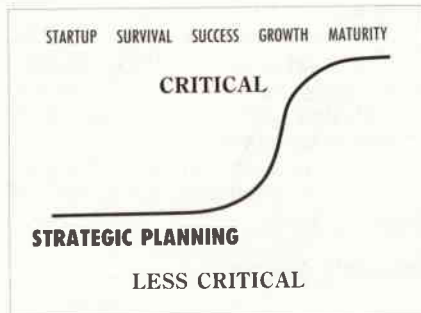
Through the success stage many contractors insist on running everything themselves. They are overworked and have no free time at all, but their success does not depend on their people. This type of owner is incapable of moving on to the growth stage. In the growth stage, the quality and diversity of people may be the most important resource for success. In maturity the abilities of staff are more important than the abilities of the owners.



A COMPANY MAY STAY IN THE START UP STAGE FOR 10 YEARS OR MORE. OPTIMISM IS A KEY INGREDIENT TO SUCCESS DURING THESE YEARS.

STRATEGIC PLANNING

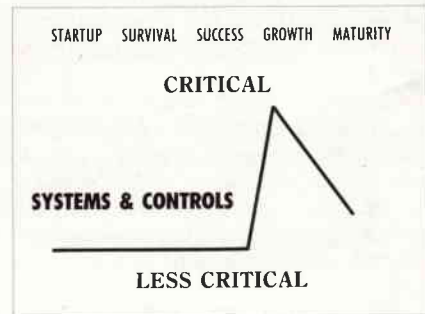
Strategic planning is a must for a contractor at the success or higher stage of development. A start-up or survival-stage contractor who is doing everything by himself with limited resources will find little use for a long-range plan and can be very successful without one.



SYSTEMS AND CONTROLS

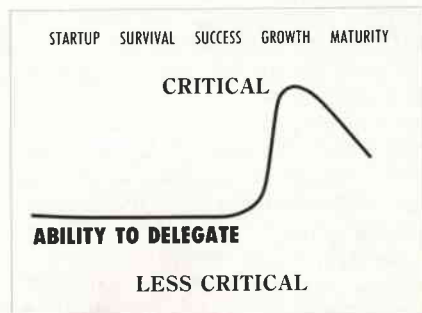
Systems and controls tie in closely with strategic planning. They are used, for the most part, to assure that what is agreed

upon in the long-range business plan is implemented. They are, therefore, of limited importance in the early stages of development but become critically important in later stages.



OWNER'S ABILITY TO DELEGATE

During 12 years of working with distressed construction companies, I observed that the owner's inability to delegate was probably the most common cause of business failure during the growth stage. It is ironic but true that the same attributes required to succeed in start-up and survival may be disastrous in later stages.



—By Tom Schleifer, author of "A Contractor's Survival Guide" and former co-owner of Schleifer Brothers Construction Co. From 1976 to 1986 Schleifer served as president and then chairman of an international consultancy firm serving the surety industry, assisting in the resolution of hundreds of troubled construction firms. Schleifer is a management consultant to contractors and currently teaches construction management at Arizona State University. He will be presenting a seminar at AGC's 73rd National Convention in Dallas.