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BI ECONOMICS 03

When Revenue Growth Becomes Dangerous

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Revenue growth looks like progress.

More work means more customers, a larger backlog, new employees, and a company that appears to be moving forward.

But growth doesn't automatically create a stronger business.

A contractor can add revenue while losing margin, consuming cash, weakening controls, and making the company more dependent on the owner.

Revenue tells you how much work the company sold.

> *It doesn't tell you whether the company can perform that work well, fund it, or make money from it.*

Growth Uses Cash Before It Creates Cash

Construction companies often pay for work before they collect for it.

Labor gets paid every week. Trade partners and suppliers expect payment. Equipment, insurance, fuel, and supervision create costs before the customer's money reaches the bank.

As revenue grows, that funding gap often grows too.

Suppose a contractor increases annual revenue from $5 million to $7 million. That additional $2 million may require more field labor, another project manager, additional vehicles, higher insurance limits, larger material purchases, and more working capital.

The revenue may look good on the income statement.

The cash may not arrive for months.

If billing falls behind, retainage grows, or customers pay slowly, the company can become more profitable on paper while running out of money in the bank.

Growth needs funding.

> *If the company doesn't know how much cash the growth will require, it's taking the work before understanding the cost.*

A Small Margin Problem Gets Larger

Growth magnifies whatever already exists.

If estimating is strong, project controls are reliable, and margins hold, additional revenue can build value.

If the company underprices work, misses scope, bills late, or allows cost overruns, growth makes those problems larger.

Consider two contractors:

	Revenue	Gross Margin	Gross Profit
Contractor A	$5,000,000	20%	$1,000,000
Contractor B	$7,000,000	13%	$910,000

Contractor B performs 40% more work, carries more risk, needs more people, and still produces less gross profit.

More revenue didn't create a stronger company.

> *It created more work for less return.*

Backlog Can Hide Bad Work

A large backlog feels reassuring.

It tells employees the company is busy. It gives lenders and trade partners confidence. It allows the owner to plan ahead.

But backlog is only valuable if the work is properly priced, can be staffed, and fits the company.

A backlog filled with weak-margin jobs is a list of future problems.

Before celebrating backlog growth, ask:

- Does the work meet our margin target?
- Can we staff it with the people we have?
- Does it fit our experience?
- Are the contract terms acceptable?
- Can we fund the work?
- Are the schedules realistic?
- Is too much work tied to one customer or market?
- What other opportunities will this prevent us from taking?

A full backlog can still leave the company short of cash, people, and profit.

Growth Reaches the Field First

The office may celebrate a new project before the field feels its effect.

Crews get spread across more jobs. Superintendents take on too much. Project managers lose time to plan. Trade partners get asked to cover more work. New employees are hired quickly and trained while projects are already moving.

At first, experienced people fill the gaps.

They work longer hours. They answer more questions. They make decisions outside their roles. They protect the company from the weaknesses in its systems.

That effort can make the growth look successful.

It isn't a permanent solution.

Eventually, quality slips. Schedules move. Rework grows. Change orders get missed. Good employees burn out or leave.

The company may blame the people.

> *The real problem may be that revenue grew faster than its ability to deliver the work.*

The Owner Becomes the Control System

When a company grows without stronger systems, more decisions reach the owner.

The owner approves purchases, solves staffing conflicts, talks to unhappy customers, reviews estimates, settles disputes, and fills gaps between the office and field.

Revenue rises, but the owner has less control over the company and less time to think.

That's a warning sign.

A larger company needs clearer roles, stronger information, and more decision-making capacity. It can't depend on the owner personally checking everything.

If every additional project creates more owner involvement, the company isn't scaling.

> *It's adding volume to a bottleneck.*

Overhead Moves Before Revenue Settles

Growth often requires the company to add fixed costs before the new work proves itself.

The company hires managers, leases space, buys equipment, adds software, increases insurance, and expands administrative support.

Those costs continue even if a project is delayed, canceled, or less profitable than expected.

The owner may believe the new revenue will cover the added overhead. That only happens if the work starts on time, bills correctly, collects on time, and produces the planned margin.

If any of those assumptions fail, the company is left with a larger monthly cost and no matching return.

Don't add permanent overhead based only on promised revenue.

> *Understand when the work will begin, when it will create gross profit, and how certain the opportunity really is.*

Fast Growth Can Weaken Customer Selection

A growing contractor often starts saying yes too easily.

The company takes work outside its normal market. It accepts contract terms it would've rejected before. It works for customers who pay slowly or manage projects poorly. It pursues larger jobs without understanding the added risk.

The revenue target begins choosing the work.

That reverses the decision.

The company should decide which work fits its people, risk, cash, and operating strengths. Revenue should follow that decision.

> *Not every customer is worth having. Not every large project is a good project. Not every opportunity deserves capacity.*

Watch More Than Revenue

Revenue is one measure. It shouldn't be the only one.

When the company is growing, review:

- Gross margin dollars and percentage
- Cash balance

- Working-capital needs
- Accounts-receivable aging
- Underbillings and overbillings
- Unapproved change orders
- Backlog margin
- Customer concentration
- Project-manager and superintendent workload
- Rework and warranty costs
- Staff turnover
- Owner approvals and unresolved decisions
- Overhead as a percentage of revenue

These measures show whether growth is strengthening the business or placing it under strain.

Set Conditions for Growth

Before accepting more work, decide what must be true. For example:

- The project meets the company's margin target.
- The customer has acceptable payment history.
- The company can staff the work without damaging current projects.
- The contract terms have been reviewed.
- The added cash need is understood.
- Project leadership is assigned.
- The company has room for the risk.
- No single customer becomes too large.
- Current jobs are performing well enough to support expansion.

These conditions won't remove every risk.

> *They will keep the company from treating revenue as proof that the work is good.*

Grow What the Business Can Support

Revenue growth becomes dangerous when it moves faster than cash, margin, people, or controls.

The warning signs are easy to mistake for success:

- A larger backlog
- More employees
- Bigger projects
- More equipment
- Higher sales

Those things may represent progress.

They may also represent larger obligations.

The right question isn't simply:

> *How much can we grow?*

Ask:

> *How much profitable work can we fund, control, and perform well?*

Growth should make the business stronger.

If it creates more risk, more owner dependence, and less cash, the company may be getting larger without getting better.