Chris Hoffmann: I think that within the last 10 years, but particularly within the last five, I would say we are now in the fifth inning of consolidation within the home service space. So you're seeing financial sponsors come pouring into this industry. I think the competitive landscape has changed, and these financial sponsors are out there to eat the lunch of the smaller guys, right? Capture market share. And we can't let culture or these other things that we care deeply about become an excuse for why we aren't best in class.

Kurt Greenbaum: From Olin Business School at Washington University in St. Louis, I'm Kurt Greenbaum, and this is On Principle. As regular listeners know, On Principle tries to tell stories that turn on a pivotal moment, a moment that makes a difference in a leader's company. In today's episode, you might say we're talking about a slow-moving moment, a trend that's been nibbling away in recent years at companies like the one our guest today heads up. He's the second-generation leader of a home services company, the kind of company we all appreciate when we need it but hope we never have to call. Our guest will talk about this clash of two megatrends: corporate consolidation and the labor shortage we've experienced in recent years.

Chris Hoffmann: Chris Hoffmann here. I'm now the president and CEO at Hoffmann Brothers, and we are a home service provider. And our primary service lines include things like heating and air conditioning, plumbing, electrical and major appliance repair.

Kurt Greenbaum: How did you get into the business?

Chris Hoffmann: You know, I grew up around it. Before I could drive, I think I would imagine my dad, we probably violated a few child labor laws when I was 12 years old, hacking out air conditioner coils. But growing up around the business, I spent countless summers in the business through high school and college. And then I joined the Marine Corps right out of college and was back at Washington University after finishing up the Marine Corps, was in the MBA program full time. And I had conversations with my dad about coming back into the business, but nothing materialized. And we weren't exploring it too seriously. So I took a job in corporate banking. But then after talking to my dad and business school, we sort of realized there's a lot more alignment around our vision for the business. That was sort of the catalyst to begin the transition.

Kurt Greenbaum: You're born and raised in St. Louis, is that right?
Chris Hoffmann: Yes. Born and raised in St. Louis, St. Louis University High School to St. Louis University college, my wife, too, both born and raised here in St. Louis.

Kurt Greenbaum: So then you went to St. Louis University, and then you say you went into the Marine Corps immediately after that?

Chris Hoffmann: That's correct. Right.

Kurt Greenbaum: And so growing up around the business, growing up, you know, being in high school here, was it long your ambition to be ... to follow your father into business, or did you have other things on your radar as you were growing up?

Chris Hoffmann: No, it was never the intent. It was always a great summer job. Really hard work, paid well, you know, whatever it was $12 an hour or $15 an hour at the time. But I was crawling, crawling through attics on rooftops. But it was a great experience, I loved it, I had friends that worked there with me, which was great, but never my intent to come back to the business full time. Wasn’t something I was thinking about.

Kurt Greenbaum: And why did you go into the Marine Corps?

Chris Hoffmann: I don’t think I was ready to sit behind a desk. Let me delay the real world for a few years. And I loved it. Just the culture, the ethos, the sort of teamwork and camaraderie, esprit de corps that comes with that environment just really resonated with me. I like to say I interviewed all the different recruiting services, and the Marine Corps recruiter had the best sales pitch.

Kurt Greenbaum: And how long did you serve?

Chris Hoffmann: I did OCS—Officer Candidate School—in 2009, commissioned upon graduating SLU in 2010 and then left active duty in 2014. So a little over four years on active duty.

Kurt Greenbaum: OK, so as Chris explained, Hoffmann Brothers was basically his summer job in high school and college. After college, it’s the Marine Corps, then business school for his MBA at WashU. He works for a while in corporate banking before talking with his dad about possibly entering the family business. And his dad, Robert Hoffmann, was thrilled that his son was interested. I asked Chris to talk more about how Robert started the business and built it into the powerhouse it had become.

Chris Hoffmann: He took an uncommon path into the trades. He was a mechanical engineer at Anheuser-Busch and was 29 years old, and one of the last internal projects he had with A-B was to serve as the internal engineering resource to partner with an external mechanical contractor to air condition several of their facilities. Through that project, he got exposure to the heating and cooling trade.
Really liked his exposure to the trades, so he put in his notice at A-B. He enrolled in Rankin—a local trade school—in their evening associate program in HVAC, and he jumped in a service van during the day. So back in 1988, I think some people would have told him he was crazy, going from an engineering job behind a desk to enrolling in Rankin and jumping in a service van. But what I think he would tell you is the engineering side is great, teaches you the theory of how this stuff works. But he really learned the practical application of how all this equipment comes together and functions together through trade school. And I think those two things together, the engineering component with the practical application knowledge, really laid an important foundation for our business when it comes to quality installation standards, things like that.

Kurt Greenbaum: It also sounds like he didn't really have any formal business education. Do I have that right?

Chris Hoffmann: That's right.

Kurt Greenbaum: I'm just sort of interested in, you know, you have an MBA, you run the business now. Can you characterize the differences in the business back in your father's day versus today? What's changed? What led you to seek an MBA and why didn't he need one?

Chris Hoffmann: Yeah, I'll say a couple of things. Not only has our business changed a lot over the last 30 years or so, but man, the industry has really changed in unbelievable ways to include sort of a lot of folks aligning around a set of best practices and operating practices that exist today that are pretty widely known, that weren't back in the day. But it's changed significantly and the challenges that he faced going from 0 to 10 million are very different than the challenges from going from 10 to 100 million. And I tell him every day, I don't think I could have done the 0 to 10 half as good as he did. I think it is, as you alluded to, I think it is a sort of different skill set and a different ... it takes a different approach to scale from 10 to 100 than it does from 0 to 10. Both are critically important. But we were able to bring those things together, in our transition. And it made a lot of sense.

Kurt Greenbaum: What are some of those differences? Are they things you can kind of boil down into a few words?

Chris Hoffmann: When I joined the business in 2016 full time, it was a $10 million business, easy to get your hands around, a very flat organization. You know all the people, you have personal relationships. And as the business scaled—this year, about 110 million or so—the complexity changes and your ability to have your hand and finger on everything that's getting done, that's not possible at our current size. So it really forced us as a business to become good at building leaders and building capability internally. And we never had to do that historically because—we did to some degree—but you were always one step away from every decision. And so it was easy to sort of allow the business to become very "you" dependent. And I think
as we’ve scaled, that’s just forced us to get really good at building a team and a
bench and processes and systems that we never had to do when we were a smaller
business.

**Kurt Greenbaum:** In the course of scaling the business, they started to realize that
business was sort of happening to them rather than leadership influencing the future.
The way Chris has explained it, there was too much looking backward, wondering
how they got there, and not enough looking forward. So they got really good at
collecting and analyzing data about service calls and the time their people spent on
calls. They joined an industry-owned best practices organization called the Nexstar
Network. They learned how to measure the way customers flow through their
system. Of course, all that professionalism and growth also made Hoffmann
Brothers an attractive target for buyers. And a lot of those buyers are private equity
firms trying to scoop up businesses, consolidate them and make a tidy profit in the
process.

**Chris Hoffmann:** I think within the last 10 years, but particularly within the last five, I
would say we are now in the fifth inning of consolidation within the home service
space. So you’re seeing financial sponsors come pouring into this industry, and
you’ve seen on the large end now we have Leonard Green Partners. Catterton.
There’s some folks who have platforms, home service platforms that are now in the
$3 to $4 billion revenue range. And it’s composed of a lot of little, seemingly local
autonomous home service brands. So even in the St. Louis market, where our
primary operation is 14 businesses, home service providers in the HVAC and
plumbing space have been acquired here in St. Louis in the last 24 months. So it
gives you a really good idea of just the level of activity. My dad almost laughs when
he hears that the highest-performing, best-quality home service providers are trading
at 20 times EBITDA, and that’s as recently as last December, when some of the
biggest names traded at over 20 times EBITDA in this rising interest rate
environment. So it gives you a good idea of the level of interest that’s coming from
the financial sponsor world.

**Kurt Greenbaum:** So when you say financial sponsors, you’re talking about private
equity and things like that. These are organizations that are investing billions of
dollars into consolidating these previously family-owned or small regional home
service businesses into a large, large organization.

**Chris Hoffmann:** That’s correct. Yeah.

**Kurt Greenbaum:** Why do you suppose that’s happening?

**Chris Hoffmann:** The industry dynamics are really attractive. If you think about it,
where a very high gross margin business, it’s non-discretionary spend. Right? These
are these are need-to-haves not nice-to-haves. It’s recession proof. It’s pandemic
proof. It’s just a business that—I think private equity operators have come to realize
this is almost a defensive play within their portfolio—has so much opportunity for
consolidation and sophistication on top of an industry that historically hasn't been always quick to embrace best practices.

**Kurt Greenbaum:** In an earlier conversation, you and I were talking and you said something like scale matters tremendously. And I guess, can you tell me why, like 35 years ago, your dad was doing fine. He was serving a community in St. Louis, and he had loyal customers, I'm sure. And so what was wrong with that?

**Chris Hoffmann:** Yeah, I think the competitive landscape has changed. And these financial sponsors are out there to eat the lunch of the smaller guys, right? Capture market share. And we can't let culture or these other things that we care deeply about become an excuse for why we aren't best in class when it comes to margins. And candidly, healthy margins are what give us the ability to invest in new markets, invest in our people, offer industry-leading pay and benefits. And so I think scale is what allows us to continue to create better opportunities for our team through promotions, advancement. And I think growth has become a critical part of our culture. Like people stay with us because they know that there's going to be opportunities for them to advance, and they love the challenge of being a part of a business that's now on its seventh year of over 30% organic growth. So I think scale is a function of growing and just a sign of a healthy organization. And it also allows you to compete better with players who are more well resourced and are out there every day trying to eat your lunch.

**Kurt Greenbaum:** As Chris explained things, Hoffmann Brothers had decided against selling the company to a private equity firm. But that really only left a couple of paths to independence. They could either serve their existing customers more deeply, say, by expanding into new home services businesses, or they could expand geographically. But I wanted to understand why. Why not sell the company? Robert founded a great company. Chris and his brother had done a great job growing it. Don't they deserve a chance to reap some of those benefits and move on?

**Chris Hoffmann:** I'll give you a two perspectives that I think highlight for us why it's important that we remain independent. The first is from our team members' perspective. And I'll start by saying I think private equity is great. I love what they're doing. I think it's brought a lot of positive change to the industry and positive outcomes for customers, for the most part. Now there's a couple of things that I'll call out that I think didn't sit well with us when we thought about the path we would choose for our business. One, when it comes to the team member experience and how we're thinking about driving value for our team, we wanted to have autonomy to think about that and make decisions that were good for our team members and make those decisions in a consistent way over decades. The reality is, for these sponsors, when you're within a 12-month period, 12 months prior to your anticipated sale date, every dollar you can cut, every dollar you can save is going to yield you at 20 times that, as we just talked about, when you come to that sale date. So that can lead to an employee experience. It's jerky, it's disruptive. You have changes to compensation and benefits, changes to investments and culture and training and the
tools that are provided to team members. And I didn't want to subject our business to that sort of slinky effect that the business changes hand every so many years, and it's disruptive to our team.

**Kurt Greenbaum:** The second reason to remain independent was from the customer perspective. Chris said he was uncomfortable with some of what he saw when other firms sold to private equity. Closer to the sale date, they try to squeeze a few more dollars out of expenses because every dollar they saved yielded 20 in the sale price. That didn't sit right with Chris. It made customer relationships very transactional, not satisfying.

**Chris Hoffmann:** And don't get me wrong, I love sales, I love revenue, but there's a right way to do it in a way that's addressing customer wants and needs. And then there's a way that I think a lot of sponsors may take in preparation for a sale, which is let's turn these metrics, drive these expectations to a level that's a little unhealthy and doesn't create the best outcomes for customers. And so we were just mindful of not wanting to subject our business to these pressures that we know would exist if we chose to partner with financial sponsors.

**Kurt Greenbaum:** You were talking a little bit about your strategy. This idea again, of not only serving existing customers more deeply, but then beginning to expand geographically. And you described kind of the expectations of dropping a new business, a new arm of your business into Nashville, which was a community that Robert Hoffmann hadn't served before, you hadn't served before. Is that about the way to describe it? You basically just sort of plopped a fully formed new division into the marketplace and said go?

**Chris Hoffmann:** We relocated four team members from St. Louis, two leaders, two field professionals, and we started interviewing and building that team that we had no customers on day one. Actually, I remember—you'll laugh at this, Kurt—I bought ... before we had a single customer ... I bought a 20,000-square-foot facility a mile east of downtown Nashville, and we started buying a bunch of trucks gearing up for this investment. This was in September of 20, so still very much in the pandemic world. But we looked at this as, you know what, failure's not an option. Assume success and make decisions as if your business is going to be successful. And that's what we did. But we went … it was very scrappy—and still is scrappy and entrepreneurial today in Nashville.

I remember I went to Home Depot with a gentleman, Mike Barth, who leads our Nashville operation, and we bought a folding table and chair, and we started interviewing people in this conference room on a $30 folding table as we started to build that team. But it's been really powerful and a great journey. When we went into this new market, I'll tell you one thing that allowed us to be successful is we said we looked at how our competitors were treating talent in that market. And we said, you know what, we've always said we want to be a premium provider who can provide exceptional service. And to do that, I have to have the best people on my team.
Kurt Greenbaum: So he decided to do something nobody else was doing in the market. They offered 100% free health insurance, which means an $18,000 benefit for team members and their families. They paid more, they offered a few other benefits. And while everyone told him he didn't have to do that in Nashville, he's been thrilled with the culture it's created.

Chris Hoffmann: It's truly been something special and remarkable to watch. And again, I think we've got a team that has come to recognize that the success of our business is what allows us to create successful outcomes for them, and it's become a really healthy relationship throughout our whole business, where people recognize that the three groups that we need to care about every day are customers, our team members and our business. Those three groups are either going to win together or they're going to lose together. And it's our job, everybody in the business, to make sure year after year, we can drive consistent wins for every one of those groups, year after year after year.

Peter Boumgarden: The first trend around consolidation is interesting because you can imagine, in the context of a family business, if you have an opportunity to sell a high-margin business at 20X EBITDA, you're looking at that and you're saying, oh gosh, this is a pretty nice exit for our family that could lead to a generational impact of financial returns. And so I would imagine if you're in a business like that, you're having really significant, impactful, challenging questions around what are our goals with this business. Do we want to sell? Do we want to hold it? Especially as there is a great number of options to explore.

Kurt Greenbaum: That's Peter Boumgarden, my colleague at WashU Olin, making his third appearance with On Principle. Today's topics fall squarely in Peter's wheelhouse because he's Olin's Koch Family Professor of Practice in Family Enterprise. In that role, he directs the Koch Family Center for Family Enterprise, which studies how family businesses operate, how they pass from one generation to the next, how they create wealth for founders and their teams, and how they function in the economy. His research areas include management strategy, entrepreneurship and organizational design.

Peter Boumgarden: I really sit between strategy and organizational behavior. And so the organizational behavior side of the house is everything—people and culture and teams, and how those things drive organizational outcomes. The stuff on the strategy side is a bit more tied towards what are the structures that are in place to allow an organization to fit itself into a competitive marketplace. And so those two things, again, apply to the context of privately held companies. Interestingly enough, I'm also the son of a social worker. And so as a result, some of the things I grew up listening to and thinking about were oftentimes relational dynamics between people. And that is just as relevant for the space as some of the strategy stuff as well. I love talking to Chris about this, because Chris has a very unique strategy about how they
can grow, like the kind of growth expected in private equity, but doing so building upon their own strengths and advantage.

So when you hear him talk, or when he talks broadly about the way in which they wanted to enter Nashville, not merely by going out there and seeing an already existing home service line company and buying them at 20X EBITDA, but rather saying, let's invest $2 to $3 million in this market and we can grow it over the course of 30 months to being a $10 million-plus business. You start to run the numbers on that and you're like, well, that might take a little bit more time. But the ROI on that investment is quite a bit stronger than it would be if you were to buy it in a more traditional way. So what I like about Chris's story and Joe's story and the way they approach this business is they're coming up with a really interesting thesis about how they grow, and then they are investing heavily in that thesis to be able to drive the upper ends of performance while at the same point investing in their people and investing in their communities, and really trying to think about some of these evergreen principles that you hear about in the Tugboat Institute as well.

Kurt Greenbaum: You know, when you look at this story, when you look at Hoffmann Brothers, are there ways that you see them being very typical of family enterprises? And are there ways in which they are not typical?

Peter Boumgarden: Yeah. On the face of it, in terms of the structure, they're typical. So first generation passes to a second generation—two siblings—and so you have to think about different roles based on different skill sets of siblings. And then the hope is that they grow it in different ways. Now where I say that they are atypical is the strategy and effectiveness they've taken specific to that growth. So you hear a lot about certain businesses that, let's say in 2016 were $10 million. The next generation comes in and five years later they're $11 million or $12 million. But this story is quite a bit different than that. And so I think what makes them distinct or different is that you had in Chris and in Joe two individuals who were able to come in and have a very clear thesis around how they wanted to grow this, both within St. Louis, across different trades and also in new markets, and are able to grow it at a pretty crazy rate.

The second thing that's a bit distinct, that I think likely fuels their ability to do this well is Chris is very clear in saying that though his dad still comes in and is involved in the business, he was able to step back and to allow the next generation their own vision of what's possible with this business. So it was not someone staying there, to my knowledge, that's saying, well, I'm not sure I feel comfortable about Nashville. I'm not sure you should grow it this way. We shouldn't do something tied towards education. It was someone who was able to cede voting control, cede cultural control over the next generation to really empower the next leaders. And that, I think, is somewhat rare because it's hard to step away.

Kurt Greenbaum: Yeah. I mean, you hear a lot of stories about that, about the first generation or the prior generation not quite being able to let go. And that does not
sound like the case here at all. One of my questions about this, and one of the things that I was fascinated by—you may feel free to say no, that's not really that big a deal, Kurt—but I just love the fact that the founder of the company, Robert Hoffmann, was a tradesman who decided to start a company, started a company, did pretty darn good with it, but then the second generation came in and Chris has an MBA. Chris felt like he needed to get an advanced business degree in order to really move this company forward. And I wonder what you make of that. Is that something worth commenting on?

Peter Boumgarden: Yeah, I think one of the things that's indicative and shown in this story is that oftentimes people don't start family businesses, they start businesses. And so you have someone who's working at Anheuser-Busch and is working on a large project tied towards an air conditioning and heating and cooling unit and says, gosh, I kind of like that. It's kind of fun. It's kind of interesting. I like doing this kind of work and leaves a certain type of job to pursue in this kind of epiphany fashion, something different. And over time says, actually, maybe I can grow this. Maybe I can turn this into my own business. So to me, what's really intriguing about this story is it's someone who started down a career pathway and had the skill set to move it from, as Chris describes, a zero to a $10 million business. That is a unique skill set. It's a vision skill set. It's starting something from a garage and a truck and eventually starting to sell to people. And your first customer who they've never heard about you or what you've done. And they have to trust you. And they might be saying, why is this former Anheuser-Busch guy selling me an HVAC unit? That's hard. That's a tough skill set. And at the same point, the skill set to grow something from $10 to $100 million is also different. It requires a different way of building systems and scale and education. It requires building out decision matrices about why Nashville versus other places, why HVAC versus other service lines.

And I think as a result, it's really rare to have a skill set that allows you to do both of those things well. And so the beauty of this story is that there's a certain kind of handoff where if the handoff hadn't happened from father to sons, you know, maybe the skill sets that it takes to grow from 0 to 10 wouldn't have been what was required to grow it to the next level. And so where education and training come in is really what you have here in Chris is this question of is this attractive of enough business to go into versus something else? So there's a lot of $10 million businesses right now that people look and see their mom or their dad running it and go and get an MBA. And they say, you know what? I kind of want to go into consulting. I kind of want to go into banking. I kind of want to work at Procter & Gamble. I'm not really drawn to this. It's not a compelling pathway or compelling location for me to be involved in. And more power to them. Right? That could be a bad choice for them. But Chris looked at a business where some people might say, well, why would you do that? You just got your MBA. Why do you want to go into an HVAC business? Just kind of a little small—quote/unquote small business—of 40 to 50 people and $10 million of revenue. You should go work in finance. You have this job in finance. But Chris steps back and sees an opportunity to take something like that and turn it into something new.
Kurt Greenbaum: Peter told me about research examining what he called the weird relationship between the competence of the next generation and how the first generation responds. If the first-generation leader doesn't think the next generation is up to the task, they stay heavily involved trying to prepare the second generation. But as Peter explained the research, there's a downside. Sometimes as the second generation starts taking the company to the next level, the first-generation leader can feel threatened, continuing to exert control over the business. In the Hoffmann Brothers case, everyone—brothers Chris and Joe, father Robert—everyone understood they had different skills, that they operated in different lanes, and that they could shine during different stages of the company's life cycle. Of course, that humility in that growth made the company a potential target to buyers.

Peter Boumgarden: You can imagine most of us sitting in this situation saying, well, all our peers are selling. Look at all the people that are selling. Why don't we just sell or we can do something different? And Chris is not degrading that path. He says that there's a lot of value of private equity coming into this business for the customer experience, amongst other things. And yet he wants to craft a strategy that's different, tied to the values of the owners, the socio emotional wealth drivers of what they think about. In addition to saying we actually can ... we can do something pretty unique here. We can spin off the kind of margins that we want. And also at the same point, we can invest in people, we can invest in their healthcare, we can pay top of market in order to address the talent issue. So kudos to them for coming up with a strategy that essentially allows them to compete in a market where there's a lot of their peers that are being gobbled up. I think centrally—because I think about this quite a bit in terms of the work at the Koch Center—I think centrally it's about incentives.

Kurt Greenbaum: What do you mean by that?

Peter Boumgarden: So I think on the incentive side, there's a lot of family businesses that have a really complicated relationship to private equity investors. And I say this tentatively because we have a lot of private equity investors that come also to our events and are interested in the stuff that's happening out of the Koch Center. But one thing that's described in terms of incentives is the fact if you are dealing with a business that has 20X multiple in EBITDA, and Chris describes this, if you have a business like that and you find a way to make your EBITDA a little bit better by dropping $1 off the cost line, or $2 or $5 or $5,000 or $50,000—well, assuming that nothing else changes about the market, your $50,000 of cost savings are now 20X multiplied in terms of your next potential sale.

And so essentially the incentives piece, this is not about culture or people or whatever. But if I'm sitting here and saying, man, there's a great HVAC company. And if we find a way to drive down some cost here, and we're planning on selling in two to three to four years later, well, then your returns on that investment can be quite significant. Those returns and those incentives for Hoffmann Brothers are just
not the same. And so as a result, for them, if they think about investing in an
education that grows their top line, they wouldn't feel as much of the constraint of,
well, what's the cost of that? And that's going to hurt us because we want to sell it
two years downstream. So centrally, I think there are different types of behaviors
that happen with different types of owners. And it's important for a company to say,
how do we think about the incentives of our owners, and does that align with what
we want to do as a strategy?

Kurt Greenbaum: When thinking about these choices, Peter referred to a book
called The Family Business Handbook by Josh Baron and Rob Lachenauer. In the
book, the authors say the choices boil down to the three things owners might care
about. The first is liquidity, the ability to spin off cash for the owners. The second is
growth and reinvesting in the business. And the third is control ... control of the
business. The authors say you can pick two. You can't do all three. What were some
of your takeaways? What were you really struck by?

Peter Boumgarden: I think the thing that I like the most, in fact, I'll give you a few
things that I like. The one thing that I really like is the importance of thinking about a
strategy of growing while private. And so that means, for example, not having a
major injection of cash. And so having to be pretty discerning about how you grow.
And that requires different strategies in different markets. What's required for Chris
and Joe and the entire team to grow in the HVAC business might be a very different
strategy than what's required in the beer distribution business, or what's required in
the office furniture manufacturing business. But what I like about what they've done
is they have a very clear and compelling thesis of how they grow that's not abstract. I
mean, if you were to sit down with Chris, he could walk you through the entire
pipeline of how they grow, some of which I'm sure he shared here, and some of
which he is unlikely to share with a podcast audience.

Kurt Greenbaum: No, of course.

Peter Boumgarden: But there is a thesis about how they grow. And it's a thesis with
certain constraints. We're going to grow in a different sort of way than we would if we
were to take on a 51% ownership investment by the part of a strategic investor. So
that to me is what's compelling. And doing so aligned with a set of principles. So
again he mentions this Tugboat group. What I find compelling about this is there's a
series of evergreen principles that that group espouses when it comes to thinking
about growth. And for him, it was this epiphany-like moment of saying, I want to
grow like that. Not to say that we can't grow like this or that this is a bad strategy or
that is a good strategy. But I find that compelling. And for him, that becomes this
moment of saying, how do I come up with a thesis that's different than some of the
theses of growth in the business? And then finally, I'd say I'm drawn in by their risk
taking. And the way that a leader has to act on conviction.

So when he described how their advisory group or some members of their advisory
team were saying, well, you should pay high, but do you have to pay that level in the
market? Do you have to get that many vacation days? And as a person who’s a people pleaser and wants people that I trust and admire to like me, I would imagine that I would struggle with that in the same way. And kudos to the team of saying we have a conviction around how we want to grow from a values standpoint, what we think is important to do, and also how we think this contributes to performance. So we’re going to pay better than average in the market, and we’re going to give more vacation days because we’re an unknown entity in the national market. And when someone’s deciding whether or not they should work with a St. Louis company, gosh, I'm going to have to get paid a few more dollars an hour and have better benefits to do so. Otherwise, I'll just stay with the existing player. So there is this really interesting way that values, data, strategy and ownership strategy combine together in Chris's story. I think the question is do we sell? Or do we find a way, like you hear from Chris, to compete differently in this space? And how do we up our game, increase our capability, invest in culture and values and invest in strategies and new markets that allow us to compete differently than we had to when we were smaller.

Kurt Greenbaum: For Chris, it's about building talent internally. It's about having the scale to make investments in education and leadership development through what they called Hoffmann Brothers University. It's about buying a site and hiring an 11-year veteran of Teach for America to lead the project.

Chris Hoffmann: We really focused on three things in HBU. The first is that enter-the-trades pipeline. So how do we take folks who are not yet in the trades and create a pathway for them to come into the trades. And we've been able to do that in 20 weeks. We can take someone who didn't know a lot about the trades, maybe a career changer or someone out of high school, and we can equip them with sort of the minimum competencies that are necessary to begin to operate independently. The second bucket is after enter the trades. We have a bucket around career acceleration. How do we take folks who are already on our team and continue to enhance and build upon the skills that they have?

And then the third bucket is this leadership foundations curriculum. So we took every leader in our business, and we enrolled them in a curriculum that had identified the core competencies that we thought managers needed in our business in order to be successful. And we've delivered this content in six- to eight-week intervals. So two half-day, four-hour sessions, followed by a peer group on the front end, a peer group on the back end to explore and engage around the content. But this has allowed us to take folks who maybe were awesome individual contributors and our new managers and new leaders and equip them with the tools and skills they need to be effective leaders in our business.

Kurt Greenbaum: In the few months since we first talked with Chris, there have been some updates. For starters, Chris is still the CEO, but Hoffmann Brothers also hired its first president from outside the family. Meanwhile, as Chris explains it, consolidation by private equity firms in the HVAC and plumbing world has created
opportunities for his company. As the owners of other home service companies look for alternatives to private equity, Hoffmann Brothers is becoming a buyer. In August of 2023, they acquired 85-year-old Ferguson Roofing here in the St. Louis area, and Chris says he anticipates more acquisitions this year. Meanwhile, in November, the company also announced plans to expand into a new headquarters building in suburban St. Louis to house its support operations for its existing and new businesses.

**Chris Hoffmann:** I think about the last five or six years, I would say growth is exciting, and that's what a lot of people talk about. And I've, you know, we're pushing the limits of our ability to do that and do it in a healthy way. But I would say it's OK to get there a little slower and leave less bodies on the side of the road. And I think that's a really important thing. But I think so often people get focused on that, that top-line thing. And I'm victim to that too. But as I think about lessons learned, it's being a little bit slower. It ... particularly if you see any adverse cultural impacts.

And the other thing I'll say about growing business is, when your business, when we went from 40 people to over 400 people, right? From 10 million to 110 million, the skills and competencies required of your leaders are completely different at those two places. And what you don't want to do is be in a position where you've left all your leaders behind. What you need from their roles, they are now not equipped to provide and meet the needs of that role within your business. So I would say, the other thing I would add, as you think about growth, is make sure that you're investing not only in the business, but in the specific leaders and people that are essential to driving the growth of that business so that they can grow with the organization rather than feeling like they're left behind.

**Kurt Greenbaum:** And that's mostly it for today's episode of *On Principle*. But before we sign off, I'd like to mention that many of the issues at play in today's episode are at the center of a new project Peter Boumgarden is leading for Olin Business School. That project, a collaboration with the Brookings Institution, is called "Main Street's Tidal Wave of Transition." It's looking at how the aging founders of family businesses like Hoffmann Brothers are transitioning into new models of ownership. I'll put a link to the project in the show notes with today's episode, if you'd like to learn more and follow along. In fact, I'll also include links to more about the company, along with Chris and Peter, who have my gratitude for their help with today's episode. Find everything on our website at onprinciplepodcast.com, along with all our previous episodes of *On Principle*. If you're a fan of *On Principle*, I hope you'll search for us in your favorite podcasting app and subscribe. Meanwhile, if you have story ideas or feedback, please send an email to Olin podcast at W-U-S-T-L dot E-D-U. That's olinpodcast@wustl.edu.

*On Principle* is a production of Olin Business School at Washington University in St. Louis and comes to you with creative assistance by Katie Wools, Cathy Myrick, Judy Milanovits and Lesley Liesman. Special thanks to Olin's Center for Digital Education and our audio engineer Austin Alred. Jill Young Miller is our fact checker. Sophia
Passantino manages our social media. Mike Martin Media edits our episodes with original music and sound design by Hayden Molinarolo. We have website support from Lexie O'Brien and Erik Buschardt. *On Principle* is the brainchild of our former leader in Washu Olin's marketing and communications team, Paula Crews, who's moved to a new chapter at WashU. Once again, I'm Kurt Greenbaum, your host for *On Principle*. Thanks for listening.