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THE EVOLUTION OF THE CONSTRUCTION INDUSTRY:
REFLECTING ON OUR PAST; BUILDING OUR FUTURE





TIPS TO DEVELOP YOUR CONSTRUCTION COMPANY'S SUCCESSORS

BY MARK A. GUILLAUME, DIRECTOR, AUDIT & ACCOUNTING | KREISCHER MILLER

Many construction companies are privately-owned, and a good deal of their owners are at a point in their lives where they have run the business for a long time and are considering what's next. Construction companies are not unique in this regard; businesses in virtually every industry are facing this generational shift. Some have transitioned their businesses and moved on to the next stage of their lives, while others are either currently in the process or just starting to think about the next stage.

There are many options to transition a business, and determining which one is right for your situation requires diligence. No two construction companies are the same. Some will have higher valuation multiples and more transition options than others due to the nature of the business.

For instance, a construction company whose business model includes a high percentage of hard bid work or non-recurring work never knows what next year holds. An external buyer may not assign a high value for this type of company as there is not a consistent income stream to support a higher valuation. That does not mean the business is not valuable, but rather that the future value/earnings are dependent on the management team's ability to win and perform work at good margins. In this case, the options are more limited and we generally see many of these types of businesses transition to the next generation or to the management team.

If your plan is to transfer your company's ownership to family members or employees within your management team (known as successors), I would encourage you to give yourself and your successors plenty of time so the transition is successful for all parties involved. We generally recommend starting at least five years beforehand. There are financial considerations and/or

family matters that need to be addressed during this time, but for the purposes of this article, we'll focus on developing your successors and the company in preparation for the transition.

Before you begin the process, determine whether your identified successors have the desire to own and run the business. If they do not, it is better to know that up front than after you have made significant investments in the transition plan.

If they do have an interest, you can move on to the planning stage. Think back to the days when you were just starting out in your business. I am sure life was not easy, and you faced stressful times and many difficult decisions. These experiences shaped you and made you a more effective business leader. Similarly, your successors will struggle with their own issues. However, there are some things you can do to help prepare them.

To start, consider:

- Your successors' strengths and weaknesses
- What is important to them, both professionally and personally
- The impact to them as well as the business once you are no longer there on a day-to-day basis

With this assessment, you can make decisions on the next steps. These may include:

- Having successors work in different segments of the company or in the field, so they are more knowledgeable about all parts of the business. Or, there may be a division within the company you can have them oversee to develop their management skills.

- Offering to pay for additional schooling, such as an MBA program. Nothing can replace on-the-job training, but an MBA or other advanced degree can provide a different perspective and help them become more well-rounded business owners and managers.
- Identifying key employees within the current team and designing employment packages to keep them engaged and active in the business. These employees can support the successors in making operational and strategic decisions in areas with which they may not be as familiar.
- Investing in additional employees or outside advisors to support the successor in areas that are not core strengths. This will cost money in the short term, but these additional resources should add value and growth opportunities if designed properly.

After the transition, the successors should continue to develop their skills and look for resources to help them run the company. Some examples include:

- An advisory board – A board can provide the successor with a platform to discuss the current state of the business and any concerns. It should hold the successor accountable and provide guidance in running the business.
- Seminars and conferences – There are many seminars and conferences that the successor can attend to hone technical or soft skills. There are many web-based resources, as well. One downside of not physically attending events is the missed networking opportunity, which may be more valuable than the conference itself. Therefore, a combination of web-based and live seminars may be preferred.
- Peer groups – Meeting with peers in formal learning groups can be a great opportunity to learn from other business owners and share ideas of what works, what doesn't, and why.
- Successfully transitioning a business to your successors is not an easy or quick process. But taking time to take stock of your successors' abilities, develop their skills, and improve the team around them will help ensure your company's legacy for generations to come.



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