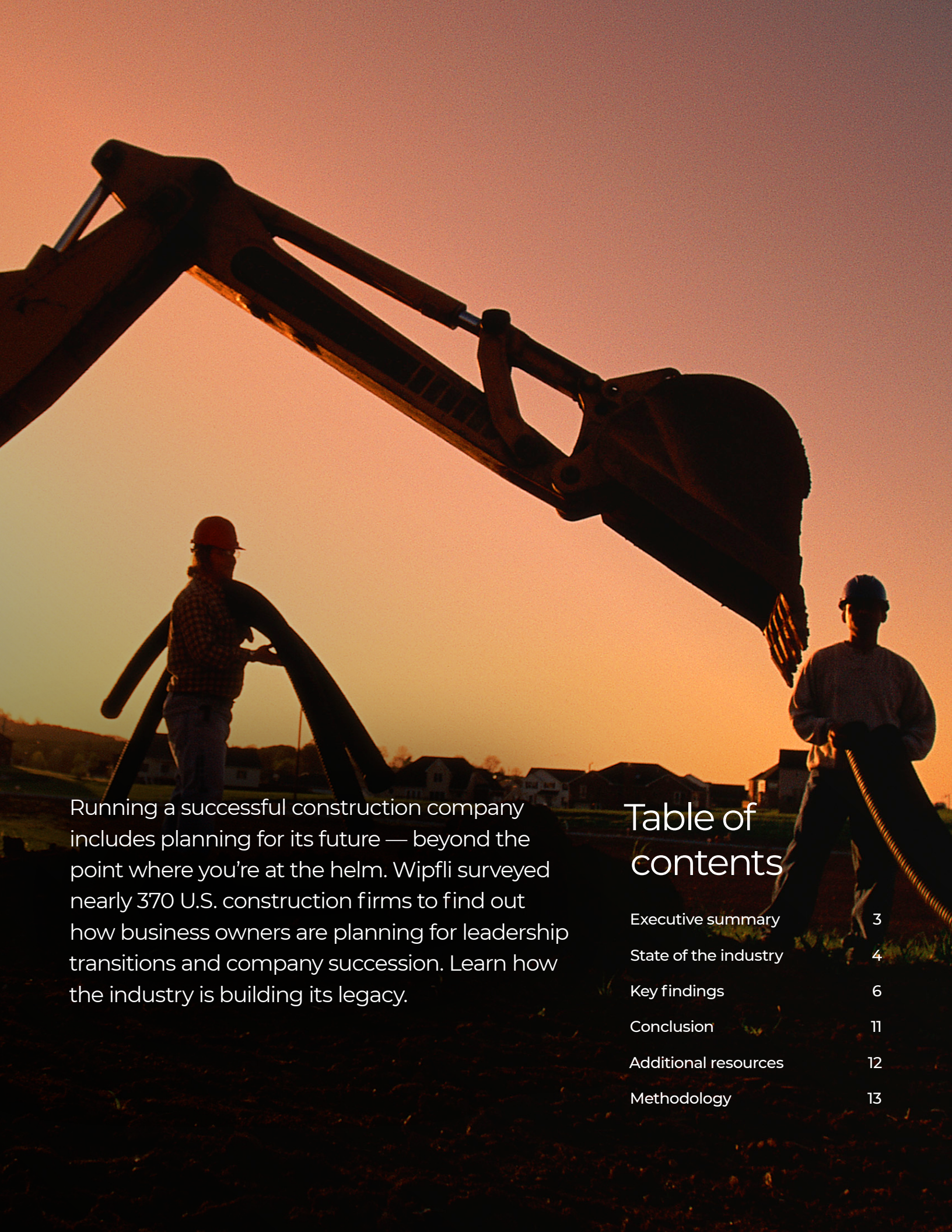


Transition
planning in the
construction
industry

2021 report

WIPFLI



Running a successful construction company includes planning for its future — beyond the point where you're at the helm. Wipfli surveyed nearly 370 U.S. construction firms to find out how business owners are planning for leadership transitions and company succession. Learn how the industry is building its legacy.

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Executive summary

Many business owners treat succession as a one-time event. At some point, ownership will change. But a successful transition — for present and future leaders — requires careful and continuous effort.

Wipfli investigated how construction leaders are approaching succession planning in 2021. Through an online survey, we collected leaders' sentiments on succession, transition intentions and timelines. We also asked construction leaders if and how COVID-19 affected their business transition plans.

We learned:

- Massive leadership changes are on the horizon. Nearly 90% of construction leaders plan to start transitioning ownership of their companies in the next 10 years.
- Age, plus fear of profitability and market changes, are driving owners to hand over their businesses.
- The next wave of owners must be trained for the role now so that companies retain value after the transition. A fifth of construction companies have never experienced an ownership change and risk losing value along with their owner.
- Sixty-eight percent of construction companies have a documented and actionable succession plan. Nearly the same number (64%) also have a documented and accessible emergency succession plan.

Readers can use these statistics — and others throughout the report — to benchmark their performance on key planning activities and to assess their readiness for a planned transition or for sudden or unexpected change.

Top 3 external business concerns:

#1

Market conditions

#2

Tax changes

#3

Technological innovation

State of the industry

Before the pandemic, everything was looking up for the construction industry: employment figures, construction starts, contribution to GDP. Then, COVID-19 stalled construction activity. Market uncertainty, increased material costs, contract extensions, permit delays and labor shortages all cut into margins and tempered construction growth in 2020.

“About 60% of panelists said the pandemic changed both their business transition plan and their transition timeframe.”

Yet optimism remains. Analysts expect a stronger 2021, supported by low lending rates, conservative financial policies and higher consumer confidence. Healthcare, public safety and infrastructure spending are all expected to rise. Sixty-nine percent of the executives we surveyed expect their construction companies to grow over the next 12 months.

Looking ahead, construction leaders say they're most concerned about external market conditions, tax changes and technological innovation.

With a new administration in Washington, uncertainty is high. Proposed infrastructure bills could spark growth, while anticipated tax changes could lower profitability or diminish net proceeds for the owners upon sale or transfer.

COVID-19 didn't land in leaders' top three concerns, but that doesn't mean it's old news. About 60% of panelists said the pandemic changed both their business transition plan and their transition timeframe.

Services to meet your needs

Build a better tomorrow. Wipfli provides tailored services for your construction company's financial, operational and strategic needs.

Within their own companies, leaders' top three concerns are focused on finances, management and innovation. 2020 illustrated just how quickly circumstances can change, and it underpinned the need for agile and resilient planning.

Construction leaders are also preparing for a massive talent gap. According to the National Center for Construction Education & Research, a third of the construction workforce will retire by 2026. From the C-Suite to the job site, the industry will be critically short of workers.

In response, many construction companies are exploring construction technology strategies, looking for ways to gain efficiency, improve safety, reduce waste and, ultimately, protect profit.

Many companies are assessing their assets and value, too. Of the firms we surveyed, 73% had been professionally valued in the past three years. Valuations serve not only to establish value but also as "health checks" to identify strengths and weaknesses, and they have implications on financial planning, succession planning and negotiations. The high number of recent valuations is another signal that ownership transitions are ahead.

Business valuations

Define your business's future by understanding its value. Leverage Wipfli's deep industry knowledge and third-party objectivity to arrive at a fair market value.

Top internal business concerns:

#1

Profitability

#2

Ownership and management succession planning
(tied for second)

#3

Tax planning
(tied for second)

#4

Technological innovation
(tied for second)

Key findings on construction transition planning

Construction ownership profile

Based on our survey, construction ownership is a middle-aged game. Eighty-nine percent of owners are between 40 and 59 years old. Ten percent of owners are 60 or older.

Most owners (67%) have been at the helm for 10 years or less. A fifth of companies have never had an ownership change.

What this means:

Owners need to start planning for vacancies caused by retirement – and simple replacement planning won't work. Roles may need to change to attract and retain up-and-coming talent (or some processes could be replaced by technology). Hiring strategies must account for the future of the business and ways that age-old practices could evolve.

Baby boomers, Gen X, millennials and Generation Z are all working in the same environment for the first time. Each generation has different motivations and workplace preferences, particularly surrounding communication and technology.

Reasons for ownership change

Many respondents (45%) believe an ownership change will be prompted by the current owner's retirement, death or illness. A quarter of respondents think COVID-19 could disrupt their company's ownership.

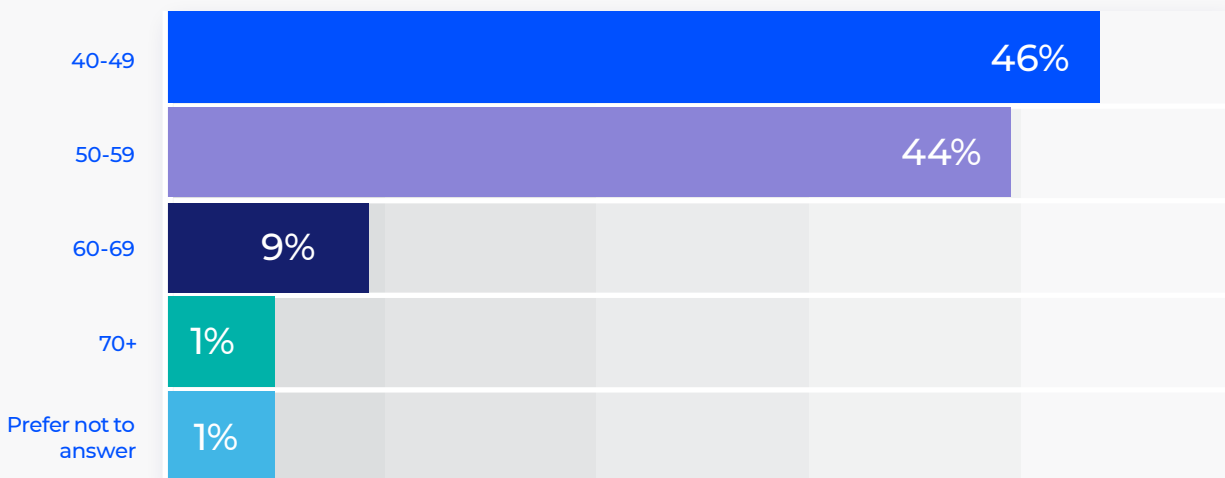
What this means:

Many ownership changes are caused by unforeseen circumstances. Construction owners need to develop succession plans as soon as they take control, and should develop contingency and scenario-based alternatives just as they would in a strategic plan.

It's important to identify and develop successors early, and to make sure succession plans are actionable, documented and communicated. When leadership changes are sudden or cause uncertainty, they can lower the value of the company and can cause a tremendous amount of operational disruption and turmoil.

To protect value, develop a strong executive-level team with autonomous responsibilities. Then, processes and key relationships aren't tied to a single role or person. This also helps new owners if they take control during a crisis or turbulent times.

Average age of construction owners surveyed



Key findings on construction transition planning

Transition intentions

Respondents want ownership of their companies to transition to an existing shareholder (37%), family member (35%) or an existing employee (21%). Less than 10% hope to sell their companies to a third-party, close or liquidate the business.

Half of respondents plan to start transitioning ownership in the next 1-5 years, and 48% expect the transition to be completed within the same timeframe. Only 5% of respondents didn't know when they would start the transition.

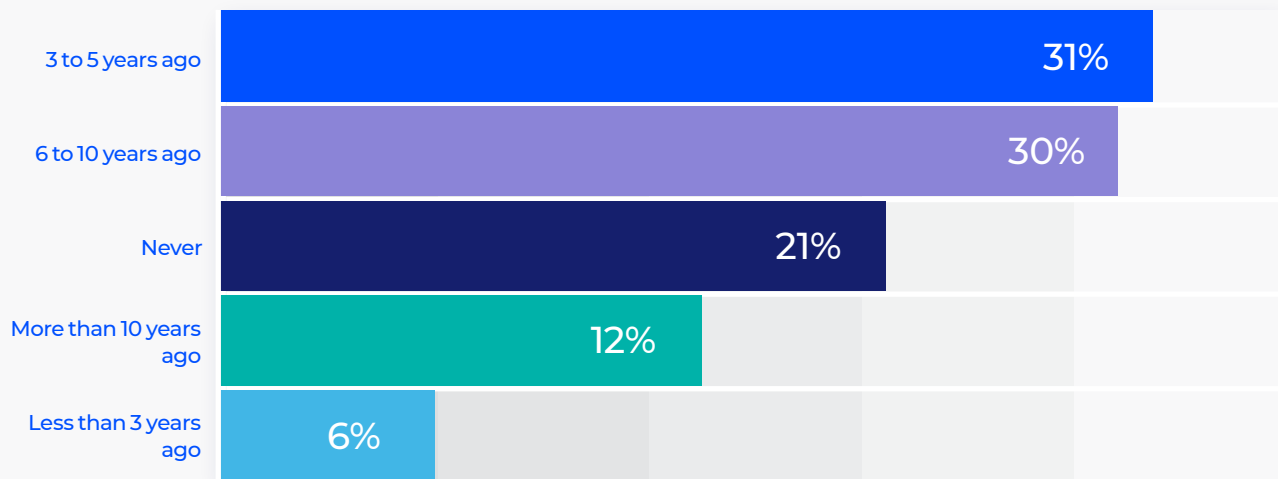
About a third of leaders (30%) said they want to remain active in the business after transferring ownership. A third also intend to work part-time or consult in retirement.

What this means:

Transition is not synonymous with “exit.” Business owners are eager to transition into other responsibilities but are not ready to walk away from work altogether. Construction companies can leverage this desire in their transition plans. After transferring ownership, leaders may be available for important development tasks since they're not as focused on day-to-day operations.

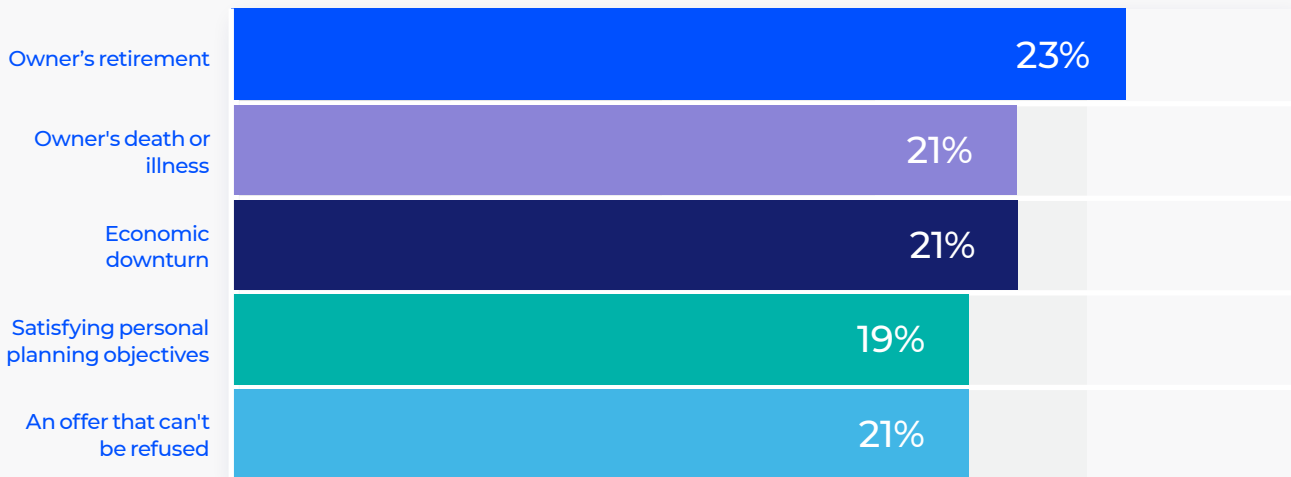
If owners intend to pass their companies on to family members or internal stakeholders, they should make their succession plans known. Being part of a succession plan can be a powerful motivator and help owners retain key talent. Transparent and candid transition conversations also ensure plans are relevant and that everyone has the best information for decision making.

How long has it been since your company changed owners?

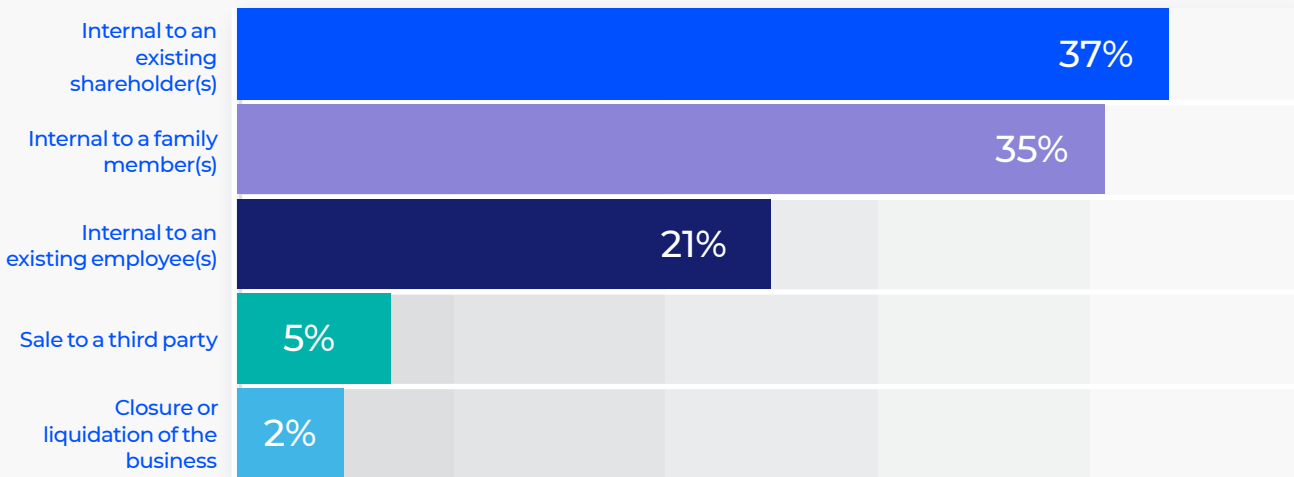


Key findings on construction transition planning

What event or issue will drive ownership change at your company?



What is your preferred means to transition your business?



Key findings on construction transition planning

Succession planning

Sixty-eight percent of respondents have a documented and actionable succession plan, although 10% say it needs updating. Based on our survey, 11% of companies have documented plans that aren't actionable, and 11% don't have anything in place.

Slightly fewer companies have documented and accessible contingency plans – just 64%. Only 4% don't have an emergency plan and are uncertain what would happen.

Most leaders (64%) have coordinated their transition plan in conjunction with an estate and personal financial plan.

What this means:

To protect their companies' value in perpetuity, construction owners must plan beyond their tenure –

and revisit those plans regularly. The earlier owners plan for their succession, the more options they'll have.

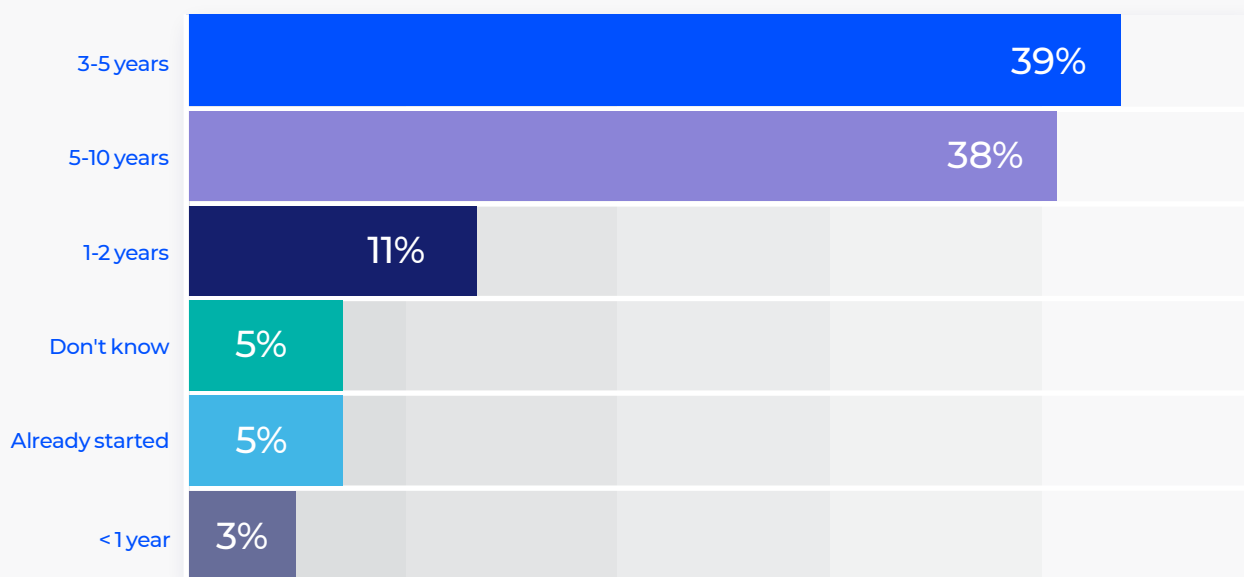
Succession planning should be embedded into strategic planning and align with the company's overall direction and goals. Like a strategic plan, a succession plan should evolve to address new internal factors and external pressures and include contingencies.

Consult with peers, financial advisors, attorneys and accountants to understand all the available transition options, and, when appropriate, encourage your successors to do the same.

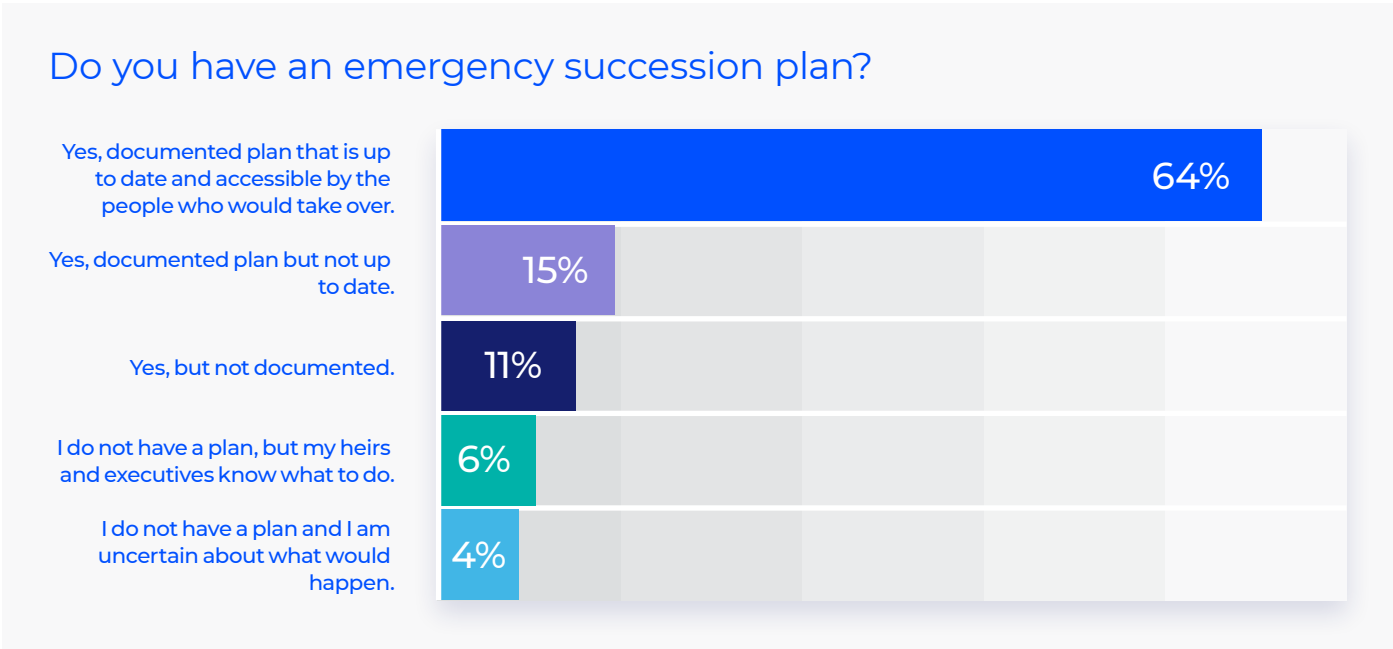
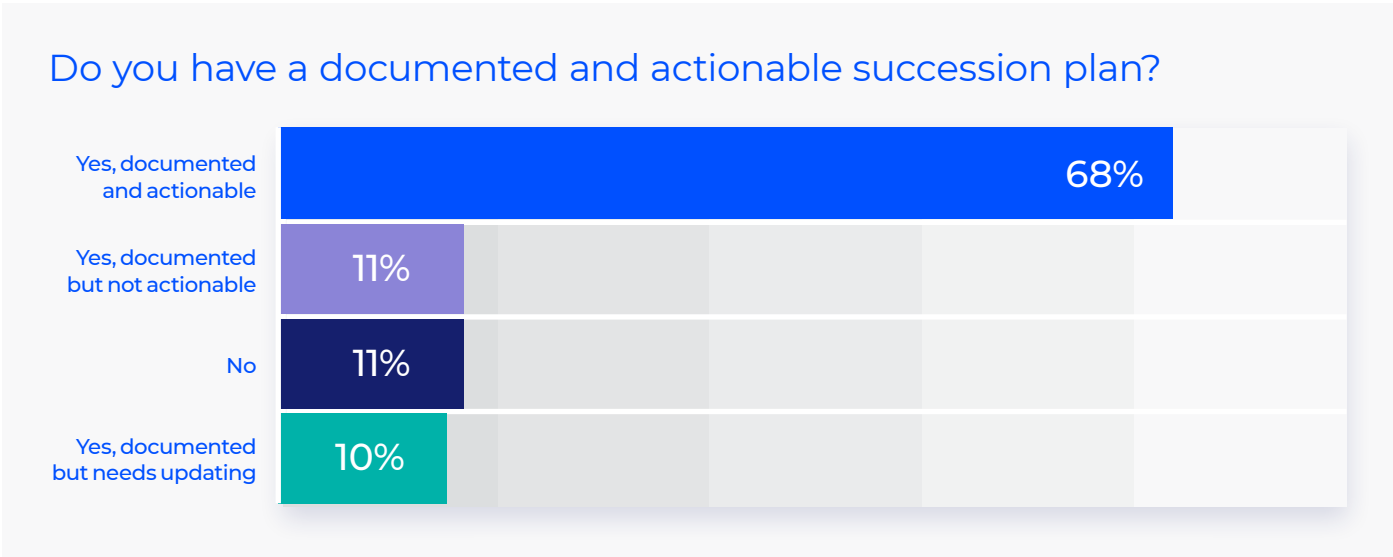
Succession planning

Plan today for a successful transition tomorrow. Let Wipfli's Business Transition Group help you lay the groundwork for the future of your business, your family and your retirement.

When do you plan to start transitioning your business?



Key findings on construction transition planning



Conclusion

Construction owners are used to making decisions. When it comes to transition planning, they need more options.

Optionality increases when owners are proactive and transparent about succession, and when they invest in future leaders. People will carry the company – and its legacy – forward. Make sure they have the knowledge, skill and desire to do so.

Owners are foundation builders, but they cannot be the foundation or the only source of stability and value. It's their job to develop leaders, structures and processes that help the company adapt and thrive in future environments.

Strong leadership and proactive succession management can lower risk for the business now and protect company value when ownership changes. Building a generational company starts today.



Resources

Access additional Wipfli research and thought leadership on succession planning, strategic planning, staff development and more.

Articles

- [How to crisis-proof your succession plan](#)
- [How to modernize your business transition plan](#)
- [Succession planning starts with transferability](#)
- [The emotional roller coaster ride of selling a business](#)
- [Succession planning starts with “success”](#)
- [Building enduring, transferable value – an entrepreneur’s dream](#)
- [Running vs. growing your business](#)
- [Does your business need a physical?](#)
- [How transition planning can be a GPS for your business](#)
- [Why is succession such a dirty word?](#)
- [The missing middle: Making succession planning part of your business’s strategy](#)

Webinars

- [Agile transition planning in the age of uncertainty](#)
- [Insights into building enduring value into your business](#)
- [Is your business transferable?](#)
- Wipfli solutions for the construction industry**
 - [Business succession planning](#)
 - [Business valuations](#)
 - [Collaboration in the cloud](#)
 - [Cybersecurity](#)
 - [Tax services](#)

Methodology

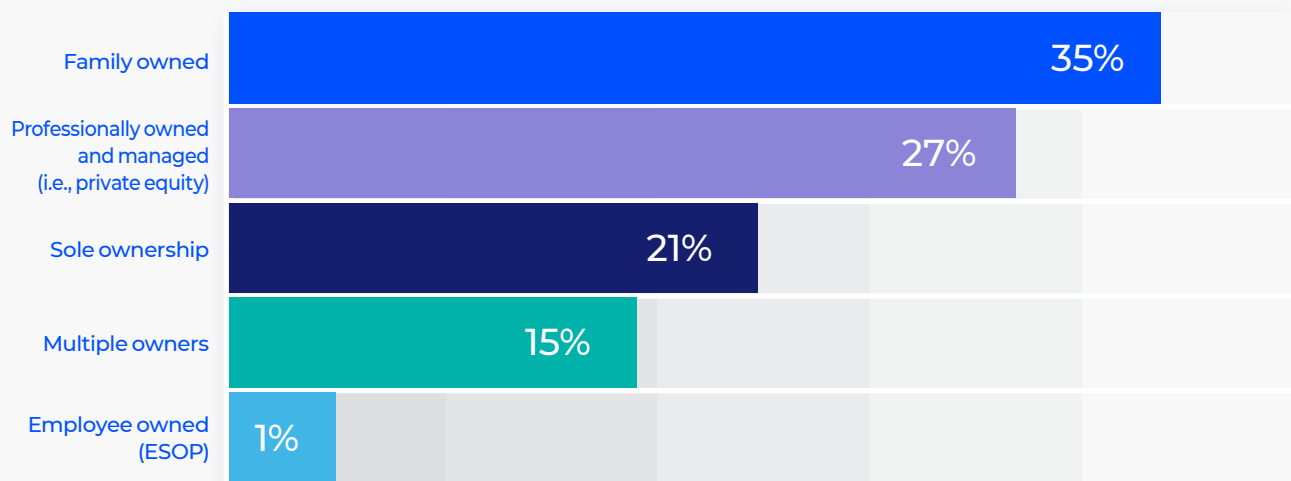
For the inaugural construction transition report, Wipfli surveyed 369 executive-level construction employees on their transition intentions, progress and concerns. The study was administered online in March and April 2021.

Participants were geographically dispersed throughout the U.S. and represented a range of construction types (e.g., residential, nonresidential, heavy and civil, building equipment and finishing). About 19% of respondents were Wipfli construction

industry clients and prospects; the balance were C-level owners for an independent, online panel.

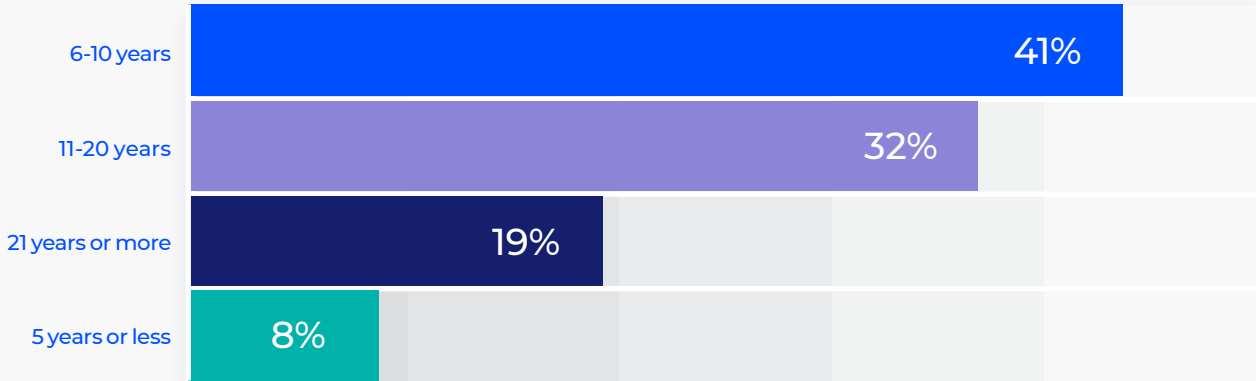
Their responses are the basis for this report, and are supplemented by commentary and best practices from Wipfli professionals.

Which best describes your ownership structure?

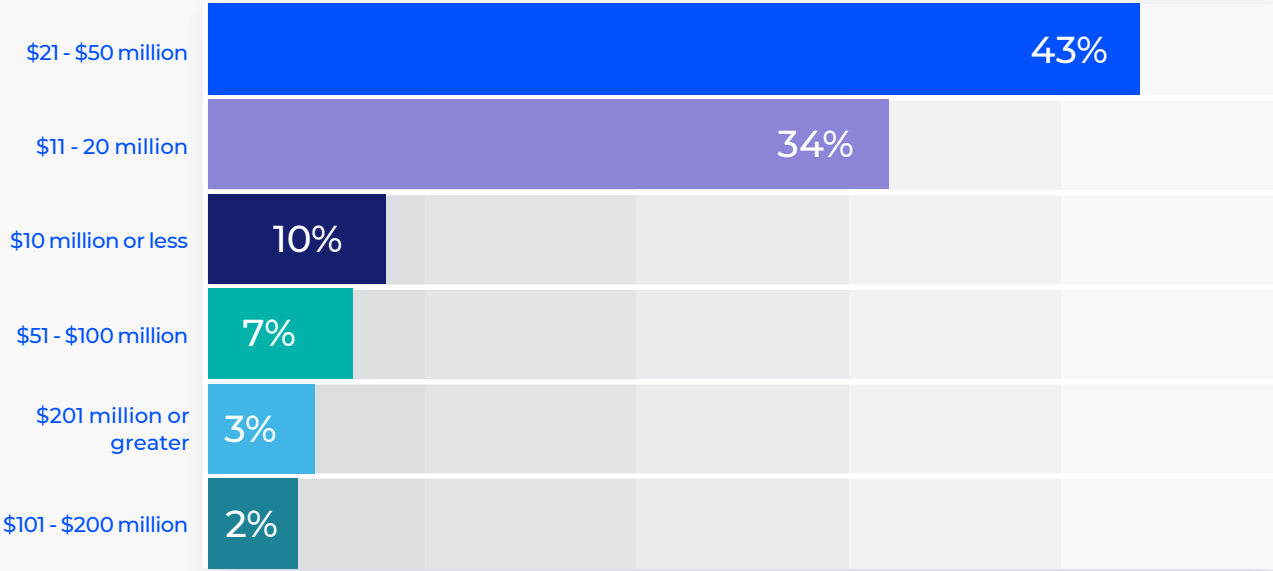


Methodology

How long has your company been in business?



What is your company's approximate annual revenue?



Build a better future with Wipfli

Wipfli's experience working with general, heavy/highway, and other specialty contractors, as well as architecture and engineering firms, goes beyond traditional accounting and tax services. Rely on straightforward advice to resolve disputes, leverage technology, plan for management and ownership succession, manage risks and more.

- Business succession planning
- Business valuations
- Collaboration in the cloud
- Construction
- Construction contract compliance services
- Corporate real estate appraisal and advisory
- Cost segregation studies
- CRM solutions
- Cybersecurity
- Dispute resolution
- Federal Acquisition Regulations (FAR) solutions
- Financial reporting and analysis
- Integrity monitoring services
- Opportunity zones
- Outsourced CFO, controller and accounting department
- Project scheduling services
- Property tax
- Real estate assessment, review and appeal services
- Real estate investor portal
- Research and development tax credits
- Section 179D energy efficient tax deduction
- State and local tax
- Tax services
- Technology management

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