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Transition Planning: Time to Reassess the Future?

With many construction businesses owned or managed by Baby Boomers, transition planning has been an industry topic of interest for some time. This interest has grown even stronger as the COVID-19 pandemic forced many construction company owners to re-evaluate their own continued involvement in the industry.

Planning a smooth transition to a new ownership team can seem overwhelming, and because of this, business owners are often tempted to delay developing a transition strategy and instead wait until circumstances force them to address the issue. Unfortunately, this inevitably limits owners' options and forces them to make complicated decisions quickly and under pressure.

One way to avoid this is to organize the many interrelated transition issues into a few major categories, including the following:

Internal vs. External Transition – The first step in developing any transition plan is to define the fundamental transition strategy. This involves answering a basic question: Are there family members or members of the current management team who are interested and capable of taking over, or will the company be sold to an external, third-party buyer? Owners need to address this question as early as possible because the answer will affect all subsequent decisions regarding timing, valuation, and financing.

Cash Flow, Capital, and Financing Concerns – Financial issues play a large role in a transition strategy. The shape of that strategy will depend on the answers to some additional critical questions: Does the departing owner need immediate cash to finance new business opportunities or other immediate needs, or is the objective to generate steady, long-term retirement income? If the owner needs cash, will likely buyers be able to access adequate capital, or will the seller need to help with financing? If long-term income is the goal, how should the payout be structured in order to protect both the buyers' and sellers' interests?

Gift, Estate, and Income Tax Considerations – After the Tax Cuts and Jobs Act (TCJA) of 2017 made major revisions to the tax code, prudent business owners needed to re-evaluate the tax consequences of their transition plans, particularly as they related to corporate income taxes, as well as their gifting and estate planning strategies. Now, as some of the TCJA's major provisions could be reversed or modified, owners will once again need to monitor developments closely and be prepared to modify their transition strategies to mitigate any potentially adverse tax consequences.

Management Continuity and Control – Most business transitions occur in stages. If ownership is being transferred to family members or other internal buyers, departing owners should begin grooming their successors well in advance and begin turning over responsibility and leadership in phases. With an external sale, it is common for the buyer to require the seller to remain active in the business during a phased transition period to help maintain existing customer relationships and complete existing contracts. Regardless, a transition agreement should clearly define both the timing and implementation to ensure a smooth transition.

Finally, remember that a transition plan is a living document. It is important to work out as many details as possible in advance, but owners also should be flexible, review their transition strategies regularly, and be prepared to update their plans in response to evolving business conditions and changes to their own needs and priorities.

Recruiting the Next Generation of Workers

As recovery from the pandemic-driven slowdown accelerates, the construction industry's chronic shortage of skilled workers, experienced supervisors, and effective managers is certain to continue—and even intensify. While some initially speculated that the slowdown might ease the shortage, in many instances the opposite has occurred.

Prolonged project shutdowns and fear of virus exposure worried and discouraged many experienced workers. Meanwhile, stimulus payments, expanded unemployment benefits, and added family responsibilities made others reluctant to apply or report for work.

At the height of the slowdown in September 2020, an Associated General Contractors of America survey of construction firms found that 44 percent of companies that tried to recall furloughed workers encountered some who refused to return, which strongly suggests the shortage will continue.

The Long-Term Issue

The root causes of these continuing pressures are obvious: for years, the industry has been facing the challenges of an aging workforce. According to the U.S. Bureau of Labor Statistics (BLS), the median age for a construction worker is 42.9 years. Of the 10.8 million workers employed in the construction industry in 2020, the BLS found 69.1 percent were aged 35 and over, and 22.7 percent were age 55 and over. On the other hand, only 30.9 percent were under age 35, and only 9.4 percent were under 25. These numbers lead to an obvious conclusion: construction companies and their recruiters must make construction employment more appealing to younger generations.

Going Beyond the Basics

Industry and labor groups have been addressing the aging workforce issue for some time. Efforts include programs targeted to high school students, marketing trade school and the prospect of a well-paying job as an attractive alternative to four years of college, tens of thousands of dollars in student loan debt, and a degree that may not translate into a career. Such large-scale marketing efforts can be helpful, but ultimately it is construction companies themselves that must resolve the issue.

Good pay and benefits are essential, of course, but a more effective approach is to offer a package that is competitive but still affordable and then to build on that foundation by adding innovative—and sometimes less tangible—features that appeal specifically to high-performing young workers.

Reaching Out to Younger Workers

Although the millennial generation (those born in the 1980s and early '90s) still gets much of the attention, forward-looking recruiters are already tailoring their approaches to appeal to Generation Z—those born in the mid-1990s and later who are either just entering the workforce or looking for new opportunities after completing entry-level jobs.

Observers contend that Generation Z is more interested in career opportunities and the potential for personal growth than millennials. Work-life balance is also considered a higher priority for Generation Z workers. Such broad generalizations can be misleading, of course, but they are worth considering when developing recruiting strategies.

Because today's younger workers grew up with technology, forward-looking recruitment programs should emphasize a company's technical sophistication and cutting-edge opportunities in workers' areas of expertise. Finally, companies should consider targeted recruitment opportunities such as internships and school partnerships that help them identify specific candidates with the right skills and motivation.

Strategic Plan Checklist

As construction businesses continue to cope with the effects of the COVID-19 pandemic—as well as the many challenges they were already navigating before the virus emerged—sound strategic planning can be crucial to their survival and success.

Although a comprehensive and effective strategic plan will encompass dozens of long-term concerns and opportunities, a few immediate issues merit special attention in today's environment.

1. Diversification

While hospitality and retail construction have been hard-hit by the pandemic, some other sectors (particularly residential construction) are thriving. With renewed federal attention on infrastructure spending, and with growing demand for specialized commercial projects such as server farms and distribution centers, construction businesses should regularly re-evaluate their market strategies.

2. Supply Chain Issues

Skyrocketing material costs have thrown many carefully estimated projects into disarray, and underlying supply chain disruptions are expected to continue. Sound vendor management practices and careful contract language can provide some protection, but companies should also update their strategic plans to reflect the long-term effects of continued supply chain uncertainty.

3. Modular Construction Advances

Offsite assembly and modular building strategies have become increasingly popular in projects ranging from multifamily residential to roads and bridges. Coronavirus-related safety concerns have added to the appeal by enabling greater control over working conditions and virus exposure.

4. Jobsite Technology

No-touch workplaces, keyless access systems, and advances in drone technology are reshaping the way many jobsites are managed. At a higher level, companies should also prepare for continued advances in building information modeling (BIM) software and other technologies that improve jobsite integration and efficiency.

5. Cybersecurity

The advent of remote working for administrative functions has further complicated IT security, an already high-priority risk management topic in many organizations.

6. Customer Relationship Management

Just as employee relations and jobsite practices have changed in response to the pandemic, customers' communication preferences and expectations have also shifted away from in-person visits toward video conferencing sessions and online meetings. A strategic plan should reflect these evolving relationships and include steps to ensure the company remains connected and competitive in this new environment.

7. Energy Conservation/Green Construction

Although not specifically related to the pandemic, green construction techniques and energy conservation projects are getting widespread attention. These could offer additional opportunities in both the public and private sectors.

Above all, remember that strategic planning is an ongoing process—not a one-time event. Regular reviews and updates are essential to maintaining a relevant and effective plan.

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Revisiting the Employee Retention Credit

When the employee retention credit (ERC) was enacted in March 2020, companies that received a forgivable loan under the Paycheck Protection Program (PPP) were prohibited from claiming the credit. As a result, many businesses decided to forego the ERC and apply for larger PPP benefits instead.

But in December 2020, the Consolidated Appropriations Act of 2021 (CAA) removed the PPP restriction. As a result, companies that received PPP loans could now be eligible to claim the ERC as well—in some cases retroactively to March 2020.

Other rule changes have also extended the program's expiration date through the end of 2021, increased the size of the potential benefit, and made it easier for companies to qualify.

For example, companies may now qualify for the ERC if their 2021 gross receipts for any quarter decreased by 20 percent from the corresponding quarter in 2019. (The original requirement for 2020 is a 50 percent quarterly revenue decline.)

Under certain circumstances, the potential maximum credit has now increased to as much as $28,000 per qualified employee in 2021 (up from the original cap of $5,000 per qualified employee in 2020). Many companies will find the number of qualified employees has increased as well.

Unlike a PPP loan, there is no separate application or approval process. A qualifying employer simply claims the ERC on its quarterly employment tax return. If the credit amount exceeds the payroll taxes due, the IRS will refund the excess.

Of course, there are detailed limitations and specific qualification criteria that must be carefully reviewed.

But with increased benefits and broader eligibility, companies that had previously ruled out the ERC could now find it merits a second look.