

Hi, everyone. This is Wayne Rivers at Performance Construction Advisors, where We Build Better Contractors.

This week, I want to talk about business succession. I know, I know you've heard Dennis and me talk about it over and over again, but it's such an important topic. And according to something I just read today, it's a big top of mind subject for 2024 for contractors. So, a member called, and he said, "I want to do succession planning. I want you guys to name the people who are going to replace me." So first of all, that's not exactly how it works. It's not quite that simple that you anoint this person or that person. And I could think of an example one time where we got it really wrong. Somebody called and said they wanted us to do succession planning for them. We were like, okay, we know how to do succession planning.

That's what we do for a living. And we went in and started, and our deliverables didn't meet their expectations at all. So that taught me right away that you need to understand what people are thinking. What's their definition of succession? So, I'm going to try to give you some definition that you can use as you think about your long-term transition plans. Now, what about this is important to you? Well, it's important to every contractor that the company's going to stick around and continue to make a difference for people. Think about the terrific Christmas movie, It's a Wonderful Life. George Bailey dreams back to, well, Clarence, the angel takes him into a time where he didn't exist and all of the good deeds he had done never happened, and the town was much worse off. And if you think about your community, your town, what you've built over the years, what a difference would it make had you not been there to do all those projects?

That's what succession's all about, making sure that your employees and your trade partners and your customers all get the benefits that you've created by being entrepreneurial. So, what are the components in my mind of succession planning? First thing, you've got to have management succession. If you think about a construction company in, say, 10 years back, 2014, and you look at your construction company today, it's probably quite different. And in 2034, 10 additional years, it's going to be quite different again. And if you've got senior leaders trying to train junior leaders in a company that's growing rapidly, there's a limit to what they can teach.

If you haven't run a \$500 million construction company, for example, you're at 200 now, it's hard to tell your successors how to run a company that might be 300 or 400 or 500 in the future. There's no track to run on there. Part of the management succession, you've got to have roles, responsibilities, and accountability for everyone among the leadership team and, of course, in the entire organization. And it's kind of a rule of thumb that great senior leaders, especially founders, founding generations, they really cannot be replaced by one person. So, you take a person who started a construction company 40 years ago, let's say, and they've got the title of president, and their roles and responsibilities are X, Y, and Z. it's probably going to take two, if not three people to replace that founder. It's taken us three to maybe four people to replace all of the things that Dennis did for us, and we're still not quite there yet.

Okay. The second piece, financial modeling. You've got to know what the future looks like. If I'm going to ride off into the sunset and I'm going to sell my shares to somebody, I need to know what that looks like for me. But just as important, the company needs to know what it's going to look like for them, because perhaps the company's never taken on debt and now you have it because you've got to cash me out over a period of time. Financial modeling for all parties, sellers, buyers, everybody needs to know what the future should look like, and you do best case, median case, and worst case scenarios to make sure you've covered everything.

The third thing, communications planning. Succession is a scary time for lots of people in the organization. They see change at or near the top and they start to get a little wary. I mean, what's going to happen to my job? What's my role? Will I get more responsibility or less? Or what are the changes going to look like? So, you've got to be able to communicate

what the future looks like to those people. Nobody likes uncertainty in life or in business, and you've got to find a way to tamp down that uncertainty as much as you can. That's communication. Over-communicate when you know your succession plans.

The fourth thing is ownership succession. When you hear succession, that's normally what you think about, because lawyers, CPAs, financial planners, bankers, that's what they write about. That's the stuff, that's the products and services they deliver, so that's what they write about. Ownership transition. Ownership transition is almost the last piece. If you've done management succession planning, if you've done financial modeling for all the parties, and if you've done communications planning, ownership succession planning looks pretty easy.

In other words, it's already helped define itself, because you've done all that other stuff. And the final component is leadership succession. Managers aren't always leaders, owners aren't always leaders, but you have to have leaders in your organization. So the leadership succession has to be part and parcel of all of these other components. So that's my five components of succession planning. I'd like to hear from you. What do you have to say? Did I leave something out? All right. And don't forget about boot camp Boot Camp is coming up. Get your high potential people signed up. Get in touch with Charlotte. This is Wayne Rivers at Performance Construction Advisors, where *We Build Better Contractors*.