



Top 5 Wealth Management Challenges Facing Construction Industry Family-Owned Businesses



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The Benefits of Building

Commercial construction companies in Chicagoland and Northwest Indiana build schools for our children; shops for food, furniture, clothes, and services; police and fire stations for our protection; hotels for our vacations; and a whole host of other structures. All of us benefit from their work.

These companies create hundreds of thousands of jobs, which are the primary support for their employees and their families. A recent AES International Survey asked entrepreneurs if increasing wealth is one of their goals. Most (94%) replied yes, with very interesting rationale:

94%

desire more wealth to care for loved ones.

71%

want to be more charitable.

13%

want to change the world for the better.

I love partnering with clients with similar goals, many of whom are commercial construction business owners. My mission is to help them achieve their long-term objectives.

Managing and growing a family-owned business in commercial construction entails high risk, increasing competition, and decreasing profit margins. Owners balance the stress and the responsibility of supporting numerous employees and their families. I recently interviewed commercial contractors - some are my clients and some are not - as well as influencers in the industry including CPAs, attorneys, architects and association leaders. My goal was to identify the top five challenges that commercial construction business owners face:



Finding and Retaining Talent



Changing Technologies



Uncertainty About the Family Business



Lack of Proactive Advice



Low Level Communication

1. Finding and retaining talent

All of the owners and influencers agreed that finding and retaining talent is a big challenge. Many experienced tradespeople are aging and retiring. Many more left the industry during the economic upheaval in 2008/2009. Companies are finding it hard to find trained, experienced, qualified, and motivated staff. The tight labor market adds stress to motivating and retaining them. Yet this internal team is critical to delivering completed jobs on time and under budget. Some owners shared that transitioning younger employees into the field where they connect with the various subcontractors and clients is taking longer because many new hires lack the necessary communication skills.

2. Changing technologies

Technology is changing how contractors, subcontractors, clients, architects, and designers collaborate - beginning with the bid process through job completion. Because there are many competing technology systems and no industry standards, many contractors need to buy, master, and support multiple systems. Some partner with specific contractors and subcontractors to the exclusion of others due to technology, creating both new opportunities and problems. The alternative is to work around the different systems with manual processes, but the potential cost is time, error risk, collection delays, client dissatisfaction and possible job losses. Technology is also changing how construction is done, requiring an ongoing learning process and careful spending policies.

3. Uncertainty about the value of the family business

Many of the owners I talked to do not understand the value of their business and how that value can be leveraged to provide financial independence and retirement cash flow. Reviewed, compiled and audited financial statements are required for bonding by the banks and often by the contractors and owners, but these documents do not determine the real value of the business. They also do not create a proactive path for releasing some of the value to the owners and their families. Most of the owners expressed frustration with the local and national associations offering little input in this area. Some have gotten great value from CEO groups and Family Business Centers operated by universities. Often, owners seek opportunities to share best practices and to brainstorm ideas with others in their industry.

4. Lack of proactive advice

Most of the business owners I talked to spend the majority of their time working "in" the business and spend the remaining time with family, friends and outside passions. Few spend time "on" the business, strategic planning for growth and next steps. I feel like it should be required that every business owner read the book E-Myth! Most of the owners I interviewed do not receive proactive planning from their team of advisors (CPA, private client attorney, insurance specialist, banker, financial advisor and others) and instead typically meet separately with each of them on focused projects (tax returns, contracts, investments, lending, and insurance meetings). There is a lack of team coordination and a sense of "politely pushing" for a strategic planning meeting. Full disclosure, several of my clients tell me I need to push them more to complete planning tasks. I am working on their accountability!

5. Low level communication





All of the business owners and influencers agreed that owners struggle with how transparent to be with the next generation. They are uncertain about when to start succession planning and who to talk to. As a result, the succession process is often started too late to maximize the benefits. Lack of communication and transparency is the most significant cause of failure in succession and wealth

transfer plans. Many of the “NextGen” family members expressed frustration with lack of role clarity. The younger generation expressed more confidence that succession plans will essentially come to fruition, but they are concerned about day-to-day operations without role and career path clarify.

A Comprehensive Approach

While these issues can pose significant challenges for many family business owners in the commercial construction industry, they can be systematically addressed to help increase the likelihood of achieving long-term goals. Most of the owners I talked to work with an investment advisor to get traditional Investment Management services focused on Wealth Preservation. Others work with a financial advisor who addresses a limited number of goals and tends to work on projects or calls when cash needs to be invested.

HighTower Great Lakes takes a much more holistic approach in serving our clients. We ensure that we regularly discuss all aspects of Wealth Management:

	Wealth Enhancement (WE) - Plan cash flow and savings; mitigate taxes.
	Wealth Transfer (WT) - Prepare heirs to receive wealth responsibly; preserve the family legacy.
	Wealth Protection (WP) - Help ensure assets are not unjustly taken.
	Charitable Giving (CG) - Make charitable giving impactful.

Entrepreneurial family business owners in the volatile commercial construction industry have inherently complicated portfolios and situations, and they need more ongoing advanced planning and advice. At the very least they need to be working with a wealth manager who can proactively prepare, monitor and communicate advanced planning strategies and help manage a team of professionals to ensure they reach their goals.

We use this formula to define Wealth Management:

$$\text{WM} = \text{IM} + \text{AP} + \text{RM}$$

The first element of Wealth Management (WM) is Investment Management (IM). Owners need a fiduciary process focusing on investment returns, investment risk and tax efficiently. Our research revealed that many owners need more than just assistance in managing their investments. This is why Advanced Planning (AP) is so critical. The third element of Wealth Management is Relationship Management (RM). To help clients achieve their most important goals, we as wealth managers cultivate personal, consultative relationships with our clients while establishing relationships with their other advisors and industry experts to ensure that we identify and address all challenges. No one person can be an expert in each of these complex areas. Hightower Great Lakes collaborates and communicates with each supporting team member in each level of expertise to ensure that our clients' portfolios reflect their long-term goals.

Taken together, these three elements comprise a wholesome, systematic approach that can help family business owners make informed financial decisions for themselves and their families.

Many entrepreneurial business owners benefit from the guidance and support of Wealth Managers as well as Virtual Family Office Services. Family Office Services include bill payment, budgeting, property management, insurance tracking, audits and other services. We also source, screen and contract best-in-class professionals to provide these services, as well as lifestyle services for special projects for clients.

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Start your move from piecemeal to comprehensive and proactive by stress-testing your wealth plan. Take a financial stress test to ensure you are using the best available wealth management solutions. Contact Tim Scannell, CPA, CFP® for more information.



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