Making Their Mark in Healthcare Innovation

Healthmark Industries celebrates 50 years of bringing in-demand tools for cleaning medical instruments.

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Entrepreneurs and business leaders wake up each morning with a powerful drive and determination to be successful. They know who they are and what they want. But no one is ever successful alone. The best entrepreneurs find a way to clearly and openly communicate their purpose and what it is they’re driving so hard for. To lead effectively, they must inspire their teams to share in that purpose and be passionate in its execution.

Such is the case with the entrepreneurial leaders featured in this issue. **Ralph Basile** of Healthmark Industries has set out to extend and enhance his father’s vision of continual innovation in the surgical instrument cleaning and sterilization space. **Sam Pines** of Good Karma Brands is determined to help his team stay connected while they grow their many brands and engage with the marketing company’s dedicated fans. And **Steve Trapp** of Venture Plastics is motivated to continue growing the business while creating a “best workplace” environment that gives employees opportunities to learn and grow.

Purpose coupled with passion is a powerful combination and has served these entrepreneurs and their companies well.

We hope you continue to enjoy this publication as much as we enjoy bringing it to you. Call or email me anytime if I can be of any help to you, or if you just want to chat, at 216.774.1102 or rmyeroff@cohencpa.com.
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However, acting on the changes only if a partnership is audited is a risky line of thinking, says Kim Palmer, a tax partner at Cohen & Company and head of the Partnership Group. In our interview, she shares the most critical areas and options to consider proactively.

Taxonomics: Let’s start with a recap of the new rules and what has changed.

Palmer: Historically, individual partners were responsible for paying any tax and related interest and penalties resulting from an IRS audit of the partnership. However, it’s been difficult for the IRS to collect on those liabilities. The number, size and complexity of partnerships have grown. It’s now common for partnerships to have other partnerships as their partners, making the number of taxpayers the IRS must track down during an audit staggering to near impossible. This complexity, along with cumbersome audit rules and a decreasing IRS staff, has resulted in a new set of rules beginning with the 2018 tax year for calendar-year taxpayers. Now the partnership entity is responsible for paying tax and related liabilities resulting from an audit and will do so at the highest individual or corporate tax rate. Also, the payment will occur in the year of the IRS adjustment, which means members could pay for mistakes that occurred before they were partners.

Taxonomics: Those sound like significant changes. Where should partnerships begin to mitigate the impact?

Palmer: Start by determining if opting out of the new rules is an option. A partnership can opt out if it has only certain types of partners, namely individuals; corporations, including S Corporations and certain foreign entities; and estates of deceased individuals. The partnership cannot issue more than 100 K-1s, including those issued to any S Corporation partner and to each of the underlying shareholders of all S Corporation partners. The partnership also must notify its partners within 30 days of making the election and must make the election annually. The result, of course, is that each partner will handle their own audit and be responsible for any liabilities.

Taxonomics: Is opting out the best option?

Palmer: Not necessarily. Each partnership will need to ask themselves some tough questions. For example, while opting out may save the partnership dollars and relieve some of the headache, what will that do to partner relations? Pushing the tax liability back to partners, so they have to amend their own returns if the audit results in a liability, may not be received favorably.
Taxonomics: The new partnership representative role has been talked about quite a bit. What is it and who is eligible?

Palmer: The partnership representative is a designated individual or entity that will make all decisions on behalf of the partnership during an IRS audit. The tax matters partner — who previously handled tax issues on behalf of the partnership — is no longer recognized. Now, each partnership must designate a representative, or the IRS will do it for them. The representative does not have to be a partner but must have a “substantial presence” in the U.S. It’s important to note the tax matters partner does not automatically become the partnership representative. This new designation is critical to address on tax returns annually from here on out.

Taxonomics: Why is this role so important?

Palmer: The partnership representative has much more power than its predecessor. The representative has exclusive authority to act on behalf of, and bind, the partnership in any federal tax audit or related judicial tax proceeding. The representative also can make, or choose not to make, any elections available under the new audit rules. So, when thinking about who the representative will be, understand that their say is final in the eyes of the IRS. If the representative makes a decision that goes against the partnership’s wishes, the IRS will still accept it. And, if the partnership fires its representative, the IRS can still go to them unless it is specifically changed in the partnership agreement.

Taxonomics: Is the partnership agreement where partnerships can best protect themselves?

Palmer: It’s not fool-proof, but it is the best place. Partnerships need to work with their legal counsel to update their agreement regarding a representative’s authority, responsibilities and any contractual restrictions, such as consulting with management before making certain decisions. If the representative doesn’t comply, the IRS will still accept their decision as binding, but the partnership will have recourse with the representative separately from the audit. It’s imperative to amend the agreement as soon as possible, removing everything about the tax matters partner, and specifying how the partnership representative will be chosen and the replacement process. It may be beneficial to cite a particular role to serve as the representative, such as the individual holding the title of CFO.

Taxonomics: What other changes to the partnership agreement are important?

Palmer: Think about, and clearly state in the agreement, who will directly or indirectly bear the tax and related costs of adjustments — the partnership and its current partners, or those who were partners during the years under audit. Also state whether or not the opt-out election will be made on the tax return, assuming the partnership is eligible. Be clear on whether or not the partnership will allow transfers of partnership interests to an entity that would make the opt-out election ineligible.

Taxonomics: If and when the time comes for an IRS audit, will partnerships who made these changes ahead of time be fully prepared?

Palmer: Examining the opt-out election and making the partnership representative election now, and amending the partnership agreement accordingly, should put partnerships on solid ground in the event of an IRS audit. But once an audit happens, there will be other timely considerations to address, such as making a “push-out” election to hold partners from the years under review responsible for any liability, or choosing an option that could allow partnerships to reduce the taxes they owe. Most importantly, focus on what needs to happen now to be ready.
Good Karma began in 1997 as a radio broadcasting business in Beaver Dam, Wisconsin. Now headquartered in Milwaukee, the company has evolved into primarily a marketing company with an expertise in sports and events. Its portfolio includes a series of radio stations that go to market under the ESPN brand, and it hosts more events than there are days in a year.

“We don’t care how many ratings points we deliver,” says Sam Pines, vice president and sales manager who also heads up Good Karma’s Cleveland office. “We care how many fans we activate to support our advertising partners, and in that, our teammates have opportunities to grow.”

Fans are listeners. Partners are advertisers ranging from national names to local businesses. Teammates are employees.

Good Karma focuses on a hometown-gone-digital approach, with today’s media giving everyone a chance to reach the ideal target audience. And in this world, ratings don’t tell the whole story, or the back story. “We have always been about our fans, teammates and partners getting results. It goes back to our start in Beaver Dam, which at the time was a town of 14,000 people. Our salespeople would see the car dealer they sold an ad to at a Little League game or around town,” Pines relates.

Fans. Partners. Teammates. That’s what matters to Good Karma Brands, a game-changer in the modern marketing world, proving that ratings don’t matter as much as relationships.
Mike McGivney, partner-in-charge of Cohen & Company’s Tax Department and partner on the Good Karma account, says Good Karma’s excitement for the business is contagious. “They are passionate about what they do,” he says of the longtime client. “They are engaged. They know when to call us. And, they like constant dialogue, which brings us up to speed on their business.”

Pines adds: “We talk about how quickly media and marketing continues to change, and the same goes for tax codes and laws. It’s an amazing resource to have experts you trust. I hope our team of marketing consultants are looked at by our advertising partners the way we look at Cohen & Company.”

What does that look entail? Perhaps one of understanding — of caring about the “game” and not the ratings, of “getting it” at a local, more personal level. That’s what makes Good Karma and ESPN Cleveland different than some other media assets of a similar size, Karmazin points out. “When you look at media consolidation in this day and age, there are very few companies owning the largest media properties in the largest markets in the country, so having local ownership in a market like Cleveland with Sam Pines and what we have here is so rare,” he says.

But the team’s commitment goes beyond the business to include a genuine investment in the community. “Our involvement starts from the top with Craig,” says Pines. “He has always pushed us to get involved in organizations we are passionate about, and not just for networking,” Pines continues, as he rolls through a ticker of charitable associations his team is personally invested in because they want to be.

Pines adds, “It’s important to be part of the community both from a giving-back standpoint and as a business in the community because we have a great economic and social impact.” Pines himself serves on the boards of the Greater Cleveland Sports Commission, Milestones Autism Resources and the Northeast Ohio Chapter of the National Football League.
Foundation. He spent nine years on the Boys and Girls Club of Cleveland Board.

“We find things we are passionate about, and where we can align with great leaders,” Pines says.

This philosophy relates to how ESPN Cleveland and Good Karma Brands represents its partners and teammates, and speaks to its fans with passion. “Whether it’s a cell phone partner or an interior design firm, if you put the teammates in the right place to interact with fans, everyone is going to succeed,” Pines says.

The Local-Digital Edge

Strategic growth for Good Karma brands has opened up brand partnership opportunities outside of the sports arena. “Our expansion has been driven by our culture, so while we started primarily in broadcasting that was focused on advertising, marketing partners and listeners, we found that we could execute at a best-in-class level and create passionate fans in other ways,” Karmazin says.

Specifically, he’s speaking of Good Karma’s expansion into industries such as wireless, events and home solutions. This gives the company a way to reward and cultivate its team. “We have so many unique and different entries into a career at Good Karma Brands,” Karmazin points out. The organization now has over 150 associates.

Meanwhile, the company maintains its digital edge with open dialogue among its team members and constant learning. Every Wednesday, marketing consultants join a call to talk about trends and solutions that fit into today’s landscape, and how ESPN Cleveland plays a role. “We want to make sure each team member is a true marketing person and not just a salesperson,” Pines says.

On Tuesdays, educational calls focus on radio station events. “We’ve seen great results with those calls and lots of growth in our team — and it forces us to stay up on what’s new,” Pines says.

One of those “new” areas Pines and his team is leveraging is Good Karma’s relationship with ESPN Hometown, a division of ESPN that allows Good Karma to offer advertising on ESPN’s digital properties, geotargeted to specific markets. With Good Karma, local advertisers can now put together a media plan that includes video or display advertisements within live video on WatchESPN, the ESPN app or ESPN.com. It’s essentially micromarketing. For example, a car dealership can direct its message to only those watching ESPN’s NFL videos or listeners in a certain city.

Karmazin is excited about the growth in Cleveland’s digital market. “Our relationship with ESPN gives the ability for local marketers to have access to ESPN’s inventory, which has previously only been available to top national brands. Being able to give local businesses the opportunity to be on ESPN.com and the ESPN app, and advertise on ESPN’s over-the-top television products is an explosive growth opportunity for us and the local businesses that take advantage of it.”

And now, Good Karma and ESPN Cleveland have one of the hottest tickets in town — the Browns. “We get to be part of the hype leading up to and during the seasons,” Pines says. “We are even talking about the Super Bowl in the next five years — that’s fun!”

Good Karma Brands
www.goodkarmabrands.com

See how Cohen & Company’s tax team can add to your winning team during your next acquisition. Contact Mike McGivney at mmcgivney@cohencpa.com.
Healthmark Industries celebrates 50 years of bringing in-demand tools for cleaning medical instruments
It seems almost every day the healthcare industry introduces new medical advances aimed at improving patient care and outcomes, such as minimally invasive surgeries that help patients get back on their feet faster with less post-operative healing. It’s often new tools and devices that make these advancements possible.

But most people never think about how those tools are managed after a procedure, whether a routine checkup or complex heart care. How are they cleaned? What processes are in place to assure proper cleaning occurred? How are instruments sterilized and processed for use on the next patient?

This space is where Healthmark Industries of Fraser, Michigan, shines. For 50 years, the family owned company has been serving hospitals and healthcare facilities responsible for cleaning, disinfecting and sterilizing surgical instruments. “There have been big-time innovations in medical devices that have meant improved care for patients, but devices today are much more difficult to clean, disinfect and sterilize,” says Ralph J. Basile, vice president of marketing and regulatory affairs.

Devices today are smaller and include more components, making them more challenging to clean — especially with traditional methods. “That has created opportunities for us because we have developed and introduced market tools that help make sure these devices are clean and ready to use,” Ralph says.

Constantly evolving with the fast-changing healthcare market is part of Healthmark Industries’ success. “We introduced to North America the first tool developed to give an objective measure, or test, to determine whether specialized [medical device] washers are working properly,” Ralph says, pointing to a recent example of the company’s innovations.

Basically, the tool ensures the washer is doing its job. It’s a quality control product in many ways. The company has continued to add products in that area, including a rapid test for bacteria that is helpful for endoscopes.

But Healthmark’s story is about much more than the medical cleaning tools it provides. It’s about a family’s commitment to growth and success that has been passed through the generations.

All in the Family
Healthmark was founded by Ralph’s dad and namesake, Ralph A. Basile, who at the time worked as a national sales manager for a medical device company. He saw an opportunity surrounding autoclavable bags, which he believed could be used to collect contaminated items and bring them to the sterile processing area. Inspired by the idea, in 1969, he and his wife, Suzanne, opened the doors to Healthmark Industries.

Ralph J. reflects back to when he was young — one of three brothers who grew up in the family business. “Like the vast majority of start-ups, the first ‘facility’ was our home, and the first ‘warehouse’ was our garage. The first ‘office’ was in the basement. My brothers and I remember getting paid for every piece of literature we stamped. I often joke, ‘I still have paper cuts from those days!’

The autoclavable bag product was the first step in a decades-long partnership with the professionals and departments that clean, disinfect and sterilize clinically used medical devices; the bags also served as a growth engine during the early years of the business. Then in the early 1990s, when OSHA introduced new rules for the safe retrieval of contaminated, reusable sharps, the Basiles saw yet another opportunity. Accordingly, Healthmark developed its line of SST tray systems, which collect and transport reusable contaminated instruments and sharps, that were both affordable and compliant with OSHA regulations.

Of course, the industry’s opportunities were, and continue to be, balanced with challenges.
“The engines for growth and opportunity in our industry are three-fold: new technologies, changes in regulations and standards, and changes in clinical practice,” Ralph says. “Not surprising, there is overlap in these areas. Each of them creates opportunities to develop new or modified products to help our customers meet the challenges of change these factors create. For Healthmark, this has been our key to long-term success.”

Suzanne Basile, 86, still works in the business and serves as its controller, while the next-generation Basiles are continuing the family tradition of innovation and opportunity in an ever-changing market. The growing business that successfully transitioned to Ralph and his brothers — Mark, who serves as president and Steven, VP of sales — is now welcoming the third generation. Mark’s son, Daniel, serves as director of finance and “is tasked with learning everything my mother knows,” Ralph quips. Ashlynne, Steven’s daughter, recently joined the company in a sales role.

“All three sons have helped the company grow, and now their kids are joining the team, which is great to see,” says Roula Tsaprailis, a tax director at Cohen & Company who works directly with the Healthmark Industries team.

“As the business has grown, it gets easier to clearly define responsibilities and spread those out,” Ralph says of the family dynamic. Cohen & Company has guided the family on ownership issues throughout the process and continues to ask tough questions so the family can address key issues and make sound decisions.

As the third generation becomes more integrated into the business, a structure will be in place for company ownership to be transferred to them over time, Ralph says, adding it’s a work in progress.

Expansion in Products and People

Healthmark Industries was once a company of 15 people. Today, there are more than 200 employees in a range of capacities, from sales to customer service to skilled manufacturing. “With the growth they’ve had, we help them ensure they expand at the right pace and that they continue to be profitable,” Tsaprailis says.

Gaining certain tax advantages has been helpful, Tsaprailis says, noting the team worked through a transition to an S Corporation a few years ago to alleviate some of the tax burden and capture profit opportunities.

Healthmark’s product line continues to grow as well. Traditionally, the company had been a significant distributor of products, but now it has become a manufacturer after gaining a license through a technology transfer agreement from a German company. Today, Healthmark is manufacturing those products in its Michigan facility.
The company’s recent entry into manufacturing will improve profitability and close a supply chain gap. “We can be more efficient and have greater control over our inventory — and also help our German partner scale up without making an additional investment, so it was a win-win,” says Ralph.

With now more than 9,000 SKUs in its catalogue, Ralph points out that almost every hospital and most outpatient and surgery facilities have purchased something from the company at least every couple of years.

Expansion also has afforded the company the ability to add jobs in its Michigan market, and that makes the Healthmark team proud, Ralph says. “We have hired a lot of people in recent years, and we will continue bringing in more people with skills we don’t have,” relating that this has been the key to introducing new products. “We were even able to qualify for a tax credit from the Michigan Economic Development Corporation for creating technical jobs requiring STEM skills.”

Another key to Healthmark’s growth has been its recent acquisition of French company LTA Medical, which manufactures cleaning brushes for medical devices. Healthmark previously assembled its own brushes, but LTA Medical’s advances in this arena were attractive to the Basiles. Plus, Healthmark was an LTA customer.

“Buying a foreign entity was new for us, and Cohen & Company was very helpful and continues to assist us as we integrate the business and figure it out from an accounting standpoint,” Ralph says.

The Basiles are transitioning the businesses gradually — and mindfully. “This asset will be a huge advantage for us, as we are investing in our ability to make things and we are always adding new products,” Ralph says. “New products are the lifeblood of any company.”

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**TAX TAKEAWAY**

**Challenge**
Help Healthmark structure the ownership of a new foreign entity in the most tax-efficient way, taking into consideration the international provisions of the Tax Cuts and Jobs Act.

**Opportunity**
Cohen & Company began by considering the structures of both Healthmark and the target entity to understand how the new law would impact the tax portion of the transaction. As an S Corporation, Healthmark had to be particularly mindful of the global intangible low-taxed income, or GILTI, provisions. GILTI was poised to increase the worldwide effective tax rate on the foreign company income to over 55%. Cohen & Company analyzed the facts and circumstances and presented Healthmark with various scenarios to consider. As a result, the company structured the purchase in a manner that resulted in a much lower worldwide effective tax rate and created significant permanent tax savings.
This broadly applicable program, which seeks to connect millions of dollars of unrealized gains with long-term investment opportunities in distressed and low-income communities, is set to impact all 50 states and U.S. territories.

“Investors win because they can defer paying tax on capital gains if they invest those gains into Qualified Opportunity Zone Funds,” says Adam Hill, partner-in-charge of Cohen & Company’s Real Estate & Construction Group. “Developers and business owners in the zones win because the program will generate more interest in and access to capital for community development projects — resulting in a reduced cost of capital to revitalize blighted neighborhoods.”

Similar to other popular tax credit programs, such as the New Markets Tax Credit or the Historic Tax Credit, the QO Zone program comes with its own set of complex rules and stipulations. However, Hill and those he’s working with to help clients take advantage of the program view the benefits as well worth the effort — for both taxpayers looking to invest and businesses looking for new sources of capital.

Investing in Opportunity

The program offers two primary tax incentives for a wide range of potential investors. First, taxpayers can temporarily defer tax on realized capital gain by making a deferral election and then reinvesting the gain into a QO Zone Fund within 180 days of realizing the gain. Tax is deferred until either the investor sells their interest in the fund or December 31, 2026, whichever comes first.

“The longer the investment is held in the fund, the better off the investor will be,” explains Hill. “If the investment is held for five or more years, the capital gain that was originally deferred will be reduced by 10%. If held for seven or more years, the original capital gain will be reduced by 15%.”

Secondly, but perhaps even more importantly, is the chance for a permanent exclusion of any post-acquisition appreciation on the original investment made in the QO Zone Fund. That option is available if a taxpayer holds the investment in the fund 10 years or longer.

Investor education is already underway, helping taxpayers understand the parameters surrounding the program and how to maximize its benefits.

“The key is understanding the intricate rules that govern the program,” says Hill. “For starters, investors need to understand what is an eligible gain, who is eligible to invest, what is an eligible interest and when does the reinvestment need to occur.”

All of those questions and more were answered in proposed guidance released in October 2018 and April 2019. Essentially, almost any taxpayer is eligible if they recognize capital gain for federal
income tax purposes. Qualifying taxpayers include individuals; C Corporations, including regulated investment companies (RICs) and real estate investment trusts (REITs); partnerships; S Corporations; and trusts and estates. Qualifying gains include virtually all types of gain treated as capital gains for federal tax purposes.

“Short- and long-term capital gains qualify, so this program is broadly applicable to just about anyone realizing a gain and looking to minimize their related tax burden,” says Hill.

Creating Your Own Destiny
One of the great things about the program is that investors can become the masters of their own fate in a sense, creating their own fund to raise capital to reinvest in eligible investments.

“We’ve worked with a lot of our clients on creating their own QO Zone Funds,” says Hill. “It’s important to weigh the benefits and risks of starting a new fund and becoming its manager. We’ve already seen clients using their own funds to purchase or substantially improve properties in ways they may not have been able to without the program.”

The process of creating a QO Zone Fund was greatly simplified when guidance confirmed this type of fund would be able to “self-certify.” The entity being designated as a QO Zone Fund must be a corporation or partnership for federal income tax purposes and be created or organized in one of the 50 states, the District of Columbia or a U.S. possession. A limited liability company taxed as a corporation or partnership is also eligible.

There are many details that will make the fund viable or not, such as carefully selecting the first month in the year it wants to be considered a QO Zone Fund.

“Failing to choose the first month of the fund’s year is one of those details fund owners can’t afford to miss,” says Hill. “It comes back to the 180-day window investors have to invest their eligible gain. Not specifying the month of the fund’s existence could result in an eligible investor missing the 180-day window to invest and take the deferral.”

While certifying a fund qualifies is the first step, it’s what comes next that deserves the most thoughtful consideration and planning. Forming a fund means creating a business, which comes with many of the challenges and decisions newly created operating companies face.

“Entering into the realm of fund management means owners will have to model out and decide what type of entity structure makes the most sense, determine how to handle a host of governance issues throughout the life of the fund and understand what the personal tax ramifications may be for the owners,” explains Hill.

Not All Said and Done
Before investors or entities decide to move forward in the QO Zone Program, there are a couple of other key considerations to keep in mind. First and foremost, consider whether the investment makes sense for your portfolio and goals.

“Investing simply to save tax is never a good plan,” says Hill. “This program offers many benefits, but if the result doesn’t work with your overall investment strategy, it’s not the right opportunity.”

Then there are state considerations to take into account. Generally, most states use federal taxable income as a starting point for determining state taxable income. That means a change in how federal taxable income is determined may cause a change in how state taxable income is calculated.

For better or worse, not all states conform to the Internal Revenue Code in the same way. Some states already have proposed bills to allow a nonrefundable tax credit for certain investments in QO Zone Funds that invest in state-specific QO Zones, while other states have passed legislation opting out of this program entirely. A state-by-state analysis of a taxpayer’s specific situation may be necessary.

However, the federal guidance provided on the program to date leaves Hill confident, adding “The information we have now draws a clear path for investors and funds to begin truly taking advantage of this program and its tax benefits.”

Contact Adam Hill, CPA, at ahill@cohencpa.com to discuss how the QO Zone program could benefit you. Visit cohencpa.com/oz for more information on the program.
Being named one of the “best places to work” is a stripe Venture Plastics strives to earn — providing a family focused, opportunity-filled environment where motivated team members can learn and grow. But, that’s not so easy, points out Steve Trapp, president of the custom injection molding company, with plants in Newton Falls, Ohio, and El Paso, Texas.

Attracting and retaining skilled manufacturing talent and engineers is a significant challenge in today’s economy. Even a longtime family business with tenured employees has to constantly focus on creating a positive, rewarding work environment. Major stockholder Ken Groff, who started the business in 1969, relates, “You’ve got your building and equipment, but if you don’t have good people you are stuck in the mud. Give us the people, and we’ll be around for a while.”

People and pursuing what’s right are tenants of the business. In fact, Groff started Venture Plastics when his former injection molding employer didn’t want to pursue a plastics program he believed in.

After getting permission, he left that company and started his own.

Throughout the company’s 50 years in business, Groff says long-term relationships with employees have helped the company grow. Venture Plastics has tripled in sales, from $13 million when Trapp joined as president 15 years ago to more than $39 million today.

“We just finished our 10th consecutive record sales year,” Trapp reports. “And, as we go into 2019, we are forecasting an 8% increase in sales — that’s after a record sales year in 2018.”

People make this happen.
That’s why the management team decided to hunker down last year and focus on culture. After all, the homegrown business is now 200 employees strong and has expanded exponentially in the last decade. “We have made such progress that we believe we are one of the best places to work,” Trapp says. “That’s always our goal.”

The Value of Human Capital
If you can’t find talent, grow it. If you have committed people on board, give them opportunities to learn and climb the ladder. These are basic principles Venture Plastics values as it manages a workforce transition where a “help wanted” ad for a tool-and-die operator doesn’t necessarily draw in candidates like it once did.

“We provide opportunities for personal development, and education is supported,” Trapp says, relating that on-floor learning and career-development curriculum is offered to anyone who wants it.

Education and expertise is a competitive advantage for Venture Plastics.

“We are an engineering-driven company,” Trapp says. “We bring plastic engineering solutions to our customers, and we have strong technical prowess inside our facilities to bring them some of the best automation and tool building.”

Trapp continues, “I’m always proud of how our engineering group is perceived when we sit down with our customers’ engineers, quality team or production staff. It’s a big part of why our customers respect and like doing business with us. We bring the technical expertise, and that’s so important in the business we are in.”

What’s perhaps most important — even more so than shareholder returns — is the more than $8 million payroll that goes straight to the communities where employees live and support their families, Trapp says. “We have great folks, and we want to make this an even greater place for them to work and make them greater people for their communities,” he relates.

Feeling the company’s impact at a more local level was important to Trapp, who, prior to joining Venture Plastics, served as vice president of sales and marketing at GI Plastek and in various sales and marketing management roles with B.F. Goodrich Chemical (now PolyOne). He currently serves on the board of PolymerOhio and Ohio’s Manufacturing Extension Partnership.

“Joining Venture Plastics gave me an opportunity to be part of a privately held family business with a unique and attractive work culture,” he says.

Maintaining Balance and Growing Capabilities
Venture Plastics is a one-stop shop for top customers such as Nissan and other “A-list” clients. The company has invested in machines and technology, such as its recent purchase of a 1,450-ton press.

“This is the largest press we’ve had in our production history,” Trapp notes, sharing that it was acquired for an auto application for the Nissan Altima brought online at the end of 2017. “The part required a much bigger tonnage press.”

It’s a differentiator for Venture Plastics. There are approximately 5,000 custom injection molders in the country, but only 3 to 5% play in this big-tonnage space.

Cohen & Company vetted the purchase and walked Venture Plastics through the numbers to help ensure it was a wise move. The firm also consulted regarding financing issues, working directly with Venture Plastics’ bankers, but also challenging the company to think things through from every angle. “Whenever a client is considering a purchase like this, we play devil’s advocate,” says Kerry Gubics, the Cohen & Company partner who has worked with Venture Plastics for over 25 years. “We ask, ‘How much is the machine going to cost?’ and, ‘Where will you get it? Is it going to be new or used?’ We also evaluate the payback period. We ask challenging questions from the start to better prepare them and the business.”

Tax savings have played an integral part in the company’s expansion, which not only includes the...
new machine but also the 17,000-square-foot addition to the Newton Falls plant and an extra 16,000 square feet at the El Paso location. One key strategy has been to implement an Interest Charge Domestic International Sales Corporation, commonly known as an IC-DISC. “This tool can lower the tax rate up to 20% when a company makes or distributes U.S. products and then exports them outside of the U.S.,” says Marc Mazzella, a Cohen & Company tax director who works closely with Venture Plastics. “Due to a technicality, Venture didn’t think they could qualify at first, but we researched the issue further and found they could.”

For Venture Plastics, the IC-DISC was a clear win, translating to nearly $50,000 in tax savings per year.

Open communication and intimate knowledge of Venture Plastics’ business and its people enable Cohen & Company to better advise the business and recommend solutions that can make an impact. Gubics notes how the group gathers quarterly to review the company’s latest projects and where it stands from a performance standpoint, and annually reviews Venture Plastics’ operating plan. Gubics and Trapp meet on an almost monthly basis as well. “This way, we can help them plan for the appropriate distributions and tax payments to better manage cash flow,” Gubics says.

Venture Plastics serves the auto/heavy truck/railroad, appliance, telecommunications, medical, industrial and consumer markets. One segment that didn’t exist 10 years ago but is a leader today is stand-by power/industrial battery. “These are for cell phone towers, utility companies or computer backups,” Trapp explains.

Always, balance is a focus, and that’s something Groff has emphasized throughout his tenure. “We have survived customer bankruptcies because we diversified and kept running,” he says. One such potentially devastating situation occurred when the customer that was an impetus for opening Venture Plastics’ El Paso plant filed bankruptcy — after Venture rented the space, put in equipment and opened the doors. “We stuck with them and we were eventually deemed a critical supplier — so we worked through it, and they’ve been a good account,” Groff says. “Now, because of diversification, we could handle that type of situation more easily if it were to happen again. By design, we really don’t want any market segment to be much more than 30% of our total consolidated sales. We want that balance so if anything goes awry with one specialty market, we have others that are keeping us healthy.”

Balance also includes balancing ownership and tax liabilities. Even though Venture Plastics is family owned, only a few family members are active in the business. Groff’s son, Tim, serves as corporate asset manager; Groff’s sister, Gayle Lockhart, serves as receptionist and human resource assistant; and his son-in-law, Gary Flattum, is executive vice president of operations. Groff’s other children are part owners. Cohen & Company’s long-standing relationship has been helpful here as well — guiding Groff regarding ownership structure, and estate planning and succession planning strategies, such as Qualified Personal Residence Trusts, to help minimize tax and protect assets for all members of the family.

Considering succession, his family and the future of the business, Groff is happy where Venture Plastics stands. “I think we remain very HIPP, which stands for honesty, integrity, principle and pride,” says Groff, sharing the acronym he created as a sort of moral pathway. “That’s the basis of how we do business.”

A Trusted Place for Your Home

Challenge
Identify how business owner Ken Groff could protect the personal assets of his estate.

Opportunity
With a solid understanding of Groff’s estate plan and goals, Cohen & Company recommended he move both of his personal residences into Qualified Personal Residence Trusts (QPRTs). Entering into a trust would protect his personal residences from future business liability and remove them from the estate at their current value — freezing them at that value and at a reduced gift tax rate. Importantly, the QPRT allowed Groff to retain and use the residences for a predetermined number of years. Since he would still be paying for various operational expenses throughout the term of the trust, he also could continue to claim any related income tax deductions, such as the real estate tax deduction. Once the stated term is up, ownership will pass onto the QPRT’s beneficiaries and reduce Groff’s estate tax.
From basic infrastructure to collaborative tools, information technology is the backbone of almost all successful businesses. Cohen & Company is no exception. But a commitment to transformational technology — using tech to change not only the business but the way the business ultimately serves its clients — means integrating technology with strategy. That’s been the focus at Cohen & Company for several years.

“It’s about having a thirst for improving not just technology and efficiency, but also the client experience,” says Mark Schikowski, the firm’s COO. “Whether we’re talking about adding people, software or even robotics, we are constantly evaluating how to strategically integrate all of our technology resources in a way that will enhance client service.” Accordingly, the integrated IT team not only supports firm operations but, by extension, client engagement and satisfaction. Key team members include application developers, business analysts and client-facing accountants.

“Our team bridges the critical gap often found between technology and impact to the client,” says Dave Marcus, Cohen & Company’s CIO. “Business analysts act as critical liaisons between accountants, who best understand client needs, and developers who customize solutions. Some of our tech-savvy accountants also work closely with these groups on special projects, such as audit testing and data aggregation, to help ensure our solutions match up with real-world experience.”

The IT team at Cohen & Company also includes external vendors that are leaders in the industry, such as the company retained in 2018 to annually evaluate the firm’s data security protocols.

“We are adamant about continually enhancing our data security initiatives to stay in front of any issues,” says Marcus. “Our vendor conducts something similar to an audit, except they are auditing how well our data security measures work and identifying any potential weaknesses. We have been very pleased with the results.” While Cohen & Company continues to enhance its internal and external tech teams, it’s also tapping into another resource at its disposal — the firm’s Management Consulting Group. Working collaboratively, they recently implemented Robotic Process Automation, or “bots,” to automate transactional, highly repetitive back-office activities that will drive efficiencies and improve quality.

“As our clients focus on growing their digital maturity, it only makes sense that we invest in building our own digital automation capabilities,” says Management Consulting Partner John Cavalier. “We are using bots in-house to streamline the tax administration function. We’re just scratching the surface of what bots can do, but this is an early success story.”

It’s the sum of all these moving parts that makes the IT initiatives at Cohen & Company innovative and exciting for the firm and its clients, says Schikowski.

Cohen & Company’s culture revolves around the notion of “SQIF” — Service, Quality, Innovation and Fun.
Thank You
We wish to thank all of our clients featured in this issue of Taxonomics for sharing their stories of success and achievement.