ALSO INSIDE:

MARSHBERRY HAS THAT MOJO
The management consulting and M&A firm’s path to national prominence

TWO PLANS LEAD TO ONE
REAL ESTATE PIONEER
How Hayman Company redefined property management and became a real estate investment giant

MERGERS, ACQUISITIONS AND AN AMERICAN PASTIME
An interview with Glenn Gable on reinventing the business of bowling

Built to Last

Four generations and one culture drive growth at Famous Supply
The most successful entrepreneurs are adept not only at fostering great ideas that can turn into profitable businesses, but fostering great relationships as well. The ability to authentically connect with others, from employees to investors, can mean the difference between a mediocre organization and a wildly successful one.

The four clients featured in this issue of Taxonomies are all successful, in significant part, because their organizations truly value relationships.

Our cover story features Famous Supply, which proclaims that its very purpose as a company is to build relationships, and shows how the Blaushild family has created a powerful and multi-generational bond between their associates, suppliers and customers.

John Wepler and Valerie DeMell of MarshBerry, the insurance industry’s leading M&A and management consulting firm, have perpetuated success in part by creating their own unique style of corporate mojo, and by tapping into key industry relationships. Alan, Stephen and Andrew Hayman of Hayman Company have spent years establishing a profound trust among their real estate investors and clients, even through almost every type of economic cycle. And Glenn Gable of Freeway Lanes Bowling Group has flourished by carefully understanding the type of family-entertainment experience his customers are looking for.

Cultivating meaningful relationships with key stakeholders, internal and external, is a powerful way to help build a business culture poised for exponential success. I hope you enjoy learning how the companies featured in this issue have executed on this so very well.

Call or email me anytime to discuss how to leverage your business culture at 216.774.1102 or rmyeroff@cohencpa.com.
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WHAT THE SQIF? PLAYING FOR KEEPS
Building cohesive teams on and off the field, court and trail
Rhetoric aside, there are some stark realities behind our country’s economic landscape and deficit that will confront our new president, regardless of the party from which he or she hails. Tax Partner Phil Baptiste gives Taxonomics a practical, non-partisan peek behind the curtain at the facts that will drive U.S. tax policy and reform.

**Taxonomics: It’s been three decades since our country’s last major tax system overhaul. How do the issues that drove reform in the 1980s compare with those driving reform discussions now?**

**Baptiste:** The reality is that demographics is a huge driver in both cases. In the early ’80s the economy was in bad shape. The federal debt was suffering from the costs of the Vietnam War and recessions. Tax policy was changed to broaden the base by lowering tax rates and reducing or eliminating various deductions. This helped, but once the peak of the baby boomer generation began generating revenue, buying houses and paying into Social Security, our economy skyrocketed for the next 20 years. The resulting large increase in tax revenue led to the federal government actually generating a surplus in some years during the 1990s.

Now, we are facing increased retirement costs as the peak of the baby boomer generation heads toward retirement in the next 10 years or so. At the same time, we have young college grads who are not yet contributing to the economy in a significant way, still looking for work or living with their parents because they can’t afford to move out. This trend plus recessions and military actions have contributed significantly to the national debt over the last 15 years.

**Taxonomics: How badly are we overspending in America?**

**Baptiste:** Our total government debt owed to outside parties, excluding money the government owes itself, is currently at $11.6 trillion. The deficit for 2015 alone was $438 billion and forecasts through 2020 project a deficit of approximately $500 billion each year. Plus, as interest rates rise and entitlement spending increases, it’s creating the perfect storm. Estimates show that by 2031, interest expense and entitlement spending will be greater than tax revenue if something isn’t done soon. And if we end up in a recession sometime in the next couple of years, that will only make the situation worse.

**Taxonomics: One popular solution favored by some presidential hopefuls who seek to lower the deficit is to substantially increase taxes on the ultra-wealthy. Will that solve the issue?**

**Baptiste:** No. Placing an inordinate amount of the financial burden on those in the top tax bracket is an attention-getting sound bite, but it isn’t the answer. If we’re talking solely about raising taxes to make up for one year of a $500 billion deficit, here is what would have to happen: For the top 1% of...
taxpayers, those who earn greater than $435,000 annually, their average effective tax rate would have to increase from just under 23% to 47% (an increase of 104%). The effective tax rate for the top 5% of taxpayers, who earn greater than $176,000 per year, would have to increase from 21% to 36% (a 71% increase). And if you widen the net even further to include the top 25% of taxpayers, who earn more than $73,000 a year, their rate would have to increase from a 16.4% average tax rate to around 24% (a 46% increase).

From a numbers perspective, the most impactful change, if we’re looking at only raising taxes, would be to broaden the tax base. Raising rates to these levels would be a hard political pill to swallow for most politicians, but that’s the reality.

**Taxonomics: This past year we heard a lot about companies leaving the United States for countries with lower corporate tax rates. How much is this hurting us?**

**Baptiste:** At 35%, we arguably have one of the highest corporate tax rates in the world. Tax credits and other incentives have made the effective tax rate lower, so that when all is said and done our rate is generally competitive with other countries that have flat, low corporate rates. But it’s a gamble for U.S. business owners who have to hope they qualify for incentives to lower their corporate tax bill. Since many of the incentives are only temporary, it’s challenging for corporations to do any sort of meaningful long-term planning. As a result, we’re seeing companies take their corporate profits outside of the U.S. to countries where the tax burden is lower and predictable.

The country’s total corporate tax receipts equate to about 11% of our federal tax revenue. That’s approximately $385 billion (out of $3.5 trillion). I believe eliminating certain tax incentives and transitioning to a more consistent, lower tax rate could give us a more uniform system and a better chance of keeping critical corporate profits here.

**Taxonomics: Looking at all of the talked about plans for reform (national sales tax, flat tax, etc.), do any of them seem viable?**

**Baptiste:** There are merits to each. For example, consumption-based plans, those that charge an additional tax when a consumer pays for something rather than paying taxes at the end of the year, may provide a truer reflection of our country’s income. But addressing our tax revenue base alone won’t be enough. You have to go back to the math and demographics. How are we going to pay for it? Who is going to pay for it? The government has been taking 18% of the GDP as tax revenue, and at some point they will not be able to borrow anymore. So, leaders will be forced to decide whether to tax the economy at more than 18%, cut entitlements or use a combination of the two.

It’s going to take real compromise to make an impact; likely, both taxes will be raised and entitlements will be cut. Comprehensive reform will require an overhaul of our country’s entitlement spending. For example, since 2010 our Social Security deficit has been growing, spending more than it is collecting now that baby boomers are beginning to retire. It’s to the point where the agency is going back to the government to collect on the $5.23 trillion the government has borrowed from the system from its surpluses over the years. The Social Security deficit is projected to be $337 billion by 2031. If politicians talk about what really needs to be done, like it or not, they will need to address entitlement spending along with raising taxes, both of which are likely to affect the middle class.

**Taxonomics: Reform hits many hot buttons, both politically and economically. Do you believe Congress will be able to come to any sort of agreement in the near future?**

**Baptiste:** Republicans don’t want to raise taxes and Democrats don’t want to cut entitlements. But looking strictly at the numbers we have in front of us today, the next president, Republican or Democrat, will have to make some very tough, difficult choices. ■
In professional sports, we often see that as challenging as it is to reach the pinnacle, it’s more difficult to repeat that success. Many teams, for example, have won the Super Bowl over their 50-year history — Browns and Lions fans are forgiven for sighing — but only an elite few have repeated or sustained a high-level of organizational excellence and dominance.

MARSHBERRY HAS THAT mojo

The management consulting and M&A firm’s path to national prominence

Valerie DeMell and John Wepler
Sustaining a leadership position in a financial business category, where market conditions and regulatory upheavals beyond an organization’s control can alter the playing field, is perhaps even more difficult.

All of which makes MarshBerry’s 17-years-and-counting run as the national lead advisor in merger and acquisition (M&A) deals within the insurance industry more remarkable. Not only has the privately held Woodmere, Ohio-based management consulting firm consistently retained their top ranking, they’ve defined the “law of duality” typically seen in mature business categories.

The law of duality states that there are often two companies that jostle neck and neck for category leadership, and a significant gap between those two and other contenders. But, according to leading financial analytics provider SNL Financial, since 1999 MarshBerry has executed on more than twice the number of M&A transactions as their nearest competitor, advising on an extraordinary 29% of announced M&A deal flow nationwide. Since 2012 alone, MarshBerry has represented more than $2.7 billion in advised-transaction value.

“It’s clear that when a large insurance broker or a bank anywhere across the country is looking to acquire insurance agencies, whether one or several at a time, the first name that people often consider is MarshBerry,” says Maura Corrigan, a partner at Cohen & Company and tax advisor to MarshBerry since 1999. “No one has built a better reputation.”

You get the picture. MarshBerry is the clear leader. Let’s see what leadership positioning lessons we can learn by looking at three of their differentiating drivers:

1. Wider breadth of services than offered by competitors
2. Extraordinary ability to develop and leverage intellectual capital
3. Corporate mojo (yes, mojo)

Learn, Improve, Realize
“We are not only an M&A firm,” says Valerie DeMell, MarshBerry’s executive vice president who was named a 2015 Woman to Watch in the insurance industry by Business Insurance magazine. “We’re positioned as a management-consulting firm because we view the issues brokers and agencies face holistically.” Those issues include recruiting, hiring, training, sales management, valuation, succession planning and more.

“Our foundation is learn, improve and realize. Learn about the strengths and weaknesses of your organization. Identify what you need to focus on and improve. And then you can realize the full potential and value of your business,” says DeMell.

One key method by which many clients do exactly that is through the evaluation of more than 400 key ratios in MarshBerry’s Perspectives for High Performance, a proprietary, formalized financial management benchmarking system.

While clients can and do use many of these offerings independent of any decision to buy, merge with or sell to another entity, “Owners understand that at some point there is going to be a transaction,” says DeMell. “If you want to obtain value for what you’ve built, you are going to perpetuate internally, or externally. The key we communicate to clients is: You want to have a choice.”

Engaging with MarshBerry in any of their consulting offerings helps prepare clients to eventually be able to have and make that choice.

“Competitors to MarshBerry don’t offer their breadth of services,” says Josh Swander, an audit manager for Cohen & Company who has worked with MarshBerry for seven years. “It’s a well thought-out business model. Each of their services adds distinct value, while often organically funneling clients into their M&A services.”

John Wepler, chairman and CEO of MarshBerry, along with many other stakeholders, have been the lead architects of the business model that has developed client service strengths across disciplines while positioning the M&A services at the center of the firm’s brand and revenue generation. In Wall Street language, the M&A team at MarshBerry is composed of consummate dealmakers, frequently speaking on the subject and often quoted in industry publications.

“We always advise our sell-side clients, for example, that under due diligence, the buyer is going to find
“MOJO IS THAT SPECIAL, INDESCRIBABLE AND INHERENT SPIRIT FEW COMPANIES HAVE AND OTHERS COVET THAT RADIATES OUTWARD, BLINDING THE COMPETITION AND DRIVING CONSISTENT GROWTH, OPPORTUNITY AND SATISFACTION.”

every single thing there is to find,” says Wepler, in the tell-it-like-it-is speaking style of a leader who believes you sometimes have to confront clients with hard truths if you are going to help them. “It’s when a buyer finds something that surprises them that they tend to want to re-price the transaction.”

“We tell our clients, you’re going to have strengths and weaknesses and that’s okay. But, what is your strategy to address those weaknesses? We believe that MarshBerry’s detailed process can help reduce the risk of re-pricing. When we hear stories about unhappy sellers and unhappy buyers, we personally feel it’s unnecessary.”

Unnecessary because, as Wepler believes, MarshBerry has a unique and distinct skill set to help manage the deal process in a way that enhances the overall relationship between buyer and seller and, hopefully, help minimize deal fatigue.

Capitalizing Upon Intellectual Capital
Many organizations understand that intellectual capital is a critical asset representing the knowledge a company has earned that can be used to gain customers, develop new products and services, and increase market share and revenues. But, MarshBerry has prioritized the capture, development and sharing of intellectual capital to the point that it’s almost a secondary business, rivaling that of some financial industry publishing and event-management organizations.

Especially given their relative size — approximately 100 employees in six offices in six states — it’s stunning how many publications MarshBerry produces or writes articles for; how many educational events they hold; how many executive Peer Exchange Networks they manage; how many survey tools they develop; and how many best practice metrics they capture and use to both enhance the operations of clients and position the company as an industry thought leader.

“We want to be sure we understand the industry and not just the client,” says Wepler, underscoring MarshBerry’s near obsession with metrics and constant evaluation of industry deals that have and have not worked and why. “For instance, when buyers hire us to consult, they value that we know the best practices and have the industry metrics to evaluate sellers. A buyer underwrites the quality and capability of the company it acquires. If a buyer knows we can help identify for them where the risks are and the exposures are, they can consider being aggressive and may not have to hedge.”

By taking the aggregate results from all the metrics and all historical deal flow, and purposing that information into articles, seminars, videos, surveys, speeches and events, “We engage in pull marketing for ourselves rather than push marketing,” says Wepler. To a certain extent, pull marketing is the holy grail of marketing — you engage in activities that attract clients to you, rather than having to go out and obtain clients. It sounds great in theory, but few companies can position themselves to successfully do so in the manner of MarshBerry.

Let’s Talk Mojo
The leadership at MarshBerry has its own definition of mojo and wants everyone who represents the firm to have it: “Mojo is that special, indescribable and inherent spirit few companies have and others covet that radiates outward, blinding the competition and driving consistent growth, opportunity and satisfaction.”

Here are a few of the cultural characteristics MarshBerry sees as contributing to its mojo:
If you don't express an opinion, the perception may be that you don't have one.

The long-shot idea may become our core, long-term strategy. Imagination yields independence.

You won't be successful if you aren't having fun. If you are not having fun and are not going to be successful, why be here.

Wepler foresees that having a distinctive mojo is necessary for MarshBerry to grow into a much larger management consulting and M&A firm, one that serves a broader swath of clients beyond the insurance industry. Given that MarshBerry has grown at an annual compounded rate of 17% since their inception 35 years ago — and 2015’s growth was at 30.1%, with projections of even better numbers in 2016 — Wepler's goals are not merely aspirational.

Mike Metz, MarshBerry’s CFO, knows that as the firm continues to grow, evolving strategies for dealing with increasingly complex tax issues will need to keep pace. “Cohen & Company’s team is strong enough and deep enough to handle complicated issues, but not so big that we are not a significant client to them. I’m not going to try to stay on top of every tax issue and accounting development; we rely on Cohen as a partner to guide us and be proactive. We have a business to run on our side; their business is staying on top on those tax issues, and they do it very well.”

Valerie DeMell will tell you that in addition to the company's sustained business category leadership, their indescribable corporate mojo and an extraordinary growth rate, there’s another reason they believe the firm’s future is so out-sized: The Wepler Factor.

“John has this way,” DeMell says with a laugh, “of speaking about uncertain things in the future as if they are certain. The Wepler Factor is that he’s so assuring that the rest of us start believing they are certain as well. And then, interestingly, John turns out to be right.”

MarshBerry’s expansion beyond Ohio into five other states has brought excitement about the company’s growth, but also responsibility for additional state and local tax compliance.

“By expanding into another state you may be creating nexus, which means that state wants some of your tax dollars,” says Cohen & Company Tax Partner Maura Corrigan. “Depending on the state, that could include a variety of types of taxes.”

When MarshBerry opened up their New York City office, it was significant not only because the company now had a location in the world’s financial capital, but because the state of New York has a higher tax rate than Ohio. And there are even more issues to address when locating in New York City itself.

“When a company leases commercial office space in certain zones within the city, for example, tenants pay a renter’s tax,” explains Corrigan. “It is important to understand all of the tax implications a state poses. Every state has a different definition of nexus, and it is critical to know the ‘formula’ for reporting income so you don’t overpay or fail to comply.”

When adding locations in additional states, composite returns should also be a consideration to simplify tax compliance for certain shareholders.

“If the entity chooses not to file a composite return for all the non-resident shareholders, then each will get a K-1 and will have to file a non-resident tax return individually,” says Corrigan. “The composite filing is often more streamlined for shareholders. But there is a cost to simplification. Typically, using the composite method requires paying tax at the highest income tax rate in that state. A cost-benefit analysis should be conducted to help make the best decision.”
Four generations and one culture drive growth at Famous Supply

Marc, Jay, Kevin and Brian Blaushild
A few years ago Brian Blaushild was visiting Famous Supply’s branch in Columbus, Ohio, and was told his grandfather, Jay Blaushild, had been there a few days earlier — at three in the morning.

Jay, chairman of the $300 million family owned and Akron, Ohio-based HVAC and plumbing distribution company, had “stopped by” as trucks were being loaded for the day’s deliveries to plumbing, heating and cooling contractors.

Taking off his blazer, Jay helped load a truck from start to finish, talking and telling jokes while also testing the team’s knowledge of the right way to do things. For good measure, the then 78 year old stepped into a nearby dumpster and pulled out packing materials to be reused.

The story did not surprise Brian, who knows the origins of his grandfather’s work ethic.

Jay’s father, Hyman, emigrated from Latvia to Cleveland, Ohio, in the early 1920s with only a second-grade education. He learned to read English but could only write his name. In 1933, he founded Famous, and in the ensuing 40 years ultimately grew it into a business with $22 million in annual revenue.

Hyman was comfortable asking his storefront and delivery crews to ‘do tomorrow’s work today.’ His crews knew that while it meant starting earlier and quitting later than competitors, Hyman would be right there with them. Hyman paid fairly, on time and even early to reward a job well done. He inspired an energetic camaraderie among his workforce, and they in turn inspired loyalty from customers and vendors alike.

For Hyman and then for Jay, who took over Famous Supply in 1970 upon his father’s passing, personally modeling what excellence looked like (a term Famous uses exclusively rather than employees) to a higher standard of performance. Of course as Famous grew — when Jay stepped down as president and became chairman it had $175 million in annual sales — so did the number of associates, significantly.

When Jay’s son, Marc Blaushild, assumed the president’s role in 2004, he took the reins of a company that had been led by two charismatic men who had inspired a workforce culture that had provided a winning difference in an ultra-competitive industry. Clearly tough acts to follow.

But, while Hyman could personally hire and know every associate, and Jay could do the same for an influential portion, Marc understood he could not do so for a consistently expanding workforce (now at 800 and counting across more than 35 locations and 10 states).

As anyone who has been part of a fast-growing organization has experienced, with scale comes previously unfamiliar challenges. And often the greatest and most significant challenge is related to culture.

It’s one thing to scale the processes and infrastructure of a business operation, but how do you scale culture? Mindsets and attitudes can’t be replicated like code or workflow or facilities.

It’s perhaps doubly challenging to scale culture if you believe, as Famous does, that your organization’s purpose is to build long-term meaningful relationships.

“For me, it’s true that culture eats strategy for lunch,” says Marc. “So my focus has been more on our culture than anything else. Specifically what we call our ‘Famous Family’ culture.”
Marc’s success in methodically scaling the culture first established by his grandfather and father in the 20th century is worth a deeper look for anyone who cares about how organizational culture can drive success.

An ‘Extended Family’ Family Business
“IT’S EXCEEDINGLY RARE FOR A COMPANY TO BE POISED TO PASS SUCCESSFULLY INTO A FOURTH GENERATION OF FAMILY LEADERSHIP.”

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he means their 800 associates, the manufacturers they buy from and view as close-knit partners, and, yes, their customers.

**The Real Cost of Adding Value**

Famous approaches business from a standpoint that all these people are like family, and that the company’s purpose is to “build meaningful relationships.” But we’re talking about a distribution company in the dog-eat-dog building materials supply chain industry. You might ask, “Are these really the reasons Famous is so successful?”

Well, take a moment to consider the business reality distributors face.

Distributors are the sometimes maligned, yet vitally necessary “middle man” in the supply chain. Their pricing has to be very competitive or they’re DOA. But, even if they could build their brand on always having the lowest price, they’d never have the margins to provide the service levels customers also expect and there would be insufficient profitability to sustain growth.

To drive customer loyalty, they face the paradox of adding value while adding little cost. They can engineer efficiencies through better logistics or proprietary innovations, but their competitors are doing the same and trade secrets don’t remain secrets for long. Plus, innovating isn’t free.

But, what if decades of meticulously hiring the right people — in Jay’s words, “people with passion for their work and empathy for others” — of treating and developing them the right way, and of creating a team bonus model in which most everyone shares, really did develop a workforce that saw itself as belonging to a family?

What if, for example, you would not hire sales people — as John Palermo, vice president of sales and branch operations, simply won’t — from competitors who can bring a big book of business but don’t fit the team-first, non-commission culture of Famous?

“It’s relatively easy to open new locations,” says Bastulli, “but it’s far from easy to find the right kind of talent.”

What if that workforce, that family, was willing to do whatever it took to meet the needs of its customers, and treated its vendors with the kind of respect typically reserved for customers? What kind of loyalty would that inspire in both groups? What if they too began to buy into the idea that they were part of a group of people who cared about and relied upon one another, and saw themselves as part of a length of supply chain rather than just individual links within it?

And here’s the kicker, the secret sauce of the Famous Supply business model: it costs no more to employ a human being who deeply cares than one who is indifferent. Simple, but not easy. We have all experienced and valued the difference a caring person makes in a service-driven business. And so Famous has addressed the paradox: adding value without adding commensurate cost.

**Know Thy 40 Fundamentals**

“When smart people have different agendas and motivations, it doesn’t matter if they’re smart,” says Kevin Blaushild. “I feel my dad sets the tone for the culture of the organization, for getting us on the same page.” And one of the core tools Marc is using, and that points to the company’s devotion to the value of culture, is the 40 Fundamentals for Living The FAMOUS Way.

Here’s Fundamental 36: “PRACTICE HUMAN CONNECTION. Listen for, and pay attention to, the unique things that make people special. Use handwritten notes, personal cards, and timely encounters or phone calls to acknowledge them, and to show your appreciation for them. Show people you care about them as individuals, rather than as transactions.”

To be sure, some of the fundamental titles are very business oriented, such as “EXECUTE
THE PERFECT ORDER” or “BE A FANATIC ABOUT RESPONSE TIME.” But, even the text accompanying these emphasizes the personal development as well as business benefits of such practices.

Developed over several months by a small group led by Marc, the 40 Fundamentals are concise, clear and free of corporate jargon. But, what really stands out is the full-throttle intentionality of how they are instilled into the organization.

“We focus on one fundamental each week,” says Marc, “and during that week every meeting begins with a two-to-three minute or more discussion of that fundamental. Someone may attend seven or eight meetings that week, and no matter the purpose of the meeting, or whether they are meeting with colleagues, customers or our partner vendors, we start every one of those meetings with a discussion about that fundamental.”

And no, customers don’t balk as if it’s an intrusion; they embrace it. This practice sends the message to customers and vendors: we’re on the same team; we care about the same things.

The Mark of a Leader
While culture may outweigh strategy, there is of course a carefully designed strategic plan helping to drive the present and future growth of Famous. For example, the somewhat recent implementation of regional distribution centers is helping to position Famous for new opportunities.

Naturally, with success and growth often come more complex and challenging tax scenarios.

“Cohen & Company is a vital part of our advisory team along with our key attorneys and bankers,” says Marc. “But, of course Cohen often takes the lead on a range of tax matters, from general tax planning to real estate transactions to estate planning. They help us make the decisions that are best for the near and long-term viability of our company.”

As for Marc, who is only in his early 50s, and his long-term goals as the leader of Famous, he has a self-effacing take.

“I really think that if I did not come in for one solid year at this point, everyone would do fine.” Presently, it’s hard to see how that would be true. But, it’s the mark of a leader to make it his goal that someday it will be so.

THE POWER OF Connecting

When Marc Blaushild says he’s had hundreds and hundreds of people tell him over the years “I just love your dad,” you might assume it’s a son’s admiring exaggeration. But, after spending time with Jay Blaushild, the 82-year-old energetic and endearing chairman of Famous Supply, you’ll think it’s an understatement.

Many people like to talk, a lesser number are good at listening, but Jay, who revels in both, is a champion of the lost art of having a true-and-meaningful conversation. Whether you’re the guy who cleans out the delivery trucks or the president of a Fortune 100 company, Jay wants to know and connect with you.

And that’s what happens when you enter his office at Famous Supply filled with hundreds of pictures, memorabilia, books and his beloved files of newspaper and magazine clippings — he starts interviewing you, seeking out points of connection: “Where did you grow up? What did your parents instill in you? What books and people and experiences have moved you?”

Then, discovering points of connection he shares with you — “You’ve been to Israel? You love the Browns? You want to own your own business someday?” — he draws you into a deeper dialogue, for no other apparent reason than he loves life and people.

Following this experience, you understand better the origins and validity of Famous Supply’s somewhat outrageous stated purpose: To build meaningful relationships for life.
Two Plans
LEAD TO ONE REAL ESTATE PIONEER

How Hayman Company redefined property management and became a real estate investment giant

Alan and Andrew Hayman
Alan Hayman and his brother Stephen cofounded Detroit, Michigan’s Hayman Company over 50 years ago, and it’s now one of the nation’s leading privately owned commercial real estate firms. Today, Stephen’s son, Andrew, is at the helm of the company, guiding an investment and management portfolio composed of tens of thousands of apartments and millions of square feet of commercial properties across multiple states.

When Alan tells the story of founding the company with Stephen, his anecdotal style and self-deprecation attributes more of their success to serendipity than savvy. But, pay attention and you’ll hear the key characteristics of the company to this day, and of two young intuitive entrepreneurs. Plus, you’ll better appreciate how Andrew has built upon this foundation and is taking them to new heights.

The Beginning of Something Unexpected

“While Stephen was at law school, he developed a relationship with a Detroit bank and somehow talked his way into managing a couple of apartment buildings the bank had taken ownership of,” Alan recalls. “When I graduated from law school, Stephen said, ‘You want to build a property management business?’”

It may sound like quite a jump to go from training to be a lawyer to going into real estate, but after visiting enough criminal clients in jail and, in Alan’s words, “worrying that the cell door might not open back up,” he was ready to give it a try.

The timing was good in the market, since there was no competition for a third-party property management company in Detroit. All of the real estate was owned and managed by developers.

“Looking back, I think things like this must be written down someplace; they must be meant to be, says Alan.

It certainly seemed so. While Alan and Stephen were managing apartment buildings for the bank, a chance meeting took place. The president of a mortgage REIT had started up a conversation with the Haymans’ dad, Louis, at the Fontainebleau in Miami, a conversation that ultimately led to the brothers managing a high-rise office building in Detroit.

The opportunities kept coming. “A few months later HUD runs an ad bidding out the management of a high-rise apartment,” says Alan. “We think, ‘There’s no way they give us that high rise.’”

But both brothers believe if you don’t play, for sure you’re not going to win. So they went for the interview and before they knew it were managing real estate for the government.

Stephen was the main driver of new opportunities, and a key to landing bigger deals was his fearless habit of directly calling CEOs he wanted to do business with, regardless of the size of the company. For example, Stephen simply (and amazingly) picked up the phone, got the CEO of General Electric on the line and was granted a meeting. Hayman Company eventually did more than 40 large deals with GE over a 20-year relationship.

The company’s impressive and growing resume positioned them for another unexpected event — a recession in the early ‘70s. Banks were taking back properties left and right, and Hayman Company was brought on board to manage more and more properties.

“Managing those properties required heavy-duty reporting,” says Alan. “So, we found a mathematician. He set us up with a Datapoint mini-computer and wrote what we believe was the first property management program. This single point of industry innovation and modernization was key to taking us to the next level.”

There’s a Reason There Was No Competition

As Andrew Hayman puts it, “Our pedigree was always private owner, third-party management.” But, before long his father and uncle began buying properties they managed that they perceived as good values. Hayman Company’s own properties — often purchased with investment partners increasingly attracted to consistent returns — began to grow beyond Detroit and throughout the Midwest, including signature buildings in downtown Chicago.
“My father and uncle were among the first in the nation to see property management as more than cleaning and maintenance service,” says Andrew. “It wasn’t until the late ’70s that most everyone else recognized property management as a highly valuable professional service — requiring significant reporting and accounting services, along with the physical aspects of facility management.”

As Andrew points out, their ability to generate detailed reporting of multiple facets of multiple properties’ revenues and costs helped usher in the contemporary property management industry.

And, the Hayman brothers had the vision, focus and appetite for risk to execute and position themselves at the forefront of the industry.

“Their foresight and business acumen have been amazing,” says Mike Lorenz, a tax partner at Cohen & Company who has worked with Hayman Company for eight years. “Stephen Hayman is now retired, but he was the consummate dealmaker for the business. Alan was and remains a brilliant operations guy. Andrew combines characteristics of both, while also bringing his own unique capabilities to the table.”

Lorenz’s work with Alan, Stephen and now Andrew has spanned tax, accounting and audit services, including executing on like-kind exchange strategies and other transactional advice.

Karen Gerstenberger, CFO of Hayman Company, values having Cohen & Company as a go-to partner. “We always want to know what the tax effect will be if we do a deal or not. Cohen & Company provides insight and analysis on where it will land, and how to plan out the transaction to the most appropriate tax advantage.”

Karen Gerstenberger marvels at Andrew’s ability to do major deals, set the big picture vision for the company and yet also care about operational details without micromanaging.

“The Observationist
It’s understandable to see the Hayman Company story as one of success breeds success to multiplying effect. But, that success often comes to a halt for many family businesses when the second generation proves unable to perpetuate the same success as the founding generation.

But, Andrew, who grew up in the business, first through conversations at the dinner table and then by rising methodically up the ranks of the company, has already personally placed more than $1 billion in commercial real estate financing and has overseen the acquisition of over $2 billion of commercial property in 20 states.

Gerstenberger marvels at Andrew’s ability to do major deals, set the big picture vision for the company and yet also care about operational details without micromanaging.

“Even when he signs checks, he may see there’s a water bill that looks unusual for one property,” says Karen. “He will have someone look into it further and we’ll find there is an issue. Or, we can have a building that’s very well occupied, making money, and he uncovers a way it can be making more for our investors.”

There’s an iconoclastic aspect to how Andrew thinks and operates, exemplified by his response to which
business books or business thinkers have influenced him most. Not only will you not get the typical response of *Good to Great* or perhaps Stephen Covey, you get: “I’m not really someone to sit down with a book and draw my knowledge from there. I’m an ‘observationist.’ I watch how other intelligent people successfully handle something, whether that might be my father or another industry colleague, and I try to learn from that.”

One of the fortunate lessons learned has been that a commercial real estate firm with substantial property management capacity can weather a recession better than most, inside and outside the real estate industry.

“It’s not how you handle things when they’re good, but when they’re difficult,” says Andrew. “We’re not immune but we’ve been able to weather economic cycles properly because we always have a Plan A and a Plan B. When times aren’t good we bulk up on the property management side. Financial institutions and the government turn to us to act as receiver for properties they’ve taken back. And then when things are better, we start purchasing and acquiring properties for our own portfolio.”

“Much like his own father, Andrew is not only interested in weathering economic downturns but loves the art of the deal and is always seeking new opportunities. “You just have to have that tenacious appetite for the next good idea, and not let anything take away your focus.””

High-net-worth individuals with significant real estate holdings often use the Intentionally Defective Grantor Trust as an estate tax planning tool. An asset, such as real estate, is “sold” to the trust with note payments back to the donor. The asset is frozen at its current value, transferring future appreciation out of the estate and maximizing after-tax wealth transfer to the next generation. And since the individual will pay income tax on the growing assets throughout his lifetime, those dollars coming out of the estate help minimize the future estate tax.

“The tricky part, especially when you have a large or complex estate, is combing through the assets to identify which property would bring the individual and his or her beneficiaries the most value,” says Mike Lorenz, a tax partner at Cohen & Company who helps clients navigate the technique. According to Lorenz, the key is to select a real estate asset that balances the interplay between four areas: income tax due to the lost basis step-up, estate tax savings on the valuation freeze, cash flows from the asset to support note payments and the appreciation potential of the asset. The complex task takes a keen understanding of real estate and an in-depth analysis of the assets.

“There’s more to asset selection than the value of a property,” says Lorenz. “Using a very basic example, consider a fully depreciated building that originally cost $5 million, is expected to be held until death and is currently valued at $8 million. A valuation of $8 million may seem great, but considering current income tax and estate tax rates, this property would have to appreciate to more than $17 million before the estate-tax savings benefit would outweigh the income tax due on a sale. Of course, there are other factors that impact this equation. It is our job to delve into them and help find a property that would yield more favorable tax results.”

Maximize an Intentionally Defective Grantor Trust

Karen Gerstenberger
Choosing between a private foundation and a donor-advised fund

No one will argue that making charitable contributions is a noble way to create a legacy and a great way to minimize the impact of income taxes. It’s a win-win. But what vehicles can donors use to efficiently and effectively leave their footprint?

Traditionally, the answer has been to start a private foundation. This is one of the primary tools used to accumulate significant funds to contribute to the greater good.

“Private foundations can be very effective in maximizing charitable contributions and managing the tax implications of capital gains,” says Alane Boffa, a director at Cohen & Company focused on tax planning related to family wealth and estates. “The most attractive feature is that you maintain almost complete control over where your money goes. You still need to have selection criteria and a process for distributions, but you and your designated board can evaluate public charity candidates and award funds accordingly. This is often a key selling point for those with significant wealth to invest.”

Tax-exempt in nature, a private foundation requires working with the secretary of state to set up the entity and the IRS to obtain tax-exempt status. Other important attributes include ongoing tax filing requirements and the excise tax on net investment income of up to 2%. Additionally, the foundation must give away 5% of its assets each year, regardless if it wants to. If the foundation fails to do so, it may suffer a 15% excise tax on the undistributed amount each year until the foundation complies.

Compare the private foundation to the donor-advised fund, an option that has become more popular in recent years and that often achieves the same charitable impact. A donor-advised fund can be set up almost immediately through a public charity with only a custodian fee that is paid out of the fund. There is no initial business filing, minimal (if any) annual federal or state tax filings and no minimum annual payout. If any tax filings are needed, they are handled by the custodian of the fund’s assets.

“Donors often consider this type of fund due to its low maintenance and low cost,” explains Boffa. “The negative here is that while a donor has a strong voice in establishing parameters — such as ‘this money will be used for college scholarships for students at ABC High School’ and helping to develop application questions, selection criteria, etc. — as part of a larger selection committee led by the charity holding the funds, the donor may only have one vote, and therefore less of a say regarding who ultimately is awarded a grant.”

Additional key points, such as anonymity of the donor — which a donor-advised fund allows for but a private foundation cannot due to required public tax filings for distributions — and even succession planning should be considered. In the case of a foundation, if the next generation of the family isn’t interested in leading the charge, it may be difficult to keep it running for the long term. A donor-advised fund, with its management function generally dispersed among a broader board of people, often is easier to carry on.

“It really does come down to what’s right for each donor,” says Boffa. “How important is maintaining control over the funds versus the infrastructure and cost it may require? A donor looking to keep significant control of her wealth, particularly a donor that has administrative support such as a family office, may gravitate toward a private foundation. A donor looking to create a legacy without as many steps in the process may choose the donor-advised route. There are many questions to address with your advisors to help ensure you choose the charitable vehicle that’s right for you.”

Contact Alane Boffa, CPA, MT, AEP® at aboffa@cohencpa.com to help maximize your charitable contributions.
Twenty years ago, the sport and the business of bowling faced challenges — increased competition for consumer dollars, fragmentation of an industry run by independent small-business owners, inconsistent brand experiences, outdated technologies and an aging business model.

Fast-forward to today, and the revitalization has been breathtaking. Bowling is the nation’s top participation sport. Estimates of the industry’s size range from $6 billion to $10 billion, and “bowling alleys” have been replaced with family entertainment centers offering all sorts of choices to enhance each visitor’s experience.

So how did the bowling industry do it? Glenn Gable, owner of Freeway Lanes Bowling Group, knows. With locations in Cincinnati, Columbus, Fairfield, Kettering, Mentor, Parma, Solon and Wickliffe, Gable is Ohio’s largest operator of bowling centers. The secrets to his success may surprise you.

“It started with food,” Gable explains. “My family had been in the bowling business since 1949, making and refinishing bowling pins. In 1992, my father and I purchased the first of our bowling centers in Solon, Ohio, and we quickly realized we needed something to enhance the bowling experience and expand our customer base. So we began by offering our customers a better food experience.”

In 1995, Gable placed a Perky’s Pizza franchise inside his bowling center, offering high-quality food in addition to family fun, and his customer base began to grow.

Worldwide, 100 million people do it regularly in nearly 150 countries. Sixty-seven million Americans will do it this year. Among those, two million people will do it at least once a week. In fact, more Americans do it than golfing, fishing, tennis, billiards, bicycling, jogging or hunting.

And that’s just one reason corporate America has a thing or two to learn from the industry of bowling.
“Next, we remodeled,” he continues. “A few upgrades here and there … and eventually, in 2003, we put $4 million into a complete renovation of Freeway Lanes in Solon. Bowling is a business where you have to remain near the cutting edge. You have to be ‘in’ on the next big thing. Whether it’s more modern colors, more modern furnishing, better restrooms, the newest technology … if you don’t install these things, customers will go elsewhere to find them.”

“Operating a bowling center is a capital-intensive business,” adds Mike Kolk, a Cohen & Company tax partner and a long-time advisor to Gable. “We’ve helped Glenn benefit from the liberalization of repair and maintenance tax regulations and achieve favorable tax status for the upgrades he’s talking about.”

Gable agrees. “Cohen has done that and more. Also, when we’ve needed capital, the Cohen & Company name hasn’t hurt. Beyond tax advice, Mike has helped us structure deals and open doors for us when we’ve needed to raise capital. He’s been there to guide us virtually every step of the way.”

Indeed. Not long after the purchase of his first bowling center, Gable met the owner of Cleveland-area Ambassador Lanes, who wanted to sell. He was willing to finance the deal, and Kolk helped structure a transaction that was tax advantageous to both men.

“The unique tax structure we were able to achieve allowed Glenn to take advantage of the seller’s favorable financing terms, while deferring the acceleration of taxable gain on the sale for the seller until much later in the arrangement,” Kolk explains.

Since then, Gable has purchased and sold several other bowling centers. Cohen & Company has been there to help with every merger, sale and acquisition. Each time, Gable attacked the issues facing the bowling industry with a combination of common sense, measured risk and capital. And each time he has transformed his bowling centers successfully.

These are certainly not your grandpa’s bowling lanes.

“At each of our bowling centers, there’s fun for everyone,” Gable says. “Whether you want to shoot a game of pool, enjoy some great food and drinks, or listen to live music, there’s no place better, and the experience we offer is consistent across each of our facilities.”

His facilities feature restaurants and bars, private party rooms, outdoor patios, quality food, catering and entertainment options like bocce ball, laser tag, laser maze and more. His modern and clean facilities are the perfect destination for family fun, children’s parties, corporate events or happy hour entertainment.

“Since our family was already in the bowling business, I’ve been able to travel the country and see what works,” Gable says. “We’ve innovated in many ways. From cosmic bowling (think laser lights, black lights and glow in the dark) and custom parties to a high-definition sports bar atmosphere and an in-house dining strategy that includes high-quality food and original recipes, we continually offer new and modern entertainment options for everyone.”

As Kolk says, “Gable has made his businesses competitive with diversification and well-managed capital investment. He creates and meets a high expectation for customer experience. He has modernized every aspect of his operation — including his business model. It’s a great example other industries can learn from.”

Freeway Lanes Bowling Group
www.freewaylanes.com
Contact Mike Kolk, CPA, MS, JD, at mkolk@cohencpa.com for tax guidance on your next project.
From soccer, basketball and 100-mile bike rides to ice hockey, co-ed flag football and softball, over the past 39 years the employees of Cohen & Company have proven they aren’t playing around when they say they like to work hard and play hard.

Sports of just about any kind have always been integral to easing stress, building camaraderie and supporting the community. Tax Partner Mike Kolk reminisces about forming the first Cohen & Company basketball team in 1985. “We played in a league with other professionals. Initially, we didn’t win many games, but we always had fun.” Kolk also formed a Cleveland CPA only basketball league in 1986 and in 1991 took his talents to the Akron office to form the first Cohen & Company team there. These days Staff Accountant Mark Danese leads the charge (no pun intended) for the firm’s Cleveland pick-up basketball league.

“We played in a league with other professionals. Initially, we didn’t win many games, but we always had fun.” Kolk also formed a Cleveland CPA only basketball league in 1986 and in 1991 took his talents to the Akron office to form the first Cohen & Company team there. These days Staff Accountant Mark Danese leads the charge (no pun intended) for the firm’s Cleveland pick-up basketball league.

“Sharing in some friendly competition helps break up the long hours during tax and audit season,” says Danese. “It’s also a really good way to meet people in different areas of the firm.”

Softball and soccer have also been long-time favorites. The softball team plays in the Cleveland Men’s Wednesday Doubleheader League against other accounting firms and businesses. Team members include about 20 staff, seniors, managers, partners and alumni who often “head out to our favorite pizza place after a game to cap off the night, win or lose,” says Ryan McKenna, a senior accountant and team organizer.

Senior Manager Brandon Coates leads the soccer team. “Interns all the way up to partners show up to play, so we have some great interaction,” says Coates. “We rotate from a pool of about 30-plus people and have done pretty well in the playoffs the past few years.”

Even kickball gets competitive. Senior Accountant Jessica Foster is captain of the kickball team in Youngstown. “We worked hard to improve last season, ending with a winning record and a trip to the playoffs for the first time.”

But it’s not all about bragging rights. Team Air Cohen annually climbs 47 floors to the top of Milwaukee’s U.S. Bank Center to rally for the American Lung Association’s Fight for Air Climb. Firm cyclists ride 101 miles in the annual Towpath Century Ride to raise awareness and funding for the Ohio & Erie Canalway Coalition. And the firm makes a Run for the Ribbon for the Michigan Institute of Urology’s Men’s Health Foundation.

“Regardless of the sport, Cohen & Company is racking up invaluable time together working as a team,” says Kolk. “The result is a winning combination of trust, respect and fun that builds a strong culture of people who enjoy being together.”

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

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