



The CEO Resource

October, 2002

Volume 1, Issue 8



Cincinnati Fountain Square

The CEO Resource is a periodic hot sheet of resource information for our colleagues, Chief Executives and Senior Management in business and leadership.

Our focus is to help senior management and company owners accelerate their pathways, first to "success" and then to "making a difference" - a significant difference for their families, their stakeholders and their communities. The CEO Resource is a time sensitive tool directly responsive to this critical focus.

KMKC in the Community

Chip Gerhardt, Vice President, Government Affairs, was reelected as Chairman of the Cincinnati Metropolitan Housing Authority.

Trey Grayson, Senior Consultant, was elected to the Huntington National Bank Northern Kentucky Community Board.

Tom Hayes, Vice President, Business Formation & Executive Solutions, is named to be on the Board of Directors of Infinity Property & Casualty Company, an affiliate of American Financial Group.

Paul Jacobs, Vice President, Business Formation & Executive Solutions, was elected to the Board of Directors of Vulcan Oil & Chemical Products Company.

Jim McGraw, President & CEO, was elected to Board of Directors of the Cincinnati Reds Community Fund.

KMKC Imprint Strong on E&Y 2002 Southern Ohio/Kentucky Entrepreneur of the Year Awards

KMK Consulting Company was proud to be a major presenting co-sponsor of the Ernst & Young Entrepreneur of the Year Award Program on June 29th at the Northern Kentucky Convention Center. KMK Consulting and its parent company, Keating, Muething & Klekamp law firm, have been sponsors of the awards program since it was first introduced to the region eight years ago.

This year was particularly special for KMK Consulting because of two major developments. First, the Cincinnati competition was expanded to include Dayton, Louisville and Lexington, making this a truly super regional competition. Second, the Supporter of Entrepreneurship Award category underwent a name change to become the Michael J. Burke Supporter of Entrepreneurship Award in recognition of the great legacy of

the Founding Chairman of KMK Consulting who lost his battle with cancer last December. Mike Burke was a major force in building successful entrepreneurs during his illustrious career which ended much too early.

The Awards Gala was a tremendous tribute to a stellar group of dedicated and successful entrepreneurs. KMK was extremely proud to have five winners and finalists out of seven categories as clients: **Aero Fulfillment Services** (winner), **Jeffrey R. Anderson Real Estate** (winner), **The Fischer Group** (winner), **Spotlight Solutions** (finalist) and **AF Kelly** (finalist). We are also proud to represent **Service Management Systems**, a winner in the Atlanta regional competition. They will compete at the National Awards in Palm Springs on November 23rd.

Jim McGraw, President and CEO

of KMK Consulting, said "We congratulate all of the nominees, finalists and winners in this very prestigious competition. It is their relentless perseverance that causes all of the finalists to stand tall, allowing us to honor them and the great American institution of entrepreneurship. KMK Consulting and Keating, Muething & Klekamp are proud to be sponsors of this program and are proud to work with entrepreneurs like these everyday." ■



Jim McGraw presents the Award for Excellence in Construction to Henry Fischer of The Fischer Group.

Watching the Best Revenue Streams- Where does your business make its money?

How many different "revenue streams" does your business have? Are you confident you know the actual costs of operations and margins for your different revenue streams? Would you rather break even at \$15 million in revenue, or make \$500,000 on \$10 million? You may be surprised to learn that your large revenue source is contributing very little to your profits, while your smaller revenue operations are the profitable jewels of your business.

Many businesses have more than one way of making money. These different revenue streams can be as unrelated as entirely separate businesses, as is the case at a conglomerate like General Electric, or may simply be different aspects of the same business, as when a car dealer sells new cars and also offers repair service.

Multiple revenue streams can provide balance and stability to a business. Using the car dealer as a rather obvious example, if the economy is slow and new car

sales are down, people may be more likely to have repairs done to extend the life of their current car. Slumping new car sales are balanced by increasing repair work and the business is able to weather a slow economy.

However, multiple revenue streams are a challenge to managers who must be able to successfully operate different aspects of related businesses.

We recently worked with a prominent distributing company that had both retail and wholesale

(cont. on p. 4)



Is it Business or Is it Family?

Why do some of the most successful, decisive people in business often fail when it comes to one of the most important transactions in their careers? The challenge of successfully transferring ownership and control of a family-owned business from one generation to the next is an extremely difficult process which involves as many, or more, emotional and family issues as business issues. The key to a successful transaction is planning and constant communication.

We recently helped with a successful ownership transfer to a fourth generation family business owner. Some of the issues we encountered appear regularly in these transactions and underscore the need for communication and planning.

Timing – Business owners typically want to remain involved for as long as possible, so a “right” time is often hard to find. In this case, an offer to purchase the business made by a third party was used as an opportunity for our client (next generation buyer) to approach the owner. When he did so, he communicated a well developed plan that he had developed with assistance from his professional advisors, KMKC. The fact that he had a written plan, had used advice from trusted advisors and had thought it through to

completion gave the owner a level of confidence other family members had not been able to generate in the past.

Often, next generation family members will make assumptions they would never make with a third party. A failure to demonstrate to a family member the same level of professional planning you would show to an outsider can be fatal.

Valuation – Family businesses are often described as the owner’s “baby”. That should give next generation buyers a good indication of the challenge of arriving at a fair value! By openly discussing the financial and non-financial elements of value, our client was able to identify some potential stumbling blocks early in the process. A framework for using traditional financial valuation was put in place and non-financial values such as employee loyalty, family ownership and independence were factored into the equation.

Other Family Members – As is usually the case, other family members had worked at the business in the past. Including these family members at the very beginning was crucial to success. Some family members had surprisingly strong opinions which could have derailed the entire deal if they had not been

addressed upfront. The business owner’s spouse is perhaps more important than the business owner. His or her support can carry the day.

Financing – Most buyouts require financing. There are some interesting phenomena at work here. The current generation wants to give the next generation a break, but still wants the appropriate value. The next generation – usually children – may have a lifelong expectation of ownership and is used to receiving gifts, but also wants to pay as much as possible since proceeds from the sale are often a major part of the estate planning.

By showing the current owner early in the process that the necessary financing was already being evaluated with a number of financial institutions, our client made it clear that he planned to pay full value and was willing and able to make the commitment necessary to finance the deal.

The number of issues that can come up and derail the process is endless. Moreover, each issue can take on huge ramifications due to the family environment. Thorough planning – done as far in advance as possible – communicated openly to all stakeholders was the key to success. ■

Development Incentives: Striking a Balance Between Dollars and Sense

During the last decade, the battle between states and local governments alike over attracting and retaining companies, and the large investment they bring, has become increasingly competitive. The number and dollar value of incentive packages have continued to grow and will continue to do so as government craves heightened private investment, job growth, and most importantly, increased tax revenue to support their budgets. Whether it is a large, international automotive manufacturer looking to build a new plant, a regional financial institution adding several hundred jobs, or a downtown restaurant considering an expansion of its facility, the company is most likely eligible for some sort of incentive - tax credit, tax abatement, grant, loan, tax increment financing, etc.

The ultimate question asked by any governmental entity in deciding whether to offer an incentive is, “would the project happen without this incentive?” If the answer is “yes,” chances are the governmental entity will shy away from surrendering additional public revenues otherwise used for another project. If the answer is “no,” however, the company could be eligible for substantial financial assistance, from thousands to millions of dollars. Therefore, it is of paramount importance that the business have a defined

strategy and be able to clearly demonstrate the value of the project.

There is a right way (and a wrong way) for a business to successfully present, structure and negotiate a project with government to obtain the maximum incentive package. There are a number of variables that must be considered. “In today’s competitive global marketplace, it is imperative for company executives to make sure that they maximize their economic development incentives in order to enhance their bottom line. Incentives can no longer be considered optional, but rather must be factored into the overall financing of a given project,” says Joe Robertson, Vice President of KMKC and former Director of the Ohio Department of Development.

First, you need to understand what the jurisdiction and its neighboring jurisdictions have to offer. Detailed knowledge of incentive programs, their rates, terms, maximum funding amounts, compliance or performance requirements, clawbacks, etc. is essential to any negotiation. Surprisingly, many incentive opportunities are lost because companies fail to pursue them properly, if at all. It should never be assumed that incentives will be forthcoming without a proactive strategy. Companies that are knowledgeable and aggressive about

economic development incentives obtain significantly larger incentive packages.

“Ultimately, the incentive process is about much more than the incentives themselves.”

S e c o n d, determining what, if any, public infrastructure improvements are required is important to factor in when discussing public investment in a project. Oftentimes, these requirements are significant and can dramatically increase the size of the deal. Governments can also often tap other sources, or use other programs not available to private entities, to fund public infrastructure projects.

Third, experience with elected officials is key. Projects often become politicized when jobs and large amounts of public dollars are involved. If a company is considering locating in an area where some members of the community are opposed to the project, a current knowledge of the governmental process and the ability to identify key governmental and community decision makers is critical. It is not enough to understand only the business and economic aspects of the project while ignoring what may be the most important elements of any project – the political aspects. (cont. on p. 4)



KMKC Experiences Continued Success for Economic Development Groups Across the U.S.

KMK Consulting continues to be a leader in providing advisory services to economic development organizations in the Greater Cincinnati area and throughout the United States. Our work focuses on projects where public/private partnerships are integral to the growth and improvement of the community. Having worked in over fifty cities throughout the U.S., our team has been able to continually provide creative solutions to the most challenging projects by effectively building support from the private and public sectors. We serve as a catalyst for strategic growth.

We are currently providing advisory services to economic development organizations in the Cincinnati, Omaha, Tampa and Dayton regions. A few of our recent successes include:

We recently completed our engagement with the Greater Baltimore Alliance where we assisted with its budget process. We were successful in structuring over \$12 million towards the GBA's Phase II program.



The GBA is the exclusive regional economic development organization created to build a competitive and successful economy for Greater Baltimore employers. GBA leads and directs regional image building, attraction and retention programs, and provides a single point of contact to newly locating and expanding employers.

We successfully completed our engagement in Rochester, NY where we assisted in creating the Greater Rochester Enterprise. During our time in Rochester, we met with over seventy local businesses, community leaders and public sector leaders to motivate and focus their interest in economic development, business attraction and retention, and marketing. Tom Richards, GRE Chairman, said, "You (KMKC) were invaluable in helping us learn from other communities, organize a structure that would work for us and gain the confidence to get started. We would probably still be talking about doing something, if we had not had your assistance."



We also successfully completed our engagement with Enterprise Honolulu



where we assisted crafting and launching that region's economic development organization and its strategic plan. Enterprise Honolulu is the public/private partnership dedicated to being the driving source of collaborative leadership in sustaining a professional, globally competitive, economic development delivery system which leverages the strengths of the private and public sectors to establish Oahu as a competitive location to grow businesses, attract smart capital investment and create quality jobs.

Jim McGraw, President & CEO, said "We have been honored to work with the business and community leaders in these three terrific regions. Their dedication to improving their communities is quite impressive. We look forward to continue working with each organization to help measure their success." ■

KMKC Adds Significant Expertise to Business Formation and Executive Solutions Team

Further strengthening our transactional and strategic planning services, KMK Consulting has added a number of members to the team:

Matthew A. Staarmann rejoined KMKC full-time as a Consultant after receiving his MBA from the Fisher College of Business at The Ohio State University. Matt's studies while at Fisher focused on finance, strategy, and real estate.

Matt will specialize in financial analysis, business strategy, and related business formation support.

Charles D. LeCroix, PhD has become associated with KMKC as Senior Consultant for Asia. Charlie has extensive experience in handling regulatory, safety, clinical, environmental and professional external affairs in Asia and developing global analytical and cost savings programs for doing business in Asia.

Charlie provides specialized business support in regulatory affairs for small to mid-sized companies based in the United States who have an interest in expanding to Asia. Through his extensive network of contacts, he is able to provide critical assessments for evaluating and establishing business operations, joint ventures, sourcing, etc. His

network is strongest in Tier I countries (Japan, India, China, Indonesia) with a developed network in Tier II countries (Singapore, Hong Kong, Australia, New Zealand, Malaysia, Philippines, Thailand, Taiwan, Korea). He also has contacts in Vietnam, Pakistan and all other Asian countries. Charlie, based in Cincinnati, is also a visiting professor at McGill University in Tokyo, Japan.

William D. Ivers, PhD has become associated with KMKC as a Senior Consultant. Bill has thirty-one years experience using software technology to assist clients in simulating business conditions and modeling complex business strategies. Many of his efforts have supported restructurings, mergers, spin-offs, and start-ups in rapidly changing industries such as the software, utility and pharmaceutical industries.

Richard C. Gerlach, PhD has become associated with KMKC as a Senior Consultant. He has twenty-two years of progressive technical and management experience related to health, safety and environmental (HSE) issues, including direct experience in providing HSE services to federal and local government agencies.

Rick has a wide breadth of technical and consulting experiences in hazard assessment and control, product safety, chemical identification and labeling, environmental monitoring, risk management, employee training, and compliance auditing. He has worked in a variety of private sector industries including basic and specialty steel, chemical, ceramic, tungsten carbide, refractory, glass, paint and coatings, pharmaceutical, fabrication, utility, hazardous waste, electronic, automotive and mining industries.

Jim McGraw said, "We are extremely excited about these additions to our team. Each of these individuals offers a unique value to our clients. Whether financial analysis, HSE crisis, mergers and acquisitions advice or expansion into Asian nations, our team is well positioned to provide a valuable service to a wide range of businesses, executives and industries." ■

Cincinnati Office:
1400 Provident Tower
One East Fourth Street
Cincinnati, Ohio 45202
Phone: 513-639-3900
Fax: 513-639-3864

Columbus Office:
37 West Broad Street
Suite 1100
Columbus, Ohio 43215
Phone: 614-221-7133
Fax: 614-228-2181

Visit Us Online at
www.kmkconsulting.com

Solutions • Results • Leadership

Revenue Streams (cont.)

revenue streams for the same product. Over the past several years, revenue had decreased somewhat, but net income had decreased dramatically to the point where the company was no longer consistently profitable.

We reviewed every aspect of the company's operations over the course of a number of weeks. Our focus on the actual costs of the operations brought a clear picture of what was occurring.

The retail sales operation generated 80% more revenue than the wholesale operation, employed most of the people in the organization and was the area in which nearly all of the senior managers got their start with the company. The wholesale operation, on the other hand, generated less revenue, involved fewer employees and consequently occupied less of management's time and attention.

The operations of the two segments were very different as well. Retail involved more delivery vehicles, demanded far greater customer contact and time required for equipment maintenance, to name a few.

As the company continued to experience problems, management tried a number of changes to nearly every aspect of the retail operation, but it had not addressed the basic cost issues.

Our analysis of the company's cost structure revealed that the retail division's expense structure was way out of line with its revenue. In fact, the retail division was generating an operating loss nearly equal to the profit being generated by the wholesale division. This meant that the wholesale operations were generating all of the company's profit, even with far less revenue than the retail side of the business.

Once armed with the accurate cost information, management began implementing a number of changes, as our KMKC team recommended, designed to grow the more profitable wholesale business and reduce costs on the retail side. Cost reductions on the retail segment emphasized by the company's history and culture were difficult to make, but are beginning to bear fruit in the form of better operating results from that division.

The company's two distinct revenue streams will soon both be profitable, and will create the diversified, balanced revenue base to make the company more stable, more profitable and more valuable in the short and the long term. The owners and the management of the business had to make some hard decisions, but ended up with a more valuable business with two healthy revenue streams. ■

Incentives (cont.)

Fourth, recognizing the economic development priorities of a community is critical because they will determine how well a given project will be received. Many communities have identified the types of development it desires. If a given project falls outside of this focus, the company needs to know this in order to adequately assess the likelihood of successfully negotiating with the government.

"In today's competitive global marketplace, it is imperative for company executives to make sure that they maximize their economic development incentives in order to enhance their bottom line."

*Joe Robertson
Vice President, KMKC
Former Director, Ohio
Dept. of Development*

Most communities conduct comprehensive cost/benefit analyses before allocating any tax dollars to an

economic development project. It is therefore critical for the company to present a compelling financial reason for a community to invest in the project. What is the return on investment, and how does it benefit the government's bottom line? Failure to prove that the government's support of the project will produce tax revenues in excess of the actual public investment, not only could, but should, spell the end of tax dollars for the project.

If not proactively addressed, the company risks suffering negative press as many look only to the benefits received and not those returned to the local economy. In the long run, the benefits to the local economy often far outweigh those received by the company. However, as the project becomes more high-profile, it also becomes more politicized. Failing to properly account for possible public perception based upon media coverage of the project can have a negative impact on the incentive package.

Ultimately, the incentive process is about much more than the incentives themselves. Any interaction with government requires a defined strategy and a holistic approach to government and community affairs. While maximizing incentives is clearly very important, do not overlook other issues that could impact the outcome of the project. ■