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Industry ROUNDTABLE

FAMILY-OWNED BUSINESS

PRESENTED BY:



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What regulations are you closely watching? What goes into the decision about acquiring another family-owned business? And how do you ensure your company culture is preserved? Law firm Hodgson Russ and the *Albany Business Review* hosted a discussion to answer these questions and more. Cindy Applebaum, market president and publisher of the *Albany Business Review*, moderated the discussion.

▶ MEET THE PANEL



JASON PACKER

Title: CEO
Company: Hill & Markes



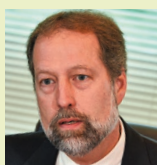
EILEEN VENN

Title: CEO
Company: Mechanical Testing Inc.



JEFF VUKELIC

Title: President
Company: Saratoga Eagle



BRIAN MERRIAM

Title: President
Company: Merriam Insurance Agency



DAWN ABBUHL

Title: President
Company: Repeat Business Systems



THOMAS J. COLLURA

Title: Partner
Company: Hodgson Russ LLC



JOHN BOVE JR.

Title: CFO
Company: Bove Fuels



How is the Capital Region for operating a family business?

JASON PACKER: We're based in Amsterdam, which is slightly different than being in the Albany area. Overall our employee base is extremely hardworking. Many of them came from farm backgrounds and farm families and have a really good work ethic. It's becoming a bit more challenging to find people in our geography, given that the population growth has stopped in our area.

EILEEN VENN: As a community, businesses want to support local businesses, which is nice because I grew up here and went to SUNY Albany. But it's also hard to find employees. We are struggling with that, even though we are a union shop. Unions are struggling to find us labor. It's a constant challenge and the population is decreasing in New York state.

JEFF VUKELIC: Even with all my family members, it's not easy finding talent. Similar to Jason, I run a warehouse distribution center and finding people that want to do that type of work is very difficult. We're changing policies and doing everything to attract people. We have a great culture. Part of what we've done over time is we've made acquisitions. Acquisitions are great when you can grow your business that way. Organic growth is very difficult, especially in our industry.

JOHN BOVE JR.: We're a brick and mortar building, and I'm running into the same kind of things. We need drivers and technicians, too. A lot of people nowadays don't want to work in the blue-collar society, and that's the basis of our business. Everybody seems to want to work with computers in an office 9 to 5. In our business, we have to be in people's homes all hours of the day and night to provide them with heat and other services.

DAWN ABBUHL: Unfortunately, Albany is really tied to New York City politics and we are so small in comparison and have such little representation in comparison, that our needs are really not served as well. That said, I can't think of a better place to do business and I'm actually concerned that in 20 years, when I want my

son to take over the business, how am I going to transfer all these relationships? Yes, we have trouble getting people even though we do sit in an office and do computer stuff. But the business community in general is probably the warmest place I can ever imagine.

BRIAN MERRIAM: There's no question the relationships that we form are sustaining. What I question is the infrastructure. Where are we going to be 20 years from now? If you look at the trend of the last 20 years, are we going in the right direction or the wrong direction? I would suggest that the legislature has moved in the direction whereby it is much more an entitlement mentality that we're going to try to attract people that aren't necessarily skilled people. That's what concerns me.



Tom, what are you hearing in your dealings with family-owned businesses?

TOM COLLURA: Trying to get skilled labor is the most common complaint. We have a similar problem attracting and retaining younger people in larger cities. One of the things I've learned sitting in on some panels is that some businesses have been successful partnering with local community colleges when they're trying to find skilled labor – younger people that are interested in professions and the trades. It's been a successful strategy for some of the businesses I've spoken with.



What current regulations are you concerned about?

MERRIAM: The euphemism is to call it single-payer health, which is really government-controlled health care. That has me a tad bit concerned, to put it mildly. We've been doing health insurance for about a hundred years and I like the fact that my clients have choices. I don't like the idea of government saying this is the way it's going to be. I like choice.

VUKELIC: The legalization of marijuana is certainly a concern. The other one specific to my business is the bottle bill. Back in the 1980s, the other Gov. Cuomo started the container return act. Now, we have

single stream recycling all over the state and we still have to return our bottles separately. They continue to add more charges and more cost to that. And that cost comes to us.

But the legalization of marijuana is certainly something we're watching closely. I'm already starting to change my policies in trying to hire people. We're now testing for THC for non-transportation and logistics personnel, but that was a long discussion with our people on how to do that. It's actually helped us. We've actually brought people back as a result of that.

VENN: I'm watching the prevailing wage law because being a union company, that would actually benefit us. Competition wise, I know a lot of people are against it. I really do see both sides, but for my business it's important it gets passed for it to be fair on bids. Because I can't compete, I have to pay my guys their package that's \$65 an hour. I have to pay them that, and to go up against somebody that can bid \$40 an hour is difficult. That's why so much of our work is state work.

The other one is the MWBE law, which is also in the construction industry. Being a woman owned business that is certified in the state, federally and in the city, it's important.

PACKER: I understand the sustainability story because we're truly believers in sustainability. Our building has been LEED certified. We support our customers who can do this, and consult them on different initiatives. However, I believe that the people that are making laws in the state surrounding foam don't understand that foam is a less energy-dependent produced product than compostable products and paper. We're pushing in a direction that's also much more expensive. Paper is much more expensive than foam.

Now, there's going to be a plastic bag ban. Again, sustainability is important, but there has to be an education of people on the alternative.

BOVE: In my industry, the government is trying to knock us out of it. They don't like fossil fuels anymore. Companies took a long time in our industry to realize that. The people that make the boilers and the furnaces have finally turned around now to where they're very efficient and friendly to the environment. They finally have the technology and they put it forth. I wonder what our business will look like in 20 years for my two sons. The fuel oil side or the diesel fuel for trucks and equipment might not be where it is today. It probably won't.



What has state government done in the past few years to make your business life easier?

BOVE: I don't think anything, to be honest with you.

VUKELIC: I think we benefit more from local government than we do from state government. One thing they did do for us was three years ago in Buffalo. We converted our whole fleet to compressed natural gas. We got a \$1 million grant from New York to convert our fleet. That was huge. That was one thing I can say that they did well.

VENN: There's a lot of red tape when you want to go with these programs. But I did just get involved in the Linked Deposit Program through Empire State Development when I bought a building in Clifton Park. It saved me 2% on my interest rate, if they buy it down for you. As a small business owner, that's a big savings that I can invest in my company to hire people and move my business forward.

PACKER: When we moved into our new building



Standing: Eileen Venn, Jeff Vukelic, John Bove Jr. and Thomas Collura. Seated: Jason Packer, Brian Merriam and Dawn Abbuhl.

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about seven or eight years ago, we did get an SBA loan to support our ranking. We negotiated with lots of steel manufacturers and we were able to lower the estimates on the steel. We actually asked, "Can we keep that money for other further investments?" They said, "No, that's our money." We did a good job of negotiating on New York state's behalf.



So many of your companies have acquired other family-owned businesses. What are those discussions like?

ABBUHL: We have acquired 12 businesses in the history of our company and two of them were family businesses. Most family businesses are much more concerned with who you keep in the business than what you're going to pay for them. We're still concerned about that too. But it's a very different conversation. When it's a family business, you want whoever's left in the business to be comfortable and happy and feel good about the arrangement. We understand because our culture is everything. We put our heart into it. We do things every single week, every single month, every single year to continue to draw people in. With family businesses, you have to baby that a little bit more and really make them feel like they're not going to lose what they loved about where they were.

BOVE: We've acquired a couple of smaller businesses over the last 10 years and we've been approached many times – sometimes for evaluation purposes with the bank or going over the new rules and how we can benefit. Sometimes we'll entertain, and what I notice right away is it's personal. It's not business at all. What is the value of doing this for 50 years? It's hard to put an economic number on it. I worked my whole life at this and I think it's worth this number. And the numbers could absolutely justify it. Usually they don't.

MERRIAM: We just acquired a competitor about two months ago. It was a family-run business and he did not have a succession plan and he was concerned about the loss of the culture. When we look to acquire somebody, we look for somebody who looks a lot like us but is perhaps smaller. They may do something dif-

ferent than what we do, but the point is to bring more talent or activity or diversity to what we do.

ABBUHL: We are in the process of acquiring another company. A big company is also interested in them, so it's going to be us against the big national company. I think what weighs in our favor is that we're a family business and he feels that when I say we're going to keep their employees and we're going to give them contracts for a certain period of time, he believes me. The big conglomerate outsources all their admin departments, and that is definitely not weighing in their favor.

VUKELIC: When my dad started the business in 1961, there were over 300 beer distributors in New York state. Today there are only 35. Since I moved here from Buffalo 15 years ago, all the businesses that we acquired were family-owned. The common thing is there's always a significant event that happens within the family that makes them want to sell. Because we've been making these acquisitions over time, people know we're a buyer. The biggest issue is trying to maintain your culture. When you're scaling as quickly as we have, it's tough because it gets done and they're wounded.

PACKER: In the past, we had a broker who would call different companies in our industry to find out if they were interested. We were very successful in acquiring about a dozen companies over a period of about 22 years. Today, there is a lot of competition to acquire companies. Private equity has invaded our industry pretty quickly. There's one large one that's acquired about 30 companies our size and much bigger, over the last two years. We're kind of in a re-evaluation stage of where we want to go with acquisitions.

COLLURA: Most business owners have a real concern about the people that help them build their wealth and they feel a loyalty to their work staff. It's not just all about the money. I find that's a really important consideration for folks who are selling their business. And if you're the buyer, that's going to be a concern for whoever you're dealing with. I do find that once businesses get to a certain size, it becomes more dif-

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difficult and some clients aren't comfortable with the private equity structure because they feel they lose a lot of that control.

I had one successful succession plan where as an alternative to private equity, the company formed an Employee Stock Ownership Plan, or ESOP. It was wonderful but very complicated and very expensive. But it worked really well because the owner was able to keep his business intact.



Do the companies approach you, or are you contacted by private equity firms?

ABBUHL: Private equity firms are always reaching out to us to buy us. As far as acquisitions, some reach out to us. Some saw in the *Albany Business Review* that we just acquired another company and they said, "oh, maybe you would want us." This current one I'm targeting because we are expanding into Syracuse. I called every independent company in the Syracuse area and learned about them.

MERRIAM: We actually solicit our competitors. We put out letters, usually through a blind agent who says, "We represent an insurance company that wants to expand in your area. Do you have any perpetuation or succession plan? If you would like to speak with us, please let us know." The fact that we're working with a blind agent gives us, and the companies we're approaching, comfort.



Do you take these private equity firms seriously when they reach out to you?

ABBUHL: It's great to know what they think the value of the company is. We use that information in a

few different ways. One, when we're acquiring other companies now, we know how they do it so we can kind of fight against it. But also it keeps us on the pulse of what's going on in our industry. One of the biggest companies acquiring copier dealers is Staples, which is so crazy.

MERRIAM: There's a constant stream of people that wants to acquire us. We have over \$1 million in payroll, so anybody who wants to acquire us looks then at the economies of scale. I recall I entertained an offer some years back from a firm out of Manhattan.

They had about a dozen locations around the United States and they wanted to acquire me. I said, "Well, how's this work?" We'll cut you a check for half of your company's worth right now. Then, a year from now we'll give you a check for the other half. All you have to do is make sure you maintain the customer base for the next 12 months. I said, "What happens to my staff?" And he said, "Your what? What do I need your staff for? I already have a bookkeeper. I already have customer service reps. I only want your books and business."

For me, it's really about what did I actually do to make a difference to improve the lives of people that I come in contact with? I have three stakeholders: my family, my staff and my clients.

I have to take care of all three of those. Private equity is great, if it's all about making money.



How long did it take you before your family started having you make important decisions?

BOVE: Right away, my father always treated me as though, you can make the decisions, whatever you

want to do, treat yourself like you're the owner. Ok. That's great. So I go out and make business cards. But then, at all the meetings, he would stand behind me and say, "we're not doing that." He's used to doing it his way – the Italian background, very stubborn, that's all true. It took 20 years. To this day, it still goes on.

VUKELIC: I came into business in 1999. Before that I was working in politics and ready to run for office. My dad pulled me aside and said, "No, you're coming into the business now." I've grown up in a business and we talk around the family table.

PACKER: When I first came into the business, I was in politics as well. I worked in Washington D.C. I had gotten my MBA and I decided I wanted to start a business or get into the family business, so my wife and I moved to Albany. It was difficult in the beginning to try to fit into the family and our culture. I was in business development and my job was to knock on doors all day. That was not easy.

Gradually, the way my dad would bring me in is to address a situation, like we brought in a new computer system and a new ERP system and it didn't flow the way we wanted it to. I'd come in and help them make it better. The decision-making came over a period of time. One time I brought in a new line of products. It was successful, but it wasn't as profitable as we needed it to be. I decided we were going to scale back and my dad gave me enough room to try.



As that next generation is coming in, what are the best things to do to be sure the integration is successful?

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- Company structures
- Interfamily relations and governance
- Management transition and succession
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COLLURA: It's most important to really learn and understand the business and also to build respect among all of the workers so that you're not just getting by birthright, that you're the owner and therefore you're in control of management. With that, they respect you because ultimately you can't run the business if the workforce doesn't respect who you are. It's also important that the family member is cognizant of different phases of business.



Repeat Business Systems went through an acquisition spree a few years ago. What specific steps did you and your organization take to ensure that you did not jeopardize culture?

ABBUHL: A lot of it is making sure people knew each other. There was good communication. People knew who to go to for things. We had a buddy system so everybody had someone in the company that was similar age with similar interests, and they would be paid to go out to lunch once a month. I make sure that every single person that comes to the company, after they've been there 30 days, they sit down with me for about a half hour and we talk about their experiences and tell them, "you have fresh eyes: You're most valuable person to me right now." We encouraged their ideas and I tried to make those ideas work as quickly as possible if they were good ideas. A lot of them really work.



The insurance industry seems to be in a constant state of consolidation and more and more banks are buying companies. What's the impact on the industry when those transactions occur?

MERRIAM: About 3,000 insurance agencies vanish each year in this country. A lot of this is because my age is retiring. The industry is trying to figure out how to keep providing service. You have a lot of companies saying that you don't really need to have an insurance agents, that you can come direct and get the same quality. We would take strong exception against that. The banks see this as being a great acquisition opportunity. The McCarran-Ferguson Act kept them out federally until about 25 years ago or so.

When that went down, a lot of banks were very hungry because we have an ROI that's usually doubled, if not tripled, of what they do. They saw us as being cash cows, not recognizing that what we do is

labor intensive. We insurance people are about risk management. We don't just sell insurance. We analyze your exposures. We recommend certain methods to deal with that exposure. But a lot of the banks that were doing acquisitions didn't understand that. They just saw this as being one more source of revenue. If it's done right, if the right bank partner understands what we do and allows us to do what we do, then it could be an ok marriage because it looks like one-stop shopping.

I understand that consolidation and acquisitions are part of the landscape. But I am concerned that the trend is going to be that there will be one bank and one insurance company and then they will merge and they'll all be Amazon. What happens to the poor consumer in that process?



Eileen, you recently announced that Mechanical Testing is expanding into the new office in Clifton Park. Can you talk about your company's growth, and the decision to get into new markets?

VENN: We've grown 30% in the last five years, 10% of that last year because we took on the drone distributor and we needed more space to grow into. This building is pending, but we can migrate into other space. Plus, we get a couple more storage units so we can consolidate and everything's right there.

So we do a lot of automation and we're really big on technology. If you're not staying up to date in technology, even software, your business is not going to be successful. In our industry, construction is probably one of the last industries to embrace technology. We've automated bidding and we've automated our computer systems in the field. We invest in new technology tools every year. I think it's our only way to grow.



What other significant shifts in the fuel business do you expect in the next 10 or 20 years?

BOVE: We've doubled our propane business in seven years and it was all organic. One customer at a time. We're getting customers from a lot of other people who were being bought out. And that made it very easy on us because they didn't want to call Kansas City or India or an effort to call centers where they wanted to know somebody was there. We take that very seriously, and I don't see that changing. I'll go

in on Sundays in the winter and answer the phone myself. We're still very old school like that. The challenges are coming up. We're getting more and more into propane. Propane is very good environmentally compared to diesel fuels. But we have real concern on where to go next.



Do you have an advisory board? How about a succession plan?

VENN: I don't have an advisory board but I am a member of the women presidents' organization. Through that, I bring any issues and share with peers that are in a similar situation. It has definitely helped me a lot in my business. And I don't have any succession plan.

PACKER: We have an official advisory board, with three individuals from leadership in the industry. One was the president of Georgia-Pacific and one was the president of our cooperative, Network Services. We meet on a bi-annual basis.

VUKELIC: We also have an advisory board that consists of one family member and some outside people we've done business with in the past. We bring issues to them and they help us solve them. I also belong to moderated peer groups, both local and within my industry. It's one of the best things I've ever done.

We do have succession. If my dad sold the business, my brother gets 51%, I get 49%. If my brother leaves, I get 51%. We have pretty good succession for the third generation. We don't have succession for the fourth generation yet.

MERRIAM: My advisory board is my managers. I have some extremely talented managers. They have better credentialing than most people that are probably 20 years their senior. I try not to dictate policy. I try to use the benefit of my 36 years of experience but I also encourage discussion of things that they had experienced in other industries before they came to work with me.

BOVE: We don't have an official advisory board. But we're constantly talking to other people in our industry from out-of-state or more regionally, about what this business looks like. We figured out the third-generation succession, which is my cousins and I. We are just starting discussions on the fourth generation.