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Among the most important decisions you can make as a business owner is determining when to transition your business to a new leader. But, all too often, owners tend to put this decision off, or fail to address it at all.

This is hardly surprising. The average tenure for public company CEOs is less than 10 years. At privately held businesses, however, the CEO’s tenure may be double or even triple that, especially when the CEO is also the founder. And stepping aside after that length of time can be an emotionally wrenching experience.

Long CEO tenures can be great for a company’s stability and continuity, but there comes a point when businesses may begin to stagnate without the fresh perspective that new leadership can bring. Operating along the well-worn and comfortable paths blazed by a CEO owner can lead to missed opportunities that ultimately stymie growth.

There is perhaps an even more damaging drawback of putting off a leadership change. While a business owner may intend to pass the company on to the next generation — eventually — truly talented heirs may be looking for that leadership challenge now. They don’t want to wait until they are in their 50s to assume the reins, and as a result, they may decide to seek their fortunes elsewhere.

Even when there is an heir apparent who has been carefully groomed — rotated through positions with increasing responsibility, exposed to a broad cross-section of functional areas and given leadership coaching every step of the way — deciding that the individual is ready can be extraordinarily difficult. But usually the question isn’t whether your successor is ready — it’s whether you are. For the good of your business, you should think about whether it may be time to transition.

**HAPPENINGS**

**GOLF OUTING**

The first annual BDO Northeast Ohio Charity Golf outing was July 29, 2015, at Firestone Country Club. More than 90 golfers enjoyed a day of golf in support of the Alzheimer’s Association. SS&G created this annual golf outing in 1997 to benefit the Alzheimer’s Association and to honor someone very close to all of our hearts, Marvin Shamis, the founder of our firm. Proceeds are divided equally between the Cleveland and Greater East Ohio Area Chapters of the Alzheimer’s Association. Since its inception, the Memorial Golf Classic has raised more than $400,000 for the Alzheimer’s Association. As part of BDO, we are pleased to continue the tradition of holding this charity golf outing.

**CLEVELAND CORPORATE CHALLENGE**

Fifty employees from BDO’s Northeast Ohio offices competed in a variety of team sports events at the Cleveland Corporate Challenge this summer.

**VELOSANZO**

On July 18 and 19, 2015, 19 members of the BDO team participated in the Velosano Ride to Cure event in Cleveland, Ohio. One hundred percent of the proceeds from this event, founded by Stewart Kohl of The Riverside Co., supports cancer research at The Cleveland Clinic.
Planned succession
Transitioning your businesses to the next generation of leaders

Business owners thinking of leaving their day-to-day responsibilities behind and moving into retirement typically have no idea how much thought must go into that final career transition. That’s according to Dr. Stacy Feiner, a Cleveland-based business psychologist, author and executive coach at BDO USA who works with companies and their leaders to make the transition as smooth and seamless as possible.

FIVE PHASES OF TRANSITION
Feiner says there are five predictable and inevitable phases of successful business ownership: startup, growth, expansion, maturity and continuity.

“Each phase involves a transition, not just the last,” she says. Owners looking to transition out have already taken the business through the first four phases. Those who approach that final phase as they’ve approached all of the others can face the process with greater enthusiasm and motivation and fewer nerves.

“We want to avoid a situation where, after gearing up to run the business for the last 30 years, the alpha generation is now asked to wind it down,” says Feiner. “That can be a stressful situation, and that’s why I ask my clients to help us wind the business up.”

It’s not just semantics. Letting go of a long-loved company can be difficult and can even put leaders in adversarial positions with family members or key managers. Instead, Feiner helps turn the process into a series of steps and accomplishments that will instill confidence in the alpha generation that the company will be strong and fully capable of carrying on after their departure.

It takes time to nurture leaders-in-training, whether the talent comes from the company’s management pool or from the owner’s gene pool. For some companies, that means the planning process should start virtually as soon as the business is born — particularly if a family member is being groomed for the job.

That’s why, after listening to the business owner, key management and anyone else involved in the process, Feiner
creates a personalized curriculum, a structured set of questions to be answered, activities to be undertaken and milestones to reach to minimize the risk of drama, confusion and resentment.

Transition planning is not the same as estate planning. It’s about what’s going to happen to the company more than about distribution of wealth. After all, two or more family members could inherit the company in equal parts, but perhaps only one will control its direction.

Business owners should start the process with a hard appraisal of their goals.

"I get them to decide whether they’re thinking about the legacy or the purse," says Feiner.

In other words, do leaders want the business to live on through family or continued ties to the community? Do they want their name to stay on the door? Or are they more concerned about the size of the cash payout?

There’s no wrong answer. If family or loyal employees are involved, senior management is likelier to be thinking about legacy, transitioning leadership in a way that leaves the company strong and ongoing. If it’s not a family operation and the owner has few emotional ties to it, the sale might simply go to the highest bidder.

**AVOIDING EMOTIONAL PITFALLS**

While Feiner counsels in the business environment, her client conversations are not exclusively about spreadsheets and succession. When families or close working relationships are involved, emotions can become raw, and dysfunctions develop that cripple companies and leave long-term survival in doubt. She says that emotions often stymie a generational transition.

"The CEO may have difficulty selecting a replacement from his or her children," says Feiner.

One child may demonstrate more aptitude, demeanor and experience for the top position than the others.

The difficulty is in breaking the news to the children who are not going to be CEO and knowing the adverse effect it could have on the family dynamic and relationships.

That’s where Feiner can start working with the family.

"We can look at their patterns of behavior and show that there are better ways for them to see one another," says Feiner.

Through positive exercises and open communication, the intent is that the children begin to see how complementary their unique personalities are and how each can find a position of strength within the company.

By taking a thoughtful approach to transitioning a business, departing owners can ensure they meet their goals, whatever those might be.
An outside perspective

Medical Service Co. doesn’t give special treatment to family members when it comes to hiring

Families are blessings, but in the business environment, they can present a unique set of challenges.

At Cleveland-based Medical Service Co., Joel Marx learned early on that the wrong approach can create a divisive workplace in a family business, and frustration can grow when employees perceive that relatives gain advantages simply because they're relatives, not because of their talent or work ethic.

By avoiding those pitfalls, Medical Service Co., with 240 employees in four states, has thrived into the third generation of Marx family involvement. Marx’s parents started the firm in 1950, and now both his son and stepson are involved in the business — but notably, not in senior leadership positions.

“They have to earn it, just like anyone else,” says Marx, the company’s chairman. “You hear about those families. The kid doesn’t really do anything, but he drives a hundred-thousand-dollar car, and everyone feels he’s taking money out of their pockets.”

That won’t happen at Medical Service Co. if Marx has anything to say about it — and he does.

FIVE RULES FOR HIRING FAMILY

Marx says his company, which provides health care equipment and services for home use, started talking about adding senior staff in the organization to accommodate retirements.

At the time, he was 46 and his partner was 50, so the golden years looked a ways off, but they knew they had to build a leadership farm team to develop the next generation of executives. They contracted with a consultant, who engaged with staff and then made a leadership recommendation, a recommendation that was not a family member.

“One gentleman rose through the ranks, and when my partner retired at the end of last year, that person was named our new CEO,” says Marx.

While Medical Service is privately held, its chairman has no fear of outsiders. Marx regularly consults third-party experts when making big decisions, and his 10-member board of directors must approve the hiring of any Marx family members. In addition, with the exception of himself, his sister — who also owns a stake in the company — and his former partner, no board member has a family or financial connection to the company.
Family members seeking employment must also pass psychological testing to measure their fit with the company’s culture.

“You don’t want the child who comes in every morning at 10 and leaves at 2 to play golf,” says Marx.

The chairman’s son, Josh Marx, passed the test and joined the company’s sales department — with the board’s blessing — five years ago.

“He didn’t report to me, and he didn’t report to someone who reports to me, and he still doesn’t,” says Marx. “He can come to me for advice without worrying that I’m going to critique him.”

The company has five firm rules when it comes to hiring in the genetic pool.

- The applicant must have a college degree in a field applicable to the position sought. “I’m not sure we’d have a place for history majors,” says Marx.
- The applicant must have two to five years of job experience outside of the organization. This rule came about when Marx saw that the two years his son spent working outside of the company before applying made him a more well-rounded candidate.
- Applicants must have job skills that are transferable to the position.
- There must be an open position that matches the applicant’s skills.
- The applicant must ask for employment. “They have to want to be here,” says Marx.

The only concession he makes to family bonds is a quarterly meeting with Josh, who’s now vice president of sales and marketing, to review his progress.

“I’d rather give up the business than lose the father-son relationship,” he says.

**TOMORROW’S LEADERS — MAYBE**

A new member of the family recently became part of the team.

“I was recently very fortunate to have my stepson join us,” says Marx.

After years of large accounting firm experience, Seth Weinstein, CPA, was an ideal fit — but Marx says there was no favoritism in the hiring.

“Seth gets no special considerations,” says Marx. “He’s starting out in a cubicle, and he doesn’t have a fancy title. That’s very important to me.”

He says he has no idea how far either his son or stepson will go in the company. That will depend on them and on the oversight of experienced outsiders.

“If I got hit by a truck tomorrow, I have a strong board that would provide good leaders,” whether they’re family members or not, says Marx.

**THE RIGHT ACCOUNTING PARTNER**

In addition to his board, Marx also relies heavily on his company’s accounting firm. Medical Service Co. hired BDO in 2009, when Marx felt that the company needed greater capacity to match its growth and geographic expansion.

“They exceeded my expectations,” he says of BDO and CPAs Gary Isakov and Terri Schaffer. “Also, that name makes it easier dealing with financial institutions. Having it on our financial statements adds credibility.”

He especially valued the relationship during the course of an IRS audit.

“It took several months, but after it was over, the government said we didn’t owe a penny,” says Marx. “To come out of that with a perfect score, that means something.”
As a second-generation leader of his family’s business, Tom Irelan serves as a kind of fulcrum — the balancing point between the company’s past and future.

As president of Dublin Building Systems, Irelan runs the company with his brother, Rich Irelan, and brother-in-law, Bob Howe — respectively the vice president of sales and marketing, and vice president of construction. While his brother handles new business and his brother-in-law handles the day-to-day operations of the company, Irelan is in charge of formulating and executing a long-term strategy that will allow the company to build upon a legacy of success that spans nearly five decades.

“The company was started in 1970 by my father, Vic Irelan, as a general contracting construction company,” Irelan says. “He was the one who set the course and put the foundation in place to allow us to get to where we are. He taught all of us how to grow and run a company like this.”

In the late 1980s, Vic Irelan began to scale back his involvement in the business with an eye toward eventual retirement. In many family businesses, this is when the second generation would have assumed control. But Vic Irelan felt his children weren’t quite ready to take over and opted to take an intermediate step.

“My dad stepped into the chairman’s role and promoted someone from outside the family, Bill Mullet, to president,” Irelan says. “Bill is very experienced in our industry, and he led the company for more than 20 years while the three of us entered the business and learned the ropes.”

Irelan came aboard in 1989, several years after Howe arrived, and Rich Irelan entered the business in the 1990s. With tutoring from Vic Irelan, Mullet and other executives and managers at Dublin Building Systems, the trio developed the knowledge of the business and leadership skills they would need as the eventual leaders of the company.

That day came in 2011, when Mullet announced his retirement, effective Jan. 1, 2012. Upon Mullet’s announcement, the long-term succession planning became a short-term transition plan, as both generations needed to create and execute a turnover of power that wouldn’t disrupt any aspect of the company’s business.

LEARNING THE ROLE

Succession planning was always talked about in Irelan family discussions. Everyone in the family knew Mullet would step down at some point — but they also knew Vic Irelan wanted to keep the business in the family.

As is often the case, it took a real-life event to turn the hypothetical banter into an actionable plan. When Mullet announced his retirement plans in 2011, the family suddenly had only until the end of the year to plan and execute a transition of power.

Following Mullet’s decision, all of the present and future leaders at Dublin Building Systems sat down for a series of
meetings, with the end goal of hammering out a plan for the handover of leadership.

“It can be difficult to envision a day when things will be different,” Tom Irelan says. “You come to accept your dad in one role, Bill in his role, and the rest of us answering to them. But change is inevitable, and that’s exactly what happened after Bill announced his retirement. Things swung into action very quickly.”

Vic Irelan worked with his sons and son-in-law to create roles that would take advantage of the skills sets of each. The family quickly settled on Tom as the company’s strategic head, Rich as the head of sales and marketing, and Bob in charge of operations.

“Really, it was as smooth of a process as you could ask for,” Tom Irelan says. “We were all very familiar working with each other, and we all respected each other’s roles. I was very happy to move into the president’s position, and Rich and Bob were happy overseeing their areas of the company.”

Tom prepared to assume the president’s role by working closely with Mullet, developing a deep understanding of high-level strategic planning and decision-making at a construction company. He also began communicating with employees throughout the company.

“I talked a lot with some of our key employees, trying to find out where they thought the company was and what they wanted out of the president,” he says. “I asked them how they envisioned the president’s role, what they thought the president could be doing better, and overall, what needed to be done to help the company improve.”

DEVELOPING THE DIRECTION

As Irelan talked to people throughout the company, he saw emerging trends in the opinions that team members offered. Overall, employees felt the company was headed in the right direction from a growth and strategy standpoint, but some of the systems and processes needed work — something the recession of 2009 and 2010 brought to light.

“We had some internal things that needed updated and overhauled,” Tom Irelan says. “They’re things that I think we knew were problems, but we just hadn’t had a chance to address them due to the recession and the scramble to get business and simply survive.”

Irelan saw a big area of opportunity in client services. It’s not that Dublin Building Systems wasn’t taking care of its clients — no business survives more than 40 years without good client relations — but Irelan saw a chance to improve the processes by which the company provided service to its clients. Given the size and time commitment involved in one of the company’s commercial or industrial construction projects, regular communication with clients over the course of the project is critical to its ultimate success.

“It comes down to having a better understanding of our clients, which we were doing before, but we’ve found ways to make that process better,” Irelan says. “We’ve integrated policies where we’re meeting with clients on a more regular basis, talking with them, figuring out ways we can improve our service and address any issues they’re having.”

Irelan has also developed the employee dialogue started during the initial rounds of meetings when he took over as president into a culture of internal communication. While it’s important to maintain regular contact with customers, it’s equally as important — if not more important — to stay in touch with the people who serve those customers daily.

“Our employees will take care of our clients in the same way that the company takes care of them,” Irelan says. “If we want them to work toward having a deep understanding of our clients, we have to develop that same type of open communication with
them. We have to talk to them regularly, get an idea of what’s going on in the field and what they need in order to perform their jobs better. We need to take care of problems quickly. If we reinforce the right things to our people, they’ll project that positive attitude in their dealings with our clients.”

LESSONS TO REMEMBER

The construction industry is cyclical, and after several years of slow growth, Dublin Building Systems has picked up the pace in 2014 and 2015. The second-generation leadership team is starting to see positive results from its initial efforts, and the company is poised for future growth.

With the first few years as president behind him, Tom Irelan has had a chance to reflect. Looking back, the past several years have taught him important lessons on conducting a constructive and effective transfer of power between family generations.

“The family name alone doesn’t make you qualified,” Irelan says. “You have to have the skills and the willingness to learn. You have to spend years preparing to take over a business. Above all, you have to want it. If you’re just taking over a business because it’s the easiest path to a career, or just because it’s what your parents want, that’s not a recipe for success. It has to be something you want to do, and the other members of the family should be aware of that.”

Tom’s father is still involved in the business, splitting his time between Columbus and a winter home in Florida, which has posed yet another challenge that many second-generation business leaders face: How to define the parents’ roles in the business should they still want to be involved in retirement.

“That’s still developing,” Irelan says. “My dad is 82, and he has a lot of experience and a great reputation in the industry. He still comes to the office when he’s in town, and we still rely on him a lot for the connections he’s built over the years. He’s a great resource, but we want to make sure we have defined levels of responsibility. We’re still working at that.”

No transition is entirely smooth, but Irelan says the combination of preparation and experience within the business has made it as seamless as can be expected.

“In five years, I’d love to see us become a $50 million company doing business all over Ohio and beyond,” Irelan says. “I think we have the structure in place to do that now, and our momentum is only going to increase.”

THRIVING TODAY

In any transition of control, a business needs a strong accounting and tax partner helping to navigate the complicated financial ramifications of the changeover.

That’s why Dublin Building Systems partnered with BDO to assist with the company’s 2012 transition. BDO provided a wide array of accounting services to the company during its transition phase, including assistance with valuation of the business and with tax laws connected to transfer of ownership within the family.

“BDO was very helpful throughout the process,” says Tom Irelan, president of Dublin Building Systems. “They were able to provide us with a lot of information on the best way to complete the transfer of ownership from a tax and financial standpoint. There are some specific rules that need to be followed when transferring ownership from one generation to another, and BDO made sure we had all of that covered.”

BDO’s assistance allowed Irelan and his family to focus on the strategic and operational aspects of the changeover, ensuring the company’s clients experienced no disruption of service.
Mark Doris and his sons are setting the stage for a transfer of power at Mars Electric

The number of businesses that survive to see a second generation of leadership is relatively small. And the number that survive to the third generation? If the grandkids are running the show someday, you’ve really accomplished something.

Mars Electric is a case in point. Founded in 1952 by Sam and Rebecca Doris, the electrical component retailer and supplier entered its second generation of ownership when son Mark took the reins in the early 1980s.

Now, more than 30 years later, Mark Doris has moved into the final years of his career and is preparing to hand off leadership to his own sons, Michael and Andrew Doris. Michael joined the business in 2010 and was named director of operations at the start of this year. Younger son Andrew joined the business at the beginning of the year and is learning the ropes from his dad and older brother.

“There isn’t a time frame in place yet,” Mark says. “I’ll continue as president for now, with Michael as director of operations and Andrew continuing to work in various areas of the business. I want this to be a long-term transition, because the ultimate goal is to have no real disruption. I want it to be business as usual, just with a change in who makes the top-level decisions.”

PLANNING FOR THE FUTURE

When the changeover takes place, Michael will assume the top spot in the company, but he and his brother view their leadership structure as a partnership more than a hierarchy.
Each brother brings a different skill set to the table, and it will be up to them, and their dad, to splice those skills in a way that allows the brothers to complement each other.

“We have different skills, with some overlap, which I think is the best-case scenario,” Michael Doris says. “Andrew is more customer-facing, which is why he’s going to concentrate on business development and sales. I’m more analytical, so I’m going to focus on processes and operations.”

However, both brothers have spent extensive time working in every aspect of the business to gain a complete understanding of how Mars Electric is run.

“For example, I spent four months working in the warehouse, learning the different positions and different roles our people play,” Michael says. “I spent parts of several years working the sales counters at different stores, learning how to process orders and getting familiar with our customers.”

Andrew is now going through the same learning process, working in different areas of the company.

“I’ve been in the company for less than a year, and I’m doing a lot of watching and listening, trying to learn as much as I can about how the business operates,” Andrew says. “I’m not just learning from my dad and Michael, I’m learning from everybody — branch managers, salespeople, everybody has something to teach you.”

EXECUTING THE PLAN

While Mark doesn’t have a solid time frame for stepping down, he’d like to move out of the president’s role within the next five years.

“I’ll be 65 soon,” he says. “I don’t want to still be involved in the business like this when I’m 70.”

As Michael and Andrew learn more and become more established in their roles, Mark will continue to transition more of the company’s leadership responsibilities to them. But while the goal is a known quantity, the process by which Mark and his sons will get there is not yet entirely known.

To aid in developing strategies and processes for the transition, the Doris family will rely on BDO, as it has since originally partnering with BDO’s predecessor, SS&G, in the late 1990s.

“They’ve worked with us in an advisory capacity for 17 or 18 years,” Mark says. “Whenever we’re facing a large or difficult decision, they’ve helped us navigate through it. Sometimes it’s on an informal basis, sometimes we need to set up a more formal procedure, but any way we need help and guidance, they’ve been there for us.”

A strong advisory support structure is important for Mars Electric. Not only will the company undergo a leadership change, it has to continue to grow and serve customers while the transition takes place.

“Working with BDO, we’ll continue to look for different opportunities to expand the business, while staying focused on our company’s long-term priorities and objectives,” Mark says. “That fact doesn’t take a vacation just because we’re going to transition the leadership. Aligning the goals of the leadership change with the goals of the overall business is a critical factor in making sure we can continue to grow and remain successful.”
Family-owned businesses are the backbone of the American economy. They create jobs, pay taxes and help build vibrant communities in Central Ohio and across the country.

The greatest part of America’s wealth lies with family-owned businesses. Family firms comprise 80–90% of all business enterprises in North America.

**FAMILY BUSINESSES HAVE LONGEVITY**

The mean age of family control in the family’s core company is 60.2 years.

*Did you know that...*

More than 30% of all family-owned businesses survive into the second generation.

12% into the third generation

3% into the fourth generation and beyond

**FAMILY BUSINESSES CREATE WEALTH**

The largest family-owned business in the US is Wal-Mart Inc., with $443.9b in net sales & 1.4m US employees in 2012.

Of 222 owners and executives of mostly mid-sized, family-owned businesses...

Approximately 70% had revenue of $200 million+

25% had revenue of $500 million+

**WOMEN MATTER IN FAMILY BUSINESS**

24% of family businesses are led by a female CEO or president.

31.3% of surveyed family businesses say the next successor will be female.

Nearly 60% of all family-owned businesses have women in top management team positions.

Over the past five years, woman-owned family businesses have increased by 37%.

Source: Conway Center for Family Business (www.familybusinesscenter.com)
The Last Word

A new generation of succession planning for family-owned businesses

When it comes to passing the torch, today’s business owners have far more options than they did 10 or 20 years ago. Back then, succession planning meant deciding which family member was best suited to take over the reins and dealing with the fallout from the decision.

But today, many business owners are skipping the family drama and instead cashing out, and there are a number of reasons that might be the best decision of all.

The biggest reason is that the price is right. A relatively healthy economy, the increased availability of capital and continuing low interest rates have created extremely favorable conditions for M&A, and buyers are eager to acquire. Interested buyers range from public companies to other family-owned businesses to private equity firms. Impatience with organic growth has sparked aggressive shopping sprees in many sectors, often bidding up prices.

Second, in today’s global economy, many privately owned businesses hit a wall when it comes to dealing with the complexity of growth. The bigger the company gets, the more it must grapple with expanded human resources, marketing and information technology capabilities, as well as an escalating web of accounting rules both in the United States and abroad. Opening operations overseas means complying with such regulations as the Foreign Corrupt Practices Act and the U.K. Bribery Act. Resources are stretched thin, and owners can become distracted. Joining forces with private equity or coming under the wing of a larger public company may make more sense than continuing to struggle.

Finally, there is the issue of the kids. Increasingly, the new generation is saying no to the single-minded focus required to run a family business successfully, preferring a path of greater work-life balance. If the next generation has other priorities, selling may well be the best option.

Cashing out can provide business owners with the funds needed for a comfortable retirement. And for those who wish to keep working, selling to a well-resourced buyer often allows them to get back to doing what they love the most – working with customers and nurturing a business they believe in.

“IN TODAY’S GLOBAL ECONOMY, MANY PRIVATELY OWNED BUSINESSES HIT A WALL WHEN IT COMES TO DEALING WITH THE COMPLEXITY OF GROWTH.”

Of course, many owners will opt to keep the business in the family, identifying the right individual from either within or outside the family to take over the helm. Strong leadership and strong relationships with trusted advisors will help these companies navigate the complexities of the business landscape as they continue to grow.
“Good move? I’d say it’s a great move.”

People who know, know BDO.SM

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