

GOERING CENTER

FAMILY BUSINESS REPORT



Finding Solutions
Sharing Experiences



PROFESSIONALLY SPEAKING

A SUPPLEMENT TO THE BUSINESS COURIER JUNE 16, 2006



Dr. Sidney L. Barton
Founding Executive Director

Why Strategic Management is Critical for Family Businesses

Last month in this column I made the case that a strategic management system, properly designed and applied, is a superior management approach to traditional strategic planning for any organization. In subsequent months and future columns, I will layout the characteristics of an effective strategic management system. In so doing hopefully the reader will be able to understand better the differences between strategic management and traditional strategic planning. But in this column, I want to make the case why strategic management is particularly important for family firms.

Research shows us that the average tenure for a CEO at a successful family owned business is roughly 25 years. For large, publicly traded firms, the same average tenure is only 7 years. One can easily surmise why this occurs, since most next generation family CEO's will succeed their parents when the next generation is in their forties, while for publicly traded firms, the next CEO normally is selected from a group of managers much closer in age to the departing CEO and

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Are You Preparing The "Next Generation" To Successfully Run Your Business?

The Goering Center Offers A "World Class" Solution.

The Next Generation Institute- Sessions Begin October 10, 2006

CBay 2 Online Auction to Benefit Center Bidding Deadline is June 22

Family Business of the Year Applications Due June 30!

Breakfast Series June 27 at Kenwood Country Club 7-9:30am.

Craig Kurz, President Honey Baked Ham of Ohio,
Speaking on His Family's Succession Plan and Company History

There can never be enough discussion and communication on how to best prepare the Next Generation to take over the leadership of a successful family firm. The core strategic mission of the Goering Center is to assist family firms in transitioning from one generation to the next. The Center's Next Generation Institute has evolved into one of the leading programs in the country that focuses on the many issues that must be addressed in preparing a new generation for management, control, and ownership. Participants spend a half day, once a month for eight months, discussing and role playing issues surrounding communications, family strategic plans, succession planning, ownership structure, business valuations, financing alternatives for transitions, compensation issues, career planning ideas, employer liability issues and risk management, psychological aspects unique to family firms, governance issues such as outside advisory boards and boards of directors, the

use of professional advisors, and estate planning and wealth transfer matters. All sessions are led by community professionals specializing in areas pertinent to family firms.

The Center is proud to have 120 graduates from the Next Generation Institute. We hope you will consider this "World Class" program for a member of your family, and it would be our pleasure to discuss it in greater detail with you at any time.

CBay2 Bidding Ends June 22. Our Fund Raising Committee has developed a unique way to raise funds for the center while at the same time save you money through **CBay**, the Goering Center's on line auction site. Items donated for **CBay2** include a \$2500 printing package from the **Flottman Company**; \$5000 editing package from **Zone Communications**; a \$10,000 advertising package from the **Business Courier**; a furnace and air conditioning system from **Apollo Heating & Air Conditioning** valued at \$3000 plus; two day, one night accommodations for up to 20 guests at **Bracken Ridge**

Conference Center valued at \$5900; three, 6 pint shippers from **Graeters** valued at \$210; Limited Edition, fine art print from **Multi-Craft Litho**; an Obstacle Detection System valued at \$262 from **Grote Industries**; One full page-four color ad in Modern Machine Shop Magazine valued at \$5530 from **Gardner Publications**; an **Aveda** Environmental Lifestyle basket valued at \$110; and a Roof Inspection and Repair from **Wm. Kramer & Son, Inc.** valued at \$300; Round of Golf at Kenwood Country Club, provided by **Kent Lutz** and valued at \$500. Link to **CBay 2** at www.Goering.uc.edu. Don't need any of the above items - perhaps one of your client's does!

Until next time.....WKL

Late Breaking News!
Michael Flannery
Wcpo's 9 On Your Kid's Side
To Emcee
Family Business of the Year
Banquet on August 29.

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Balancing Investment Goals

By Patrick Dolle, Fifth Third Bank Private Client Group

Ask investors to list their top three priorities and you're likely to hear: preserve capital, achieve target returns, and beat the stock market's overall growth. Unfortunately, these goals are usually incompatible. To either beat the market or target more than the most conservative rate of return, you risk capital. To moderate risk and preserve capital, the usual strategy is to diversify your portfolio and offset higher risk asset classes with asset classes that have a lower risk.*



During the last major market downturn (1999/2000), assuming your returns were close to the performance of market indexes, let's look at what would have happened if you had countered the stock market's characteristic volatility by creating a diversified portfolio of 50% stocks, 25% bonds, and 25% cash equivalents.* This time period was selected because though not regular or typical on a year to year basis, it does illustrate what could happen in a future market adjustment.

Easing the Pain

In 2000, the S&P 500 stock index returned (9.10%). The Lehman Brothers Government/Credit Bond index returned 11.85%,** and the Merrill Lynch 3-Month T-Bill Index for cash equivalents returned

6.36%.*** The positive returns in bonds and cash equivalents would have overcome most of your loss on stocks. Your total return would have been approximately (0.9%). Your diversified portfolio would have clearly beaten the stock market's return, but you still would have fallen short if your goal had been capital preservation.

The Price of Protection

On the other hand, in 1999 the S&P 500 gained 21.04%, but the Lehman Brothers/Credit Bond index returned (2.15%) and the Merrill Lynch 3-Month T-Bill Index returned 5.01%. Diversification would have reduced your overall return to 11.23%. You would have preserved your capital and still earned a considerable return, but wouldn't have beaten the stock market.

Finding the Balance

Your overall investment results depend on the specific goals you decide to emphasize:

Capital Preservation. If preserving capital is your primary investment goal, you almost certainly won't lose money if you stay with money market funds. However, safety comes with a history of low returns. In most years, you won't

beat the stock market and you may not even beat the rate of inflation.

Another way to preserve capital is to invest your portfolio primarily in bonds or bond funds. Returns on bonds aren't as steady as the returns on cash equivalents or as high as on stocks over the long-term, but bond investments are less volatile than stocks over the short-term.

Beating the Market. Your portfolio will perform similar to the stock market if you invest in an index fund that tracks a broad market index, such as the S&P 500. However, with an index fund, you probably won't be able to beat the market, nor will you be protecting yourself against market losses.

If your goal is to earn steady returns that beat bonds and cash equivalents rather than to beat the stock market, you might invest primarily in a diversified mix of stock funds — growth and income and other fund types. While there are no guarantees and you will likely see good and bad years, over the long-term, your average annual return may be near the long-term results of the overall stock market.

Targeting Results. What if you aim to achieve a specific investment return rate? If the number is high, such as 10%, you could invest your portfolio entirely in equity funds. Some years, you'll see

big gains and make or surpass your goal. In other years, you'll see a lot less and could even experience a loss.

Aiming for Success

The path to success starts by determining your investment objective, be it capital preservation, targeted results, market-beating returns, or a combination that balances more than one of these objectives. Once you plan a portfolio that furthers your goals, be prepared to stay on plan, despite short-term disappointments.

*Asset Allocation and diversification strategies do not assure or guarantee better performance and cannot eliminate the risk of investment loss. This allocation is for illustrative purposes only. **The Standard & Poor's 500 Stock Index is composed of 500 common stocks representing major U.S. industry sectors. ***The Lehman Brothers Government/Credit Bond Index is a composite made up of the Lehman Brothers Government and Credit bond indices that includes U.S. government Treasury and agency securities as well as high grade corporate bonds. ***The Merrill Lynch 3-Month T-Bill Index is composed of newly issued 90-day Treasury bills. Indices are unmanaged and do not incur investment management fees. An investor is unable to invest in an index. †The information presented in this material is general in nature and not designed to address your investment objectives, financial situation or particular needs. Prior to making any investment decision, you should assess, or seek advice from a professional regarding, whether any particular transaction is relevant or appropriate to your individual circumstances. Past performance is no guarantee of future results.*

A Green Machine: Mellott & Mellott Helping the Environment and Improving Client Service Through Document Management Technology

By Don Mellott, Jr., Mellott & Mellott

Five tons. 10,000 pounds. That is the annual paper savings local accounting firm Mellott & Mellott is realizing as one benefit of being the first accounting firm in the region to fully implement a document management system.

While the firm is proud of the environmental impact, the driving force behind the commitment to innovation is the ability to better serve clients.

Between government retention regulations and historic practices, Mellott & Mellott, like most accounting firms, evolved to incorporate multiple hard copy filing and information management systems. For example, the first client back in 1956 was client #1 and so on. If one of the first client's children became a client, the child was client 1a.

As a result of this system, when a client called with a question, an integral knowledge of the client and their relationship with the firm was needed in order to locate their hard copy file. At times, finding a file was a challenge, even if it was properly filed. In addition, the file could have been "pulled" by another staff member and may have been

sitting on someone's desk. Additionally, the firm was operating with three different client databases. Someone could be Tom in one and Thomas in another. All of this



hindered the ability to quickly access needed information, which inhibited the ability to provide the level of service for which the firm is renowned.

Two years ago I charged the technology department with the responsibility of "taking the firm to the progressive edge of available technology in order to better serve clients and improve efficiencies."

The defined goals and objectives were:

1. Improving client service through
 - a. Enabling immediate or quick access to client information
 - b. Improving internal and process efficiencies
2. Supporting the firm's high standards of objectivity and quality
3. Ensuring the safety and security of data
4. Securing 100% staff participation, including Partners
5. Being environmentally friendly

6. Breaking even on the investment within 36 months

Following a thorough analysis of the options and benefits, the firm adopted a detailed technology plan that encompassed desktops, document management software, automated audit and tax preparation software, remote system access and security.

The keystone of the system is document management technology. The goal was not to be paperless, but to create, require, and keep less paper. The results have been dramatic.

In 1998 an audit team returned from a client site with a rented van and a Blazer full of audit work papers and copies of documents. Since then, the client has grown by 50% and yet this year the audit team returned with all of the needed data on a memory stick and it was backed up on a laptop. This saved the client significant time and resources and enabled each member of the audit team to access the data they need in seconds.

Several factors contributed to the program's success. New employees joining the firm are typically highly computer savvy.

A key part of their computer literacy is the ability to use computers to search for data. The document management system's search functionality has been a contributor to the ability to quickly access needed data on behalf of clients.

Another key success contributor is commitment of management. It was recognized that partners would be the most difficult to convert. Their commitment and dedication to the program has been critical to its success internally and overall.

The technological innovations have also supported the firm's progressive HR policies. Employees can now securely access the entire system remotely. This supports the firm's flex time policy and enables staff to work from home without having to take home reams of paper.

This system has also enabled two staff members who suffered serious health issues to remain productive while at home recuperating. During their illness they stayed connected with their duties, colleagues, and clients through remote access to the firm's information technology system very much appreciating the ability to contribute and maintain their feeling of being an important

Mellott & Mellott, P.L.L.

A Community Celebration of Family Business Success



The Goering Center for Family & Private Business and the University of Cincinnati are pleased to announce the 7th Annual

Tri-State Family Business of the Year Awards



Tuesday, August 29, 2006 from 5:30 to 9 p.m. at Music Hall

Master of Ceremonies: Michael Flannery, WCPO's 9 On Your Kids Side

Please plan to join many of the leading Tri-State area family firms for dinner and an awards ceremony recognizing the vital role that family businesses play in our local community. This community-wide celebration will honor twelve award-winning companies for their leading achievements in the areas of:

Innovation • Community Service • Succession Planning
Strategic Planning • Communication • Estate and Financial Planning

Make plans now to attend this exciting event.

If you would like more information about this event, or to make a reservation, simply call the Goering Center at (513) 556-7185.

Congratulations to the 2006 Family Business of the Year Award Nominees!

A&A Safety	Cincinnati Belting and Transmission Company	Force Control Industries	Joseph Auto Group	One Hour Martinizing & American Textile Processing	The Crowell Company
Ace Exterminating	Cincinnati Floor Co.	FORTE	Joseph-Beth Booksellers	Osborne Coinage Co. Inc.	The D. C. Morrison Company
Ackermann Enterprises, Inc.	Cincinnati Gasket Packing & Manufacturing	Frank J. Catanzaro Son/ Daughters, Inc.	Jungle Jim's	Parkway Products Inc.	The Drees Company
Active Electric	Cincinnati Sub-Zero Products, Inc.	Frey Electric	Kaesar and Blair Inc.	Paul Michels & Sons	The Hill & Griffith Co.
AE Door & Windo Co	Cindus Corporation	G & G Manufacturing Co	KDM Screen Process Printing	Paycor Headquarters	The Hollaender Manufacturing, Inc
Aero-Fulfillment Services	CJ Krehbiel Company	G & J Pepsi-Cola Bottlers, Inc	Kerry, Inc	Peck, Hannaford, & Briggs	The HoneyBaked Ham of Ohio
All Creatures Animal Hospital	Clark Theders Insurance Agency	Gabby's Café	Kinder Garden School Cincinnati, LLC	Penn Station	The Mayerson Company
American Micro Products, Inc	Clarke Power Systems	Ghent Manufacturing, Inc.	Klosterman Bakery	Perfect North Slops, Inc.	The Myers Y. Cooper Co.
Ammon Wholesale Nursery	Clippard Instruments	Gilkey Window Co.	L & I Group	Performance Automotive Network	The Sheakley Group of Companies
Anthony Munoz Foundation	Clubessential, Inc.	Glockner Enterprises	Lehr's Meats	Phillips Supply Co. Inc.	The Shepherd Chemical Company
A-One Drycleaners, Inc	Cohen Brothers, Inc.	Goettsch Int'l. Inc.	Leonhardt Plating	Pilot Contracting	The Witt Co.
Apollo Heating & Air Conditioning	Comey & Shepherd Realtors Inc.	Gold Medal Products Company	Long Stanton Manufacturing Co.	Planes Moving & Storage	Thompson, Hall, & Jordan Funeral Homes
Baker Concrete Construction, Inc.	CopyPlex	Gorilla Glue	Loth, Inc.	Porter Precision Products	Thompson-MacConnell Cadillac Inc.
Barleycorn's	CORE Resources, Inc.	Graeter's Inc.	Loveland Pet Products	Prestige Audio Visual, Inc.	Towne Properties
Baron Engraving	Crescent Park Distribution Center	Griffin Industries, Inc.	Lykins Companies	Prestige Enterprise International	Trauth Homes, Inc and Trauth Properties, LLC
Basco Manufacturing Co.	Croswell Bus	Grippo Potato Chip Co.	M. Bohlke Veneer Corporation	Priority Dispatch	TSS Technologies
Batesville Products Inc. (BPI)	D.C. Morrison Co.	Gutter Topper, LTD	MAGNA Machine Company	Progress Supply, Inc.	Valley Asphalt Corp.
Bavarian Trucking Co., Inc.	Deerfield Construction	H. Dennert Distributing Corp.	Matandy Steel	ProSource	Valley Interior Systems
Baxter Burial Vault Services, Inc.	Delhi Flower & Garden Center	H.J. Benken Florist	Matdan Corporation	Queen City Reprographics Inc.	Varney Dispatch, Inc.
Bayer Becker	Dennert Distributing of N. Ky., Inc.	Hamilton Fixture Company	McCluskey Chevrolet Inc.	Rack Processing Co.	Verst Group Logistics
BB Riverboats	Derrick Company	Hart Productions	McGregor Metalworking Companies	Ray St. Clair Roofing, Inc	VonLehman & Company, Inc.
Beechmont Motors	deStefano Custom Builders	Henn Plumbing, Inc	McSwain Carpets Inc.	Recker & Boeger	Waltz Business Sytems
Berman Printing Co.	Deveroes	Hillandale Communitas, Inc.	Mees Distributors	Reece-Campbell Inc.	Warm Brothers Construction Co.
Big Chief, Inc.	Dixon Builders	Hilltop Basic Resources, Inc.	Megen Construction	Remke Markets, Inc.	Warm Brothers Construction Co.
Blue Grass Provision Company	Down-Lite International, Inc.	Hirlinger Chevrolet	Mellott & Mellott	Republic Wire, Inc.	Welch Sand & Gravel
BMW Store	Eagle Coach Company	Hoge-Warren-Zimmerman Co.	Michelman, Inc.	RestorAid	Wendling Printing
Bob Sumerel Tire Co. Inc.	Eagle Custom Homes	Holland Communications	Mike Albert Leasing	Robbins Sport Surfaces	Widmers Dry Cleaning
Broshear Contractors, Inc.	Elden A. Good Funeral Home, Inc.	Holman Motors	Monarch Construction	Rough Brothers Inc.	Wittrock Woodworking and Manufacturing Co.
Budco Group, Inc.	Emory P. Zimmer Insurance Agency	Home City Ice Company	Montgomery Inn Inc.	Rumpke Consolidated Companies	Wm. Kramer & Son, Inc.
Buddy Rogers Music	Empower Media Marketing	Hosea Worldwide	Mullaney's Home Health Care	Scherzinger Corp.	Wright Brothers Inc.
Business Benefits, Inc	Engineering Excellence	Hummel Industries Inc.	Multi-Craft Litho	Servatii Pastry/Choice Harvest Bakehouse	Wulco, Inc
Busken Bakery	Enterprise Vending	I.T. Verdin Company	MVM, Inc.	Sibcy Cline Realtors	Zicka Walker Homes
C & L Auto Body and Auto Service	ESJ Carriers Inc.	ILSCO	Natorp's	Skidmore Sales & Distributing Co.	
C.W. Zumbiel Company	F.C. Industries Inc.	International Theme Park Services	Neal's Remodeling	Small's Hardware	
Camden Homes, Inc.	Faigle Jewelers	J & N Auto Electric	Neyra Industries, Inc	ST Media Group	
Cameratta Properties	Fawn Confectionery Inc.	James Free Jewelers	Nieman Plumbing Co.	Steinhauser Inc.	
Carpetland/Carpet One	Faxon Machining	JANCOA Janitorial Service	Nolte Precise Manufacturing, Inc.	Super Systems	
Castellini Company	Federal Equipment Company	Janell, Inc.	Norlyn Manor	The Bistro Group	
Cast-Fab Technologies	Fenton Rigging Co.	Jeff Wyler Dealership Group	North American Properties		
Centennial, Inc	Ferguson Metals, Inc	Jeffrey R. Anderson Real Estate, Inc	Norton Outdoor Advertising		
Champion of Cincinnati	Ferno-Washington Inc.	JFK Window	Norwood Hardware		
Chavez Properties	Fisher-Griffin Company	John Nolan Ford, Inc.	Norwood Sash & Door		
Chester Labs Inc.			Oil Distributing Co.		

Putting Your Money to Work For You Faster

Michael Elegeer, President - Commercial Banking, PNC Bank

Today, companies are looking for ways to speed up the manner in which they receive their funds. The quicker they can get the checks to the bank, the faster the money will be deposited into the bank account and available for use.

Traditionally, this has been done by receiving the check through the mail, endorsing the back of the check, filling out a deposit ticket and then taking the "dreaded" daily trip to the bank. On a good day it's an inconvenience with a hidden cost, but making the trip to the bank can sometimes become a bigger hassle: You are down to 15 minutes before the bank you normally go to will be closing and by the time you drive, or walk, you may be cutting it very close. Some banks may stay open a few minutes later and take the deposit, but others may adhere more strictly to their policy and make you wait until the next day to deposit those checks. That's another day that your money is not working for you.

There are a couple of solutions that will allow you to alleviate these aforementioned scenarios. These will hopefully make your life a little easier and speed up the way in which you make your deposits, both of which are of tremendous value. A couple of the more popular solutions are establishing a Lockbox or Remote Deposit



Lockbox services are designed to improve cash flow by accelerating the collection process of accounts receivable payments. This is accomplished by instructing your customers directly to the bank of deposit through the post office. Using unique zip codes, the mail is picked up periodically around the clock including weekends and brought to the bank for processing to maximize efficiency.

Checks are deposited into your account and subsequently cleared in time to meet critical availability deadlines to speed the collection of funds. The checks, envelopes and remittance documents are digitally imaged and made available to you over the internet to record payment data in a timely manner without changing your current accounting system.

In addition, images of the remittance documents can be transmitted to you or supplied on a CD-ROM for storage and archival purposes. For those who are unable to utilize the image technology, the checks are photocopied, re-associated with the remittance documents and returned to you by courier or by mail. To improve and accelerate the cash application process, the bank can also capture data such as maker name and invoice number from the check and remittance documents. This is done either of two ways electronically, Intel-

ligent Character Recognition or Optical Character Recognition, or captured manually through data entry. The data is then transmitted to you for download directly into their accounts receivable system.

Electronic payments received by ACH or Wire Transfer can also be merged into the remittance file prior to transmission. Lockbox services not only provide accurate and timely information on payments received, they also reduce mail float, eliminate processing delays, restrict credit risk, and minimize the opportunity cost of uncollected funds. They also improve Internal audit controls by establishing an external audit trail for payments received and by separating check processing from the other accounts receivable functions, and can reduce fraud related to the depositing process.

Another alternative, relatively new to the industry, is Remote Deposit. Remote Deposit allows you to make deposits into their account from the comforts of your own office. Using a special desktop scanner, located right in your office, you can easily capture images of consumer and business checks as the company receives them. Once the images are captured, the batch is transmitted to the bank for processing. As a result, you can reduce administrative time and expenses associated with deposit preparation activities and consolidate bank accounts from various locations. You can capture, scan and

transmit deposits 24 hours a day / 7 days a week. The daily deadline may vary based on the bank, but the hassle and cost of getting in the car and taking time out of your day is eliminated.

To be certain, there are costs associated with both of these options, however the faster collection time and/or reduced "hassle factor" frequently result in a net positive back to you.

For example:

Cost of check scanner:

\$900.00

Savings of gas from drive to the bank:

\$400.00

Savings of time making deposits:

\$750.00 (150 hours @ \$5/hour)

And:

Cost of not driving to the bank, fighting traffic, and or standing in line at a bank:

PRICELESS

If either of these concepts applies to your business, you ought to consider contacting your banker to see how it may benefit you.

Michael Elegeer is a Vice President in Commercial Banking with PNC Bank and has over ten years of local banking experience.

Be Sure to Watch Fifth Third Bank Hometown Business Weekly Sundays at 11am on WCPO.

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with much more general management experience.

There are two reasons why the extended period of time for the CEO's tenure especially drives the need for an effective strategic management system. The first reason is quite simple. It is natural for anyone who is in control of any organization for an extended period of time to become comfortable and "set in their ways" with respect to what the business does and how it does it. An effective strategic management system will serve to provide continual challenge to the business model from multiple constituents and thus protect the firm from experiencing problems due to unexpected, and often rapid,

environmental changes.

The second reason is also quite straight forward. If the next generation is expected to take over the firm upon retirement or death of the current owner, they need to understand how the business works and have an effective management system in place to make the key resource allocation decisions. Again, since this next generation often lacks the years of experience in the firm because of their age, it is critical for the firm to have an active and well managed strategic management system in place to afford the next generation the best chance to continue on successfully.

Look for next month's column as we begin to explore in more detail the key characteristics of an effective strategic management system.

A Green Machine, Continued from Page 2

team member despite their inability to be in the office. The remote access is a win for our employees, our firm, and our clients.

In dealing with the highly confidential data of clients, safety and security are critical. As a component of the document management system, the firm implemented protocols that ensure data security. The firm operates two server systems in-house. One system contains the firm's operational software programs. The other server houses data and documents. Each server has built in redundancies. Additionally, there is a mirror image of each server, and each system has a back up tape that is taken offsite nightly. Lastly, a monthly backup is made and placed in a safety deposit box.

As a result of the firm's commitment to innovation, all goals and objectives have been met. Tax, audit, time, and billing, depreciation and supporting docu-

ments are all integrated. Employees enjoy greater efficiencies and flexibility, and the investment breakeven is 18 months. Most importantly, client service is improved, and the firm saves the trees that would otherwise be harvested each and every year to make 10,000 pounds of paper.

Tom Meyer, who is responsible for most of these developments, has been with Mellott & Mellott for forty years and is the Partner in charge of the Technology Department.

Mellott & Mellott P.L.L. is a local firm with roots in Cincinnati celebrating its fiftieth anniversary in 2006. The firm prides itself on a tradition of service to their clients. The firm's areas of expertise include taxation, auditing and accounting services, and advisory services provided to closely held corporations and high net worth individuals. The firm is located in downtown Cincinnati at 36 East Fourth Street.