

# Down to the wire

*How two generations of entrepreneurial leadership have turned a supposed commodity business into a model of sustained prosperity*

**L**isten to enough stories about how and why entrepreneurs got their start, and the scorned salesperson emerges as a classic narrative.

Reneging on sales commissions turns out to be a shortsighted business practice, as well as poor ethics. It's a proven means of creating new competitors.

Just ask Larry Selhorst, founder of American Spring Wire Corp., with headquarters in Bedford Heights, Ohio. A dispute regarding a bonus that he earned as a steel wire salesman in the mid-1960s was the catalytic jolt that set Larry out on his own.

While various emotional drivers — such as being taken advantage of by an employer — cause people to pursue their own business vision, an appetite for risk is common to many entrepreneurs' stories.

And in 1968, when Larry and two colleagues opened the doors of American Spring Wire, they did so with \$210,000 borrowed from family and friends and several customer contracts in hand. The story of how they grew their venture into a leading steel products manufacturer is remarkable.

But, perhaps more unusual is how American Spring Wire has grown and secured its status as North America's largest manufacturer of valve and commercial quality spring wire under a second generation of family leadership. Indeed, the success of American Spring Wire is in part about how Larry and his son Tim seamlessly transferred the organization's leadership baton.



*Two generations of entrepreneurial leadership: Tim and Larry Selhorst*

According to the Northeastern University Center for Family Business, fewer than one in three companies survive through a second generation of leadership.

Obviously, some second generations don't want to lead the family business; they sell it off or close the doors. Other second-generation businesses may indeed survive, but they don't thrive — they live off what the first generation built. Finally, many earnestly try to move forward, but simply fail.

So, are there key markers for a second-generation business that significantly builds upon the first generation's success? Looking at three factors of the Selhorsts' successful leadership at American Spring Wire over the last 46 years is a constructive place to start.

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# TAX APPORTIONMENT

## Are you overpaying?

The word apportionment brings to mind the process of political redistricting. But, there is another apportionment — tax apportionment — that can present challenges and opportunities for a company's overall tax obligation.

"State apportionment is a way that states determine which portion of your overall income is taxable in their state," said Robert Venables, a senior accountant in Cohen & Company's tax department.

"Each state has their own rules," said Venables. "Some states have three factors they weigh: percentage of your property in their state versus everywhere, percent of payroll in their state versus everywhere, percent of sales in their state versus everywhere. Some states weigh more heavily toward one of those factors, usually sales."

After being hired by American Spring Wire, a team from Cohen & Company began combing through various aspects of the company's tax picture, including state returns where taxes/minimum fees had been calculated based on the company's apportionment.

In Minnesota, for example, Cohen & Company identified overpayment of apportionment related minimum fees for both American Spring Wire and a partnership located in Minnesota, of which American Spring Wire is a majority owner.

"We successfully filed three years' worth of amended returns," said Venables, "resulting in monies returned to both American Spring Wire and the Minnesota partnership."

## CALCULATED RISK

First and foremost, there's that willingness to take calculated risks that Larry not only modeled, but more importantly was able to impart to his son.

Larry's willingness to take risks extended well beyond his decision to bet the farm and open the doors of American Spring Wire.

For example, early on Larry and his partners made a decision to hire a few experienced, higher-wage wire makers who had been let go when another mill closed its research laboratory. The decision helped minimize a financial loss in the company's first year. Those expert workers, along with those they trained, laid the foundation for American Spring Wire's ability to carry through on its stated intent of being a market leader in innovation.

It may be that a lesser appetite for risk is the greatest factor preventing many second-generation business leaders from approaching or exceeding the success of the first generation. The first generation in a sense starts with nothing — so perhaps risk feels differently for those second-generation owners who feel the weight and fear of losing what someone else fought for and gained.

For Tim, a significant test of his willingness to take an educated risk came in the early 2000s as the company was in transition from his father's leadership to his own.

"We needed to retool and refresh our equipment, an expensive proposition," Tim recounted. "The dollar was very strong and so there was pressure from foreign goods. Our margins were very compressed. I think the elders of the company were understandably wondering, 'Do we really need to refresh our equipment to be more productive and competitive, or does the kid just not know how to sell our product?'"

In the end, Tim pushed through on the retooling with his father's support, contributing to American Spring Wire becoming a stronger competitor in the emerging global economy.

## WILLINGNESS

Tim was not force-fed his destiny as are some second-generation business owners, nor did he passively assume his leadership role.

He first began working on the plant floor in production at age 15. After college and an MBA, he returned to American Spring Wire and began working in outside sales, then wore many hats before assuming his leadership position.

But, the key here is not simply that Tim grew up in the business. Many second-generation owners do, and they resent it.

The key is that working at American Spring Wire and then leading the company is what Tim genuinely wanted for himself.

"My dad was interested in me joining the company," Tim said. "But he also wanted me to pursue other things. But, for me, I just always felt my best opportunity would be here."

### SHARED COMMITMENT

While Larry and Tim are not mirror images of one another, they share a number of core beliefs that have transferred across their corporate leadership spans.

One such example is their focus on operational and cost efficiencies from the top down. Larry, for example, always sat behind the \$100 desk he bought when the firm opened its doors and symbolically passed that desk on to Tim.

The idea is to run as lean as possible to hold down costs, win business and plow as much as they can back into efficient machinery so as to share prosperity with their employees.

"Though we do manufacture specialty engine valve quality wires, we can't get away from the fact that much of what we do is commodity based," said Tim. "We have to be operationally efficient, keep costs down and have a process that makes it right the first time."

This focus on efficiencies led in part to American Spring Wire's decision to move both its corporate and tax accounting work to Cohen & Company two years ago.



"Previously, we had split the corporate work and the tax work, but we wanted to marry up those skill sets and that led to the decision to go with one firm, and that was Cohen & Company," said Tim. "Cohen & Company did a great job holding our hands, so to speak, through the transition process, which we had some concern about. They've been very responsive as they've moved us into a new tax-management program."

"To make the transition process as painless as possible for Tim and his team, we compiled as much information as we could to give us a complete understanding of their complex business and ownership structure," said Josh Messina, a principal in the firm's tax department. "We met with the previous accounting firm, multiple family members/shareholders, and our own audit team whose work preceded the tax portion of the engagement. Helping American Spring Wire make a smooth transition meant being as complete as possible without creating a burden on any one party."

*See the adjacent sidebar, "Tax Apportionment" for a slice of what Cohen & Company has brought to the table for American Spring Wire. To find out more about what Cohen & Company can do for your tax situation, contact Josh Messina at 330.255.4342 or [jmessina@cohencpa.com](mailto:jmessina@cohencpa.com). &*

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## COMPANY PROFILE

American Spring Wire is North America's largest manufacturer of valve and commercial quality spring wire and a major supplier of PC strand. The company's wire is used in automobiles, agricultural equipment, and appliances, as well as pre-stressed and post-tensioned concrete construction applications. The company maintains more than 1 million square feet of manufacturing and production facilities in Houston, Texas, and owns a majority ownership stake in J&L Wire Cloth LLC of St. Paul, Minn.