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FUNDING TO CROSS THE VALLEY OF DEATH
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A GIFT for INNOVATION

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FIVE LEADERSHIP LESSONS FROM HARVARD

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FROM THE CEO

People or robots?

Challenge your employees to think by engaging them in decision-making

Fred Koury
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Any time you have change in your company, you have the potential for conflict. It was Charles Darwin who said, "It is not the strongest or the most intelligent who will survive, but those who can best manage change."

Each person will react differently as adjustments are made in response to changes in your industry. It's natural for employees to question management, co-workers and even themselves as they are forced outside of their comfort zones. Those questions can easily lead to misunderstandings that can spiral into conflict and ultimately slow your growth.

Be proactive and address these issues head-on. Engage members of your organization by providing the necessary forums both for you to communicate your strategy and vision and for them to share their concerns back to you. An open dialogue will help drive your vision for the company through the organization and will also help foster your next generation of leaders as they take a more active role in the future of your business.

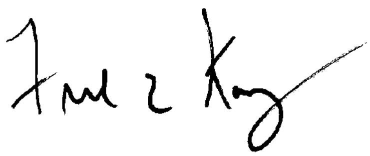
Only when employees are challenged to think — and to challenge you — will you maximize your organization's potential. Do you want employees who don't speak up when they recognize what may be a fatal flaw in your grand strategy? Or would you rather have employees who are actively thinking about the big-picture goals of the company and doing their part to contribute?

Essentially, it's a choice between having employees acting like robots or acting like people. If you choose robots, you will have to have all the answers. If you choose people, you only have to have some of the answers because the employees will help you find the rest.

Engaging employees in conversations, meetings and decision-making helps them take ownership and helps you create a happier workforce. If they are not allowed to speak, gossip and rumors will drag down your productivity.

Actively promote two-way communication. Let employees do the talking and hear what they have to say. The results may surprise you. Those closest to the customer often know best what needs to be done to improve sales, service or efficiency, so don't let that knowledge go to waste.

Talent development is a critical role for any leader. We need to do what it takes to grow and retain skilled individuals rather than drive them off with a work environment better suited to a good robot. ●



SMART BUSINESS

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Smart Business® Pittsburgh is published monthly by Smart Business Network Inc., 835 Sharon Drive, Suite 200, Cleveland, OH 44145. Periodicals postage paid at Cleveland, Ohio and additional offices.

Focused and flexible

Five leadership lessons from Harvard

Dr. Eric Swift
Management consultant
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Over the past two years, I had the opportunity to earn certificates from HBS Online in entrepreneurship and leadership. And recently, I completed the Management Development Program at the Harvard Graduate School of Education. From that experience, I've gathered five key lessons.

1. **Duality of leadership:** Being a leader involves a great balancing act between many things. For example, a leader needs to balance a focus on goals and tasks with compassion and empathy for people. Leaders are solving present issues while pursuing future opportunities. This dual awareness of the present with the future was a common theme in all my classes. Finally, there is a duality of problems to solve as a leader. Many problems have answers and have previously been solved. However, some problems do not currently have a solution and require innovation and organizational change to move the ball forward.

2. **Define the problem with data:** I noticed that each presenter, each case and every module started with the data to provide the context of the situation. Having data to demonstrate the problem provides everyone in the room with the gravity of the situation, makes sure that there is a sense of urgency, and gets us all on board solving the same problem. Describing the problem in detail focuses on the discussion and problem-solving process. Now that we have recognized the problem and identified the problem, we must look for solutions.

3. **There is a model for that:** Using a framework or model is a helpful tool for analyzing the situation, problem or organization. We would often use a two-by-two grid or matrix to analyze the situation, brainstorm solutions and discover insights related to implementation. Using a model and evidence-based solutions expanded the discussion to include multiple variables and a variety of perspectives. This created a more complete solution and way forward.

4. **Consider the intangibles**: This was a theme in almost all of my classes and modules. When analyzing the situation as well as creating an implementation plan, we were encouraged to identify and consider the intangibles. While managers are often considering policies, procedures, people and overall structure of the organization, an effective leader considers the culture, politics, and broader context of the situation. This reminded me of politicians and media that often discuss the perceptions and "optics" of a situation.

5. **Remain focused and flexible:** To return to the duality of leadership, effective leaders must keep the organization focused on the mission and goals, while realizing that there are multiple paths for reaching that goal. The leader needs to be adaptable and flexible with the methods for meeting the mission. While this is sound advice, I want to note that there is a caveat with this approach, as it sounds a lot like the end justifies the means, which could result in ethical lapses.

Effective leaders do these five things daily: Recognize their role, define the problem, apply data for better decisions, consider the context, and remain both focused and flexible. ●

Igniting growth and limitless opportunities

Unleashing the power of systematic acquisitions

Sara Clevenger
Principal
Blue River

Sara leads Blue River's Buyside Advisory Practice. Serving middle-market private equity and strategic acquirers in the U.S. and internationally, Blue River's world-class Buyside Practice advises clients on strategy development and execution across a multitude of acquisitive growth strategies. Sara has more than 20 years' experience in Corporate Development, Mergers & Acquisitions and Corporate Strategy. She is proud to lead Blue River's outstanding team of 30+ buyside professionals, with a commitment to continued growth and innovation.

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In today's constantly changing landscape, companies are on a quest for growth and dominance in fiercely competitive markets. While organic growth strategies have their merits, there's a secret weapon that can propel businesses to new heights: systematic and meticulously orchestrated acquisitions. Consider these benefits of a "buy vs. build" approach.

1. **Strategic expansion and diversification.** Picture your company catapulting into uncharted territories, venturing into new markets, regions, or sectors. A thoughtful acquisition strategy drives that. It unlocks untapped potential, diversifies revenue streams and liberates a business from reliance on a single product, market or customer set. Acquisitions can provide access to complementary technologies, expertise and intellectual property, strengthening competitive advantage.
2. **Enhanced market positioning.** By acquiring competitors or complementary businesses, an acquirer can gain a larger market share and solidify its presence in the industry. This not only increases brand visibility but allows for economies of scale and improved bargaining power with suppliers and distributors.
3. **Access to new customers and geographies.** Expanding into new customer segments or geographic regions can be complex and time-consuming. Acquisitions instantly provide access to established customer bases and distribution networks. This accelerates the growth trajectory of the acquirer, reduces the time required for market penetration and opens up new avenues for revenue generation.
4. **Innovation and technology advancement.** Acquiring innovative startups or companies with cutting-edge technologies allows established organizations to tap into new ideas, and research and development capabilities, allowing companies to drive change rather than react to it.
5. **Talent acquisition and knowledge transfer.** Acquirers gain access to skilled employees with industry-specific knowledge and expertise who can contribute to the acquirer's growth, inject fresh perspectives and foster innovation.
6. **Financial synergies and cost savings.** Consolidating operations, eliminating duplicated processes and streamlining supply chains can result in cost savings and increased operational efficiency. Acquirers leverage economies of scale, negotiate better deals with suppliers and optimize resource allocation, improving profitability and shareholder value.
7. **Accelerating value for exit planning.** Acquisitions can play a pivotal role in accelerating value within the context of exit planning. When preparing for an exit or recapitalization, acquiring other businesses can enhance overall value proposition. By effectively integrating acquisitions into the exit strategy, businesses can position themselves for a successful and lucrative exit, maximizing returns for owners and stakeholders.

To achieve the most from an acquisitive strategy, pressure-test its alignment with the company's overall corporate vision. Stay nimble to how an acquisition strategy will evolve as acquisitions are successfully integrated.

With thoughtful execution, becoming a systematic acquirer can drive transformative growth and long-term, sustainable success. ●

Funding to cross the valley of death

BY ADAM BURROUGHS
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In 1985, Sanjiv Singh worked on the first autonomous ground vehicles to operate outdoors. By 2010, he led a team that demonstrated the first autonomous full-scale helicopter flight. Now he's with Near Earth Autonomy, pushing the envelope in autonomy for aerial vehicles both manned and unmanned.

The company has received many forms of funding since its launch, including grants, corporate accelerator and VC investments. To determine which funding and opportunities to pursue and when, Singh says they have some ground rules that help him and his team think it through.

"We don't look at everything as an ad hoc thing," Singh says. "Generally, we don't what is called work for hire in that sense that somebody comes, we do R&D for them and they own the technology, because then what's happened there is that we can't take that technology anywhere else. We've just basically done work for somebody else. There are many people who come talk to us, given our status in the field, our positioning in the field. And that's one thing that we just don't go there."

They also prefer to have customers only pay for the demonstration — the applications of the technology in their world — because if they haven't paid for the development of technology, it's harder for them to insist on exclusivity or field of use.

When choosing to pursue government programs, he says they tend pick those that are aligned with the company's roadmap.

Recently, the company received a $10 million investment from Kaman Corp. Singh says Near Earth has had a good working relationship with Kaman, which came about serendipitously because Kaman was looking for a partner to do what Near Earth does. Jointly, they were able to receive some government funding to advance the state of the art. Near Earth then began talking to Kaman's management about a new aircraft they wanted to build that was going to be autonomous from the ground up, rather than a manned aircraft that would need to be converted. The joint project interested Singh's team. It also seemed as if it would help them pass an important landmark.

"Where we are going with the investment is that we're working in that third phase, which has to do with commercialization, which is really actually the part that is the funding that you need to cross that valley of death," Singh says. "Often with hardware development, there are people who are interested in the front end to be the proof of principle, and those people who are interested in backend to buy it. But what is missing often is that investment to actually take something that's been proven in concept and make it into a product." ●

Singh spoke on the Smart Business Dealmakers Podcast about the evolution of the technology, the company's fundraising and the obstacles that must be conquered in order to reach broader commercial adoption of autonomous flight technology. You can check out this and our more than 200 previous podcasts at www.smartbusinessdealmakers.com/podcast.

Slowed inflation to temper rising cost of capital … hopefully

BY ANTHONY MELCHIORRE
anthony@melcap.com

Sharply increasing inflation rates over the past two and a half years in the U.S. are a result of several contributing factors, but none more than the relationship between the prices for goods and services, and the labor market.

As the ratio of job vacancies to unemployment has steadily increased, labor market participants and jobseekers alike have bargained for better pay. This has led businesses to charge more for goods and services to meet the rising demand for higher wage rates. After more than 10 consecutive quarters of increased Federal Funds Interest Rates, Federal Reserve Chair Jerome Powell's strategy to temper the aforementioned pricing pressures may finally be achieving relative success. At the end of June 2023, the reported U.S. inflation rate reached approximately 3 percent, the lowest rate since March 2021. The decline in U.S. inflation is a step in the right direction and may allow for the past two years of increased borrowing costs to subside.

While the domestic cost of capital has increased, it remains at a relative historical low — an important factor when analyzing domestic M&A market activity. The recent modest decline in overall deal activity appeared to be inevitable relative to the near-historic pace of closed transactions that followed the COVID-19 pandemic. And overall transaction values remain at record levels due in part to:

- Tremendous amounts of committed, but uninvested, private equity capital
- Generous levels of cash on corporate balance sheets
- Relatively low costs of capital
- Financial institutions' propensity to lend on high-quality assets

M&A MARKET ACTIVITY

U.S. deal volume declined in June as compared to the prior month. Through the first two quarters of 2023, U.S. M&A deal volume decreased by 16.1 percent compared to the second half of 2022.

The Pittsburgh M&A market experienced a welcome increase in deal volume in June as 24 transactions closed throughout the month, compared to 14 in May. June also saw several noteworthy transactions in the region, with Pittsburgh-based companies PGW Auto Glass LLC and Westinghouse Air Brake Technologies Corp. (NYSE: WAB) completing transactions within the month.

Additionally, McVay Plumbing Co. Inc. was acquired by Legacy Service Partners LLC. ●

DEAL OF THE MONTH

Heeter, a full-service provider of secure print, direct mail and fulfillment solutions located in Canonsburg, Pennsylvania, acquired Pittsburgh's Laurel Print & Graphics. The strategic acquisition offers expanded capabilities such as large-format print and signage, which will be added to one of the largest assortments of commercial print and digital solutions in the Mid-Atlantic region.

Scott Heeter, CEO of Heeter, says, "Laurel's leadership, skilled team and capabilities in large-format print and signage are excellent additions to Heeter's capabilities. This acquisition allows both companies to offer customers a broader portfolio of services to meet their marketing and sales needs."

Keith Jones, president of Laurel, says, "We've enjoyed a strong business partnership with Heeter for many years. As we look to the future, it made sense to join forces to better serve our client base with an extended set of products."

Keith Jones will become president of the Laurel Division, and all Laurel employees will become part of the Heeter team.

SELECTED PITTSBURGH MERGERS & ACQUISITIONS

Local companies in bold. Sources: Company Websites, PitchBook, and S&P Capital IQ.

Closed	Target/Issuer Name	Buyer/Investor Name	Seller Name
Jun. 30	**Arbco Industries Inc.**	Colson Group Holdings LLC	—
Jun. 28	Lady Luck Casino Nemacolin	**Woodlands Fayette LLC**	Churchill Downs Inc. (NasdaqGS:CHDN)
Jun. 27	**JGL Closeco Inc.**	Unis Health	—
Jun. 26	Aegis Autonomy Corp.	**Gather AI**	Bloomberg Beta L.P.; 2048 Ventures; UP Partners
Jun. 26	**BioSystics Inc.**	Nortis Inc.	—
Jun. 22	**#1 Cochran Ford Monroeville**	**#1 Cochran Inc.**	Lithia Motors Inc. (NYSE:LAD)
Jun. 22	Eland Engineering LLC	**GAI Consultant Inc.**	—
Jun. 21	MarqMetrib Inc.	**Thermo Fisher Scientific Inc.** (NYSE:TMO)	—
Jun. 20	**Laurel Print & Graphics**	**Heeter**	—
Jun. 20	Raw Advantage Processing LLC	**BrightPet Nutrition Group LLC**	—
Jun. 19	Antenna Sites Inc.	**Everest Infrastructure Partners Inc.**	Antenna Sites Inc.
Jun. 16	Carbon Reactivation and Slurry Services Business of Evoqua Water Technologies Corp.	Desotec US LLC	**Evoqua Water Technologies Corp.**
Jun. 16	L&M Radiator, Inc.	**Westinghouse Air Brake Technologies Corporation** (NYSE:WAB)	—
Jun. 16	**Immunetrics, Inc.**	Simulations Plus Inc. (NasdaqGS:SLP)	**LaunchCyte LLC**
Jun. 15	Truck Glass Division of Duncan Systems	**PGW Auto Glass LLC**	Duncan Systems Inc.
Jun. 15	Boardman Nissan Inc.	**#1 Cochran Inc**	—
Jun. 14	**Helbling & Associates Inc.**	ZRG Partners, LLC	—
Jun. 12	Briar Forest Crossing	**LM & Associates LLC**	CapRidge Partners LLC
Jun. 12	Blue Sites Telco Infrastructure Development Company Ltd.	**Everest Infrastructure Partners Inc.**	JZ International Ltd.
Jun. 8	**Rice Acquisition Corp. II**	NET Power Inc. (NYSE:NPWR)	**Rice Acquisition Sponsor II LLC**
Jun. 8	**McVay Plumbing Co. Inc.**	Legacy Service Partners LLC	—
Jun. 5	Deloitte Brand Operations Services Business	Ecolab Inc. (NYSE:ECL)	**Deloitte & Touche LLP**
Jun. 4	Industrial Control Service Inc.	**Motion & Control Enterprises LLC**	—
Jun. 4	Power & Pumps Inc.	**Motion & Control Enterprises LLC**	—

Anthony Melchiorre is a vice president with MelCap Partners, LLC, a middle-market investment banking advisory firm. For more information on MelCap Partners, please visit **www.melcap.com** or email **anthony@melcap.com**.

Photography provided by Wolfe LLC

A GIFT for INNOVATION

How **Wolfe LLC** founder and CEO **Jason Wolfe** went from orphanage to entrepreneur

BY ANTHONY CASTROVINCE

The most popular gift item at the holidays is not a toy, a piece of jewelry or an electronic device. For the last 16 years, the majority of people surveyed by the National Retail Federation said the gift they most want to receive is a gift card. ¶ That leads to a colossal amount of money spent on gift cards, and, unfortunately, a colossal amount of money wasted on gift cards. The Mercator Advisory Group has estimated that as much as 3 percent of total gift card funds are never redeemed, whether it's because the gift card is lost or forgotten or expires. That's billions of unused dollars.

"The whole industry is broken," says Wolfe LLC founder, president and CEO Jason Wolfe. "People don't use their gift cards, there's criminal activity that goes on with them, and landfills are filled with the one-time-use plastics."

So, Wolfe has set out to fix what's broken.

For nearly 30 years, Wolfe has used his entrepreneurial acumen and work ethic to build, grow and sell some of Pittsburgh's biggest financial technology and ecommerce businesses, including GiftCards.com, MyCoupons.com and Gift Card Granny. Now, the 54-year-old's main motivation is to disrupt the gift card dilemma with a system in which gift card funds can be linked to your credit card and automatically debited when you shop at that particular retailer.

"Gift cards have been around since 1994, and nothing is new about them," Wolfe says. "It's old technology. People buy them, and recipients are stuck with a plastic card. Why has it not evolved? We're going to evolve it, and, over the next five to 10 years, a company like ours has a good chance to really make a difference."

Despite meager beginnings and adverse circumstances, Wolfe has long found a way to make a difference in a fascinating, fruitful and philanthropic career.

"The whole industry is broken. People don't use their gift cards, there's criminal activity that goes on with them, and landfills are filled with the one-time-use plastics."

–JASON WOLFE, FOUNDER AND CEO, WOLFE LLC

HERSHEY HELP

Wolfe's story of success in the gift card business begins with the gift he and many other students have received from chocolatier Milton S. Hershey.

In 1909 — nine years after the sale of the first Hershey bar — Hershey and his wife, Catherine, established the Hershey Industrial School in Hershey, Pa., to provide free education to orphan boys. In 1918, Hershey, who did not have children of his own, put most of his fortune into a trust for the school, which came to be known as the Milton Hershey School, and has since expanded to include boys and girls who are "social orphans" with single or divorced parents.

Wolfe was one such student. His father left the family when Jason was just 6, and his disabled mother struggled to raise her three children on welfare. Wolfe was enrolled in the Hershey school at age 10, and there he learned the principles that would shape his career.

Though Hershey passed away long before Wolfe was born, the candy tycoon became a role model for Wolfe, who was awed by Hershey's business acumen and humanitarianism.

"As I grew up, I had to look at somebody as my mentor," Wolfe says. "I had no father figure. Milton Hershey was this figure that built the company

> **“I’ve seen way more success [with the Wolfe Companies] because I’m not doing it for the money anymore. Our growth has been crazy high, because I decided I’m going to hire people based on cultural fit first.”**
>
> **–JASON WOLFE, FOUNDER AND CEO, WOLFE LLC**

and then gave everything to these kids. As an entrepreneur, what better person to idolize than the person that built Hershey’s and then gave the funds to the kids who went there? I’m one of them, and I’m in the gifting business. I mean, it’s crazy. He gave me a gift, and it’s destiny.”

Destiny, though, did not come without difficulty.

DESPERATION LEADS TO INSPIRATION

Wolfe graduated from the Milton Hershey School in 1987, then received his bachelor’s in marketing from Bloomsburg University of Pennsylvania in 1992. He spent two years as a whitewater rafting guide before moving to Pittsburgh, where he planned to sell coupons door to door. However, he was involved in an accident that required two spinal surgeries.

Now unemployed and temporarily immobile, Wolfe was desperate.

“I was down on my luck,” he says. “I needed to find some way to make money.”

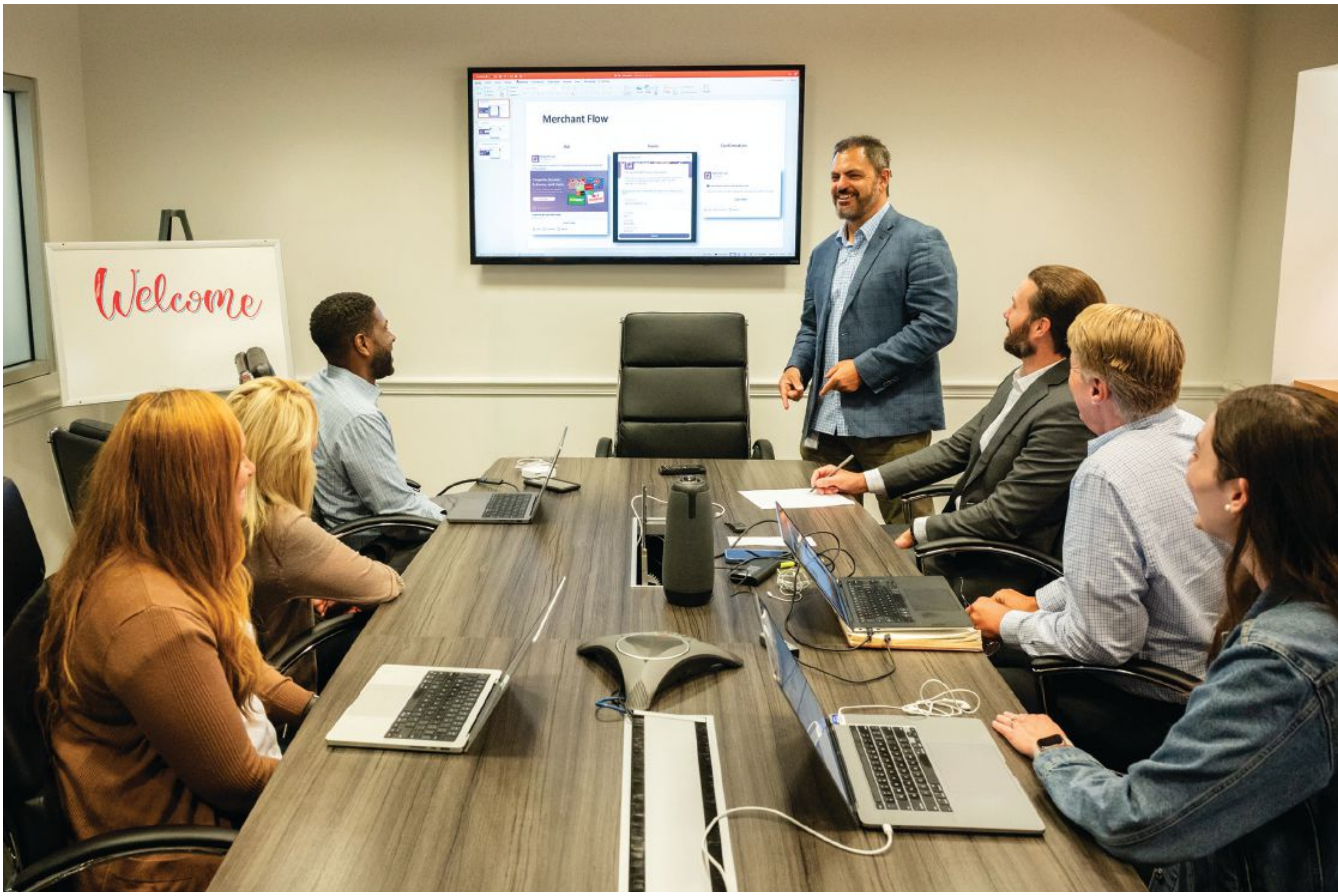
While laid up in recovery, Wolfe began to read computer coding books he borrowed from the local library. The Internet was just taking off, and Wolfe sensed opportunity. In 1995, he created his first website — an online coupon site known as CouponsDirect.com (later renamed MyCoupons.com).

It was not a smashing success at first. Wolfe estimates that he made about $4,000 in the first year. His girlfriend, with whom he lived, thought he was chasing a pipe dream and dumped him. That left Wolfe without a home for a few months. He slept in his car while renting office space from a friend.

Eventually, though, businesses caught on to the concept. The coupon site took off, and, by 1999, had more than $1 million in annual sales and three million registered users.

At that time, Wolfe decided to create a sister site called directcertificates.com, where merchants could sell gift certificates.

“Within a year or two, I started seeing plastic gift cards showing up,” he says. “Let’s say we had 100 merchants. All of a sudden, we had five of them that were this little plastic card instead of paper. I’m like, ‘Oh, that’s cool. You swipe it, and then you can use it again.’ Because



"My hope is that, over time, the platform that I built to change the gift card space gets used by everybody else that's doing gift cards."

–JASON WOLFE, FOUNDER AND CEO, WOLFE LLC

[paper] certificates were a pain in the neck."

As with the Internet itself, Wolfe could see where things were headed. He bought the domain name GiftCards.com. Within a decade, the site was pulling in more than $40 million in sales.

"Most people don't realize it, but it's very hard to get into the gift card space," Wolfe says. "The gift cards are a form of currency, so there's a lot of crime involved in that. And the margins are very thin. So, it's risky. But if you know how to do it and can do it on a larger scale, you'll be successful."

ADDING VALUE

Wolfe's understanding of his business models has allowed him to create and sell a number of companies and products, including MyCoupons.com, GiftCards.com, DirectTrack (an affiliate tracking technology and platform) and others. In 2007, he founded Wolfe LLC as a holding company for his subsidiaries, which are called the Wolfe Companies.

Currently, Wolfe operates a number of innovative business units, including (but not limited to): Gift Card Granny, which allows consumers to purchase gift cards for a discounted price or sell them for below face value; PerfectGift.com, which provides businesses with incentive and gifting solutions; and Give InKind, a platform where family and friends can organize support for loved ones going through challenging moments such as a hospitalization or a death in the family.

But in addition to building companies, Wolfe has focused on building company culture. The Pittsburgh Leadership Foundation helped him articulate the values he prioritizes — teamwork, integrity, drive and caring.

"When you have a value for caring," he says, "you're going to help other people and be a good team player. You're going to do things not just for yourself. You're going to be humble."

Wolfe has used employee engagement tools such as Officevibe and Bonusly to survey and reward employees. The 20,000-square-foot company headquarters in Green Tree has no cubicles, and the roughly 160 employees are given flexible work hours and a profit-sharing program.

The combination of hiring based on values and listening to and recognizing employees has led to growth and retention. The company's revenue has grown by triple digits for each of the last four years, and after bringing in $231 million in revenue in 2022, Wolfe LLC's companies were on track to achieve about $350 million in 2023.

"I've seen way more success [with the Wolfe Companies] because I'm not doing it for the money anymore," Wolfe says. "Our growth has been crazy high, because I decided I'm going to hire people based on cultural fit first."

And just like Milton Hershey, Wolfe is using his success to give back. Not only was he a volunteer board member for Voce, which co-administers the Statewide Adoption and Permanency Network program for the Pennsylvania Department of Human Services, but he has adopted three children of his own. He was also chairman of the Pittsburgh Technology Council and is currently on the Board of Managers for the Milton Hershey School.

PATENTS AND PATIENCE

Wolfe's innovative career path has taught him a lot about patents but also a lot about patience.

"I look at the things I'm trying to accomplish now with a longer lens," he says.

His primary focus now is the aforementioned "broken" system that he aims to correct with GiftYa, a gift credit service that allows users to send e-gifts to one another using a mobile phone app or web interface. The recipient links their e-gift to their Visa or Mastercard, making it impossible for the gift to ever be lost or stolen.

"I got passionate about this," Wolfe says. "Well, I didn't realize it was going to take 1,058 days, 367 e-mails and 55 phone calls to Visa to let me have access to the APIs [application programming interfaces] at the point of sale. I had to convince Visa and MasterCard to do this. It took me three years to convince them, but I finally did."

GiftYa was launched in 2019 but is only beginning to reach its potential. Wolfe is as excited about it as he was about that first company he dreamed up while sleeping in his car.

"That's what really drives me every day is this idea," Wolfe says. "My hope is that, over time, the platform that I built to change the gift card space gets used by everybody else that's doing gift cards." ●

www.wolfe.com | facebook.com/WolfeCom | linkedin.com/company/wolfe.com

Privacy concerns

New laws meant to protect consumer data will affect nearly all companies

INTERVIEWED BY ADAM BURROUGHS

Several states have passed or are in the process of implementing data privacy laws, largely in an effort to put control of consumers' information back into the hands of the consumer.

Four states — California, Colorado, Connecticut and Virginia — have data privacy laws that are already in effect. There also are states — Indiana, Iowa, Montana, Tennessee, Texas and Utah — where the laws have been passed and are set to go into effect at some point in the next three years. Additionally, there are six states — Delaware, Massachusetts, New Jersey, North Carolina, Oregon and Pennsylvania — where bills relating to data privacy have been introduced and are at different stages of the legislative process.

"One common theme of the various laws is to shift the default for companies that collect and sell consumer data from assumed, passive consent to express, active consent," says Ember K. Holmes an Associate at Babst Calland. "These laws also give consumers the right to opt out of having their data collected, or to have their data deleted if it has already been collected."

While the aim of these laws is similar, each is unique. That's making it difficult for companies across sectors to understand how these laws affect their business and avoid what are often significant penalties for noncompliance.

Smart Business spoke with Holmes about data privacy laws states are enacting and how they are going to affect companies.

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WHY MIGHT DATA PRIVACY LAWS IN ONE STATE AFFECT A COMPANY THAT'S HEADQUARTERED IN ANOTHER?

Although Pennsylvania does not have a robust body of privacy laws, organizations may have obligations under the privacy laws of other states. The privacy laws recently passed in several states are comprehensive, which means they may apply to people and entities outside of the state who meet certain applicability criteria. For instance, in California, the California Consumer Privacy Act of 2018, as amended by the California Privacy Rights Act, applies to any entity that does business in California and satisfies one of the revenue or consumer volume thresholds.

Comprehensive state laws are meant to strengthen rights and protections for residents of the respective states by extending their reach to out-of-state businesses, which is why it is vital for businesses across the country to understand how they will be impacted as these laws go into effect. The laws will govern data collection and handling practices, and should be considered when creating and implementing compliance practices, privacy policies, cookie policies, and even terms of use. Further, some of these laws require parties to include certain terms in vendor contracts, setting forth the obligations, duties and rights of each entity with regard to collecting, handling, transferring and storing data. It's likely that many companies are not in compliance with these obligations and could be subject to enforcement and the associated penalties.

In light of the passage of these new laws, companies must revisit their internal policies, as well as their consumer-facing policies that appear on websites, to ensure that all of the proper safeguards, disclosures, and protections are in place, and that all such obligations are transparently set forth in applicable policies and contracts.

WHAT PENALTIES EXIST FOR COMPANIES THAT BREAK THESE LAWS?

Penalties vary by state. California has some of the strongest data privacy laws, allowing consumers to pursue a private action against an entity for data breaches, failure to comply with notice or opt-out provisions, and other unlawful activities. In other jurisdictions, the penalties are limited to fines that range in severity — from up to $7,500 per violation in Virginia, to up to $20,000 per violation in Colorado.

WHO CAN HELP COMPANIES NAVIGATE THESE LAWS?

A privacy lawyer can help companies ensure that their data-handling processes and policies are in compliance with all of the applicable state and international laws. Companies with a presence in any of the 10 states with active or pending legislation should start working now to understand and comply with the respective laws. ●

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Look deeper

Why total cost of care is more important than discounts in health benefit plans

INTERVIEWED BY ADAM BURROUGHS

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When employers consider their health benefit options, they tend to focus exclusively on two metrics. Companies with Administrative Services Only (ASO) plans look at the administration fees — how much they are being charged for the administration of the plan. And then, they look at the discounts.

"Those are the two aspects of a health insurance plan that most employers are looking closely at in order to size up one health insurer versus the next — what's your discount at your hospitals and what's the fee that you're charging in order to administer services?" says Robert Yonick, Director Actuarial Services at Highmark Blue Cross Blue Shield. "What they're not looking at is the total cost of care."

Smart Business spoke with Yonick about total cost of care and what employers should look for as they review health insurance plans.

WHAT IS THE TOTAL COST OF CARE IN HEALTH INSURANCE BENEFITS?

The total cost of care is an organization's total claims dollars and total admission cost. However, when renewing or exploring new plans, employers often fail to take the total cost of care into account. Instead, they focus on the available discounts as a measure of value. When they do that, what they're missing is the context of that discount. Some hospitals charge more — they have higher charge masters than other hospitals — so the actual price paid for services is higher, lessening the impact of any offered discounts. Just because a discount at certain hospitals doesn't, on the surface, look as deep, an insurer might be working with lower-cost facilities. Employers should scrutinize plans that focus on big discounts because that doesn't necessarily mean that the total cost of care is going to be less expensive.

Further, recognizing that the real value can be found in total cost of care can help employers ask better questions. Brokers often approach renewals with spreadsheets highlighting discounts. Employers that are armed with the questions around total cost of care can uncover insights that point to the better-value plan.

HOW CAN EMPLOYERS IDENTIFY TOTAL COST OF CARE ACROSS PLANS?

To understand the total cost of care, employers should look at the network and access. They should ask their brokers to do a full review of where the care goes. If the care goes to a higher-cost provider, employers will be paying more for the health insurance plan even if a significant discount is offered.

There are also always going to be network considerations depending on where the company is headquartered and employees live — so, geography could be a significant factor in the cost of health insurance.

The overall health of the employee population can change quickly, so it can be difficult, from that perspective, to look at individual employees and conclude that one carrier is better than another. So instead, the key factors in estimating the total cost of care would be ensuring that the network is comprehensive, and choosing a network of providers that have the best facilities and can provide the best care at the best cost.

HOW CAN EMPLOYERS MAKE BETTER HEALTH PLAN CHOICES?

Too often the focus for employers reviewing plans is on administrative costs. But with health insurance, some 90 percent of the costs materialize as claims while 10 percent show up as administrative costs. There's typically a great deal of evaluation around trying to manage down that 10 percent because it seems as if it's the easiest place to realize savings. That understandable because administration is easier to understand. Claims, in comparison, are a lot more complicated, but they're also by far the greater percentage of the costs. With this in mind, employers should do a deep dive into their costs and make sure that they're asking the right questions. Brokers can help employers get a broader understanding of the total cost of care by doing an analysis.

For employers, it's important that they understand what's really driving their health insurance costs and not just looking at the low-hanging fruit of discounts and administrative fees. By taking a deeper dive and exploring ways to more meaningfully affect claims'costs, employers should be able to better manage costs and provide a better plan for their employees. ●

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What to consider when planning for an exit and an ownership transition

INTERVIEWED BY ADAM BURROUGHS

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As business owners evolve in their life cycle, moving on from the business they built becomes top of mind. But what form that takes, and whether or not the end ultimately serves the owner's retirement goals, are important questions to answer. Jim Altman, Middle Market Pennsylvania Regional Executive at Huntington Bank, says that's why owners shouldn't go through the process alone.

"Build a team," Altman says. "Involve your tax and wealth planner, your accountant and banker, and figure out how to put the company, yourself and your family, in the best position through the transaction."

Smart Business spoke with Altman about transition options for owners and how to set up a post-business financial future.

WHAT OPTIONS ARE AVAILABLE FOR BUSINESS OWNERS LOOKING TO EXIT THEIR COMPANY?

The decision on what to do with the business hinges on personal goals. Some business owners are looking to cash out of their company and make as much money on the sale as possible. That typically means selling the company outright to a third party, such as a financial or strategic buyer.

For some owners, price isn't as important as legacy. While they'll want to maximize the income from the liquidity event, the priority might be taking care of the company's employees. In that case, an Employee Stock Ownership Plan might be a good fit.

An ESOP breaks ownership of the company into stock that's owned by employees. At the time of the sale, the owner doesn't get everything out in cash at once. Instead, he or she gets a note for part of it and the balance is returned in cash over time. Meanwhile, the owner is able to take advantage of the favorable tax treatment created by an ESOP as well as give the owner the option to remain in an executive leadership role if desired.

Some owners would like to keep the business in the family and do so through a generational transfer. Most companies allow the selling shareholder to continue to draw money from the company as the business is gradually transferred to the next generation. This, like any ownership transfer, takes tax planning to do it right. It also requires having a family member ready, willing and able to take the helm, which might not always be the case.

HOW SHOULD A BUSINESS OWNER VALUE HIS OR HER COMPANY?

Many owners, knowing the sweat equity they've poured into the business, believe their company is worth far more than the market will bear. That's why an independent third party should be engaged to perform a valuation. Accountants who have business valuation practices are one of the best choices for this job, though M&A advisory shops also provide similar quality service.

HOW DOES A BUSINESS OWNER FINANCIALLY PREPARE FOR HIS OR HER FUTURE AFTER AN EXIT?

The primary question is typically whether the owner will have enough money to fund retirement, or at least life post-business, after a sale. Once that's satisfied, owners move on to questions regarding the capital and income they'd like to bequeath to family members or to charity. That becomes a balancing act between the needs of family and the owner's personal goals and objectives.

Preparing for a sound financial future, whatever that might look like, is made easier through the guidance of a wealth planner. The process should start as early as possible. Many business owners wait to seriously plan until a liquidity event is imminent. But a much better strategy, as well as greater peace of mind, can be achieved if planning is completed very early in the company's existence and then regularly updated.

Coming to terms with letting go of a company built from nothing is difficult. Keep an open mind and evaluate all of the options. With a sound strategy and a trusted team in place, owners can step confidently and securely toward the next stage of their life. ●

Hallucination is one of the hottest new business words in the AI lexicon

But what's so new? Companies have hallucinated since the beginning of time about their capabilities and forecasts

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Since the beginning of this year, Artificial Intelligence, now ubiquitously referred to as "AI," has been the subject of innumerable business reports in the media, in board room discussions in companies of every size and shape, and among employees from the highest level to the rank and file. There has been a proliferation of reports of so-called hallucinations, whereby AI sometimes, for inexplicable reasons, makes things up. Examples of these misrepresentations, and flat-out fabrications, have caused alarm bells to go off at all levels of society, now reaching the U.S. Congress, the White House and other governing bodies worldwide. Without being judgmental, I think numerous readers would agree that politicians are well-versed in crafting a story that might differ radically from reality. However, I will leave the exploration of comparisons between government officials' and AI's fictitious utterances to Sunday morning talk shows and the editorial pages of our free press.

Businesses have dealt with their own form of hallucinations about every aspect of their organizations, including customer service, product quality, financial forecasts and just about everything else. Good businesses know how to deal with incorrect statements and comments, and quickly right wrongs. Undisciplined organizations perpetuate their hallucinations until they get caught.

No matter what a company's view is on AI, like it or not, it's here. And not only is it here to stay but it will grow exponentially, perhaps eventually far eclipsing the upward trajectory of any innovation that came before it. As a result, there's much speculation that tens of millions of jobs will be eliminated by AI, and other prognostications that an equally substantial number of new positions will be created, many of which have yet to be envisioned.

If your company is not already thinking about the implications of AI, you're falling behind the competition. It's mandatory for businesses to begin educating their teams and introducing the benefits and changes that will be brought about by machine thinking and machine doing. Many fundamental tasks done by humans will be automated or reimagined. This is not a terrible thing, as some pundits fear, but instead is progress that will unleash new opportunities at every level of society. AI will do jobs done by humans thousands and thousands of times faster. AI also never sleeps, doesn't take breaks and doesn't require a cafeteria at noon every day.

Preparing your company for AI begins with educating every employee about the positives of eliminating tedious and nonproductive functions that no one enjoys doing anyway. As a part of orienting the workforce to AI, consider framing it as a collaborative function where machines work side-by-side with your heart-beating staff members to make them more productive and to enhance the work experience, not to mentation at a fraction of the cost. This next chapter in business and our everyday life will be integrated into most aspects of what everyone does and will dramatically hasten translating innovative ideas into a working reality faster than any science fiction writer ever fathomed.

In terms of hallucinations, be they proliferated by machines or people, society must deal with fabrications as we have been doing since the beginning of time. Some things never change. ●

Visit Michael Feuer's website www.TipsFromTheTop.info to learn more about his columns, watch videos and purchase his books, "The Benevolent Dictator" and "Tips From The Top."