INITIATIVE
The Pulse of New Jersey Business

PRESERVING YOUR LEGACY:

Planning Strategically for Business Succession

The sudden departure of a company's leader – and the uncertainty that's certain to follow when there is no fully prepared successor in place – does not a Kodak moment make.

Take the case of former Hewlett-Packard CEO Mark Hurd, who surprised the business community and his own Board of Directors last August by abruptly leaving without any prior notice and without a succession plan in place.

Within a few days of Hurd's exit, the pain set in. The company was rocked by losses of nearly $11 billion in market value as jittery investors, worried about the newly created leadership vacuum, bailed out. Having failed to prepare adequately for a smooth transition at the most strategic and highly visible level of the company, Hewlett Packard's strategic, long-range planning policies came into question.

At companies of all sizes, change at the top occurs for a number of reasons and often takes place without warning. Business leaders who have devoted large parts of their time, energy and labor to build and run their companies might want to step back for a moment and reflect on whether they have taken the right steps to ensure their business can survive the death, retirement, disability or sudden departure of themselves, another owner or key employee.

Guiding the Succession of Business Ownership

The business succession plan is a disciplined approach to guide the transition of business ownership and to help anticipate and manage change. While this subject can be contentious in some circles, a well-crafted plan will be sensitive and straightforward when dealing with the needs and expectations of key family members and/or senior managers.

While many companies remain unprepared to meet this challenge, forward-facing business leaders are pursuing succession planning to help select and groom their heir apparent and provide for the long-term direction of their company.

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As you begin establishing your planning methodology, remember that part of a plan's true value is grounded in:

- Clarifying when and how the transition of a business to new ownership/management will occur.
- Identifying policies and procedures to prepare the business owner/CEO for the time when they will step aside due to planned retirement or other circumstances.
- Ensuring that the business remains vigorous during the shift in ownership/management.
- Maintaining the confidence and trust of your stakeholders – employees, customers and investors.
- Maximizing the return on investment of the retiring owner.

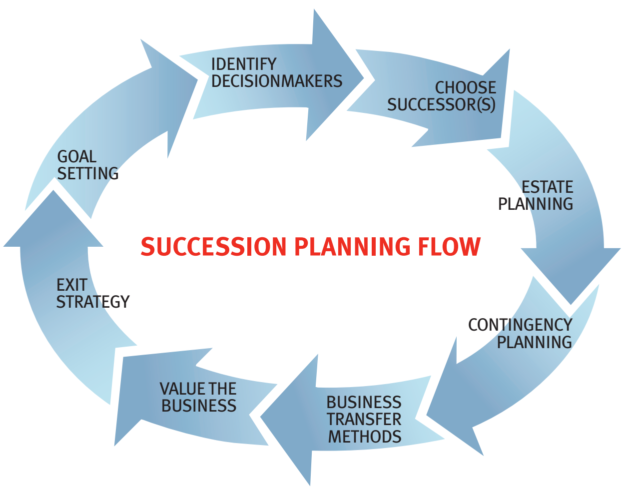
In times when both market and job volatility have become more commonplace, ensuring organizational stability and preservation against seismic shifts requires acute forward planning. Undertaking this initiative will help reduce the risk of loss through poor tax and financial planning, and the erosion of brand credibility among your stakeholders in the event of an unexpected change at the top.

Designing Your Succession Planning Model

There is no one size fits all succession planning solution. Each business and each owner is unique requiring the corresponding plan to follow suit. When performing due diligence, consider incorporating all or any combination of the following eight guidelines to meet your personal needs.

1. Set Realistic Goals and Objectives
   - Identify the need for a succession plan
   - Establish personal retirement goals
   - Identify family and stakeholder goals
   - Determine the need for an outsider facilitator
   - Select a team of professional advisors in required disciplines (attorney, financial planner, CPA, banker, insurance specialist)
2. Line up Decisionmakers
   - Involve family members in the decision-making process
   - Establish methodologies for resolving disputes
   - Document the succession plan in writing
   - Share your plan/wishes with all involved parties

3. Successor(s)
- Identify your successors for both managers of the company and owners of the business to avoid potential conflict
- Define the required training for your successors to build their self confidence and sharpen their vision for the future
- Ensure they receive ample counsel and support



4. Estate Planning to Ensure the Safe Transfer of Your Wealth
- Address taxation implications to the owner/business upon sale or transfer of ownership
- Develop an estate and personal financial plan for owner, spouse and the succeeding generation
- Consider the advantages of a buy-sell agreement
- Outline your projected income needs in retirement
- Provide for active and non-active family members

5. Contingency Planning
- Troubleshoot for what might/could go wrong (illness or accident) with you or your successor and anticipate accordingly
- Set up a number of "What If" scenarios and have strategic responses in place and in advance
- Should you become disabled, do you have a plan that addresses your personal health and covers the expenses for business continuation in your absence?

6. Business Structure and Transfer Procedures
- Choose the method for transferring the business, e.g., outright purchase or gift/bequest
- If the business is to be purchased, make sure it can generate sufficient after-tax revenue to support debt and interest payments
- Should the business need to be restructured, consider your options: sole proprietorship, partnership, corporation, etc.
- Review all of the following carefully: tax strategies and implications, legal implications, business agreements and insurance needs (health, life, disability)
- Fill key management positions to ensure continuity and scope out a role for the retiring owner

7. Business Valuation
- Secure third-party appraisal to determine fair market value of the company and real estate
- Maximize tax benefits for the current owner
- Key factors that will impact the value of your business include:
  - Business location (urban, suburban, rural)
  - Profitability or revenue (depending on the industry or ownership). Maturity of the company has a direct correlation on future growth and sales potential
  - Financing. Lenders performing due diligence on the value of your business will impact the ability of the potential buyer to obtain funding making realistic valuation mandatory
  - Inventory. The challenge is setting a value on the inventory included in the sale that is satisfactory to all parties involved: seller, buyer and those financing the deal

8. Exit Strategy
- Represents specific steps and final choices for the actual transition of ownership
- Choose the transition method, e.g., transfer or sale to family, sale to a third party or the liquidation of the business
- Establish a realistic timeline for plan implementation
- Share your exit strategy with all involved in the process to clarify roles and responsibilities and to resolve any final issues

Taking the Universal View

Business succession planning is not just the preserve of family owned businesses or the Fortune 500. Companies of all sizes should consider its strategic value beyond ensuring the smooth transfer of ownership. It gives business owners and CEOs the ability to cultivate their human capital so that senior positions are filled by well qualified, highly experienced leaders and avoid any potential disruption in service to customers and investors.

Initiative is a series of executive reports prepared exclusively for New Jersey business leaders by Sun National Bank. Each issue is intended to share relevant news on timely business topics and trends. To learn more and to arrange an informal consultation, please speak with a Sun Relationship Manager at **1.800.SUN.9066** or visit any of our more than 60 locations throughout New Jersey.