

# The Six-Year Plan —

## A Fresh Approach to Planning Keeps Your Ultimate Goals in View



**ALLISON DUKES**  
Chairman and CEO,  
Atlanta Division

Finding time for thoughtful, longer-term planning is never easy for busy business leaders. To bridge the gap, SunTrust has created a planning framework called the Six-Year Plan that helps businesses create a development path to fulfill its leaders' aspirations. A Six-Year Plan connects growth strategy, financial leverage and ownership plans to guide decision-making and grow business value.

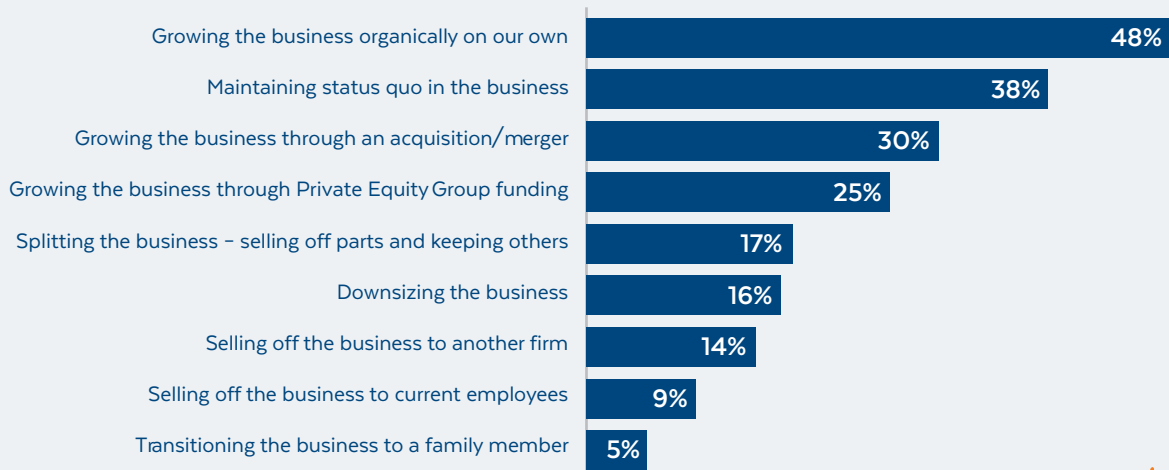
We hope you will use the Six-Year Plan to guide your business forward. The SunTrust team brings the capabilities, experience and commitment to partner with your team as you plan your business's unique path to smart growth. We're ready to work with you.

According to SunTrust Research, only 39 percent of business executives are completely prepared to undertake a financial goal-setting process. Eighteen percent don't even have a planning process. Only 62 percent have a longer-term plan and 58 percent aren't fully prepared to undertake those plans.

Business leaders have a wide range of views about their future plans. A recent SunTrust study of 508 business leaders shows the top objectives over the coming years.

Thinking about the future doesn't mean stepping away from day-to-day involvement in a business. Keeping the long-range plan current and relevant can help focus attention on how to increase the value of the business. Through setting a clear competitive strategy, planning for growth and using financial leverage, you can make better decisions today about the future for both you and the company. Manny Perdomo, Chairman and CEO, South Florida Division for SunTrust, reminds, "Success favors those who put their long-term vision out there — as difficult as that can sometimes seem — and then wrestle that vision into plans for the business and for themselves personally." Whether that means going public, acquiring competitors, involving private equity investors or continuing to work into the foreseeable future, setting long-term goals and planning a path to them can strengthen and enhance your company's stability and profitability in the years to come.

### What is your Long-Term Direction for your Business?\*



\*Responses to question: "Which of the following situations do you anticipate for your business during the next 5 years?" Multiple selections were allowed



## Developing your Six-Year Vision

Many business leaders think in terms of a future planning horizon, often focused on the next few years. Their plans usually reflect today's objectives and strategies extended a bit and projected forward.

Asking a business leader to look further out and talk about the sixth year can often elicit a very different response. **"A six-year plan tells a unique story,"** says Beau Cummins, Commercial and Business Banking Executive for SunTrust. "Leaders start to talk about their aspirations for the business and themselves. The longer time horizon gets them out of their comfort zone and avoids projecting the status quo into the future." The planning exercise shifts the emphasis back to creating a vision of what the business could be and dreams of what the leader can do.

Many business owners are too focused on today's issues to look forward six years. Take, for example, one of SunTrust's clients, a fast-growing, mid-sized manufacturing company. It has a growing market share, revenues approaching \$50 million a year and a reputation for one of the best products in its industry. The management team is working six days a week just to keep up with the company's growth. Focusing on the future is almost unfathomable. According to Jenna Kelly, Charlotte Region President for SunTrust, "Looking beyond the current business horizon can be really hard to do."

Dismissing the need for a longer term plan leaves an owner as well as her employees, shareholders and business partners exposed. Ms. Kelly continues, "Successful business owners get that way by seizing on goals, crowding out distractions and staying flexible. That makes committing to "what's next" hard to do and easy to put off. Putting it off is dangerous: What if a new competitor emerges and erodes sales or margins? What if the owner has a family issue or health problem that needs her attention?" Quickly, the risks of "status quo" with no long-term vision and no scenario planning, both for the owner and the business, begin to emerge.

Often owners and management will have multiple interests that a longer-term plan can help discern. Stating a six-year plan forces resolution of the tension between different interests that often show up over a longer time horizon. Whether an owner wants to extract some liquidity from an equity position, a management team wants to buy up smaller competitors or shareholders want to secure a private equity investment, no action happens without a statement of those aspirations and agreement on the plan.

## Creating your Vision

Creating a vision starts with determining what you want for yourself and your business. Answer these basic questions:

- What are my personal goals?
- What are the goals of my family? Will they work in or run the business?
- What are the goals of my company, e.g., recapitalizing for aggressive growth; continuing on current trajectory; preparing to sell?

Next, ask how will that happen?

- How long will I stay actively involved? Is there any point where I want to do things differently?
- Will I keep working as an advisor or in a limited role? How much control do I want?
- Will I want to start a new venture, separate from my existing company?
- Am I ready to exit the business completely and start a new phase of my life?

**"The longer time horizon gets them out of their comfort zone and avoids projecting the status quo into the future."**

Beau Cummins, Commercial and Business Banking Executive, SunTrust

## Focusing on Value

A six-year plan wouldn't be complete without a thorough focus on maximizing the value of the business. Determining your vision will help you to review everything about your strategy and map out the direction in which your business will need to move to reach your goals. Finding the ultimate economic yardstick to optimize in planning is equally important. "A sign of a successfully growing business is its focus on its business value," says Mr. Cummins. "With growth, the balance sheet starts to expand with more assets and liabilities. The owner needs to optimize around a measure that encompasses both ongoing profitability and cash flow and capitalization. That is business value."

Optimizing around business value further prepares your business for events that are projected in long-term plans. Whether you plan to seek additional investment for growth, sell off components or hand it over to your children, maximizing business value ensures the owners are rewarded for their work and risk while putting the business in the strongest position with partners, suppliers, investors or acquirers.

## Making your Vision a Reality

The six-year plan integrates a long-term vision into your business planning. The more definitive the vision, the more useful the planning can become and the more prepared leaders will be for growth. According to SunTrust Research, only 62 percent of businesses have a longer-term plan. Allison Dukes, Chairman and CEO of SunTrust Atlanta Division explains, "We see six elements that show up in the best plans. Pursuing these six elements helps owners create a long-term plan with the right supporting business strategies."

## Components of a Six Year Plan



ELEMENT 1:

### Competitive Strategy

Cost, differentiation, focus



ELEMENT 2:

### Growth Strategy

Organic growth, mergers and acquisitions



ELEMENT 3:

### Divestiture Strategy

Sale, spin off, liquidation



ELEMENT 4:

### Capital/Leverage Restructuring Strategy

Refinance current loans, take out a commercial or business loan, receive a private equity investment



ELEMENT 5:

### Ownership Plan

Successor, retirement planning



ELEMENT 6:

### Value Maximization

From profit growth (today) to maximum business value (tomorrow)



## ELEMENT 1: Competitive Strategy

Your company's competitive strategy is the foundation of your business plan — it shapes how you manage and grow your business to meet your goals. You wouldn't have a successful company if you hadn't developed a winning strategy and executed against it.

A key component in long-term planning is to review your current and projected direction against your competitive strategy. Many businesses find the need to refresh or revitalize their competitive strategy due to evolving or potential economic, market or company circumstances.

A specialty food manufacturer in Florida found itself facing the need to refresh its competitive strategy. The founders built the business by sourcing, packaging and distributing several new products to grocery store produce departments. They built a good customer base, bolstered by one very large customer. They soon found themselves trapped by the strategic myopia and business risk that customer concentration brings. When they lost that large customer, "It was almost like a sucker punch," says its co-owner. Her partner adds, "And this was really kind of an earth-shaking thing to us. We were really concerned and fearful of, 'Hey, this is a big account. And can we survive?'"

The company's wakeup call led to a well-thought-out strategy that its business leaders have been successfully executing to drive growth. They researched markets and identified a need in the food service industry for fresh, healthy foods for children in school cafeterias. They then developed a new line of business to supply fresh produce, cut and ready to serve, to school systems. As their reputation grew, so did their orders. Today, their food service segment is 40 to 45 percent of their entire business with continued strong growth projected.

Actively managing strategy, with regular strategy reviews and systems (see call out box), gives owners a greater ability to react to competitive pressures.

### Systems to Manage Competitive Strategy

- **Use a strategic "tripwire" system:** Think of it like an alarm system to tell you when any of the key assumptions and drivers of your competitive strategy might be changing. Gather and review competitive behavior data (pricing, sales strategies, product developments, etc.), industry trends, economic/business cycle data, customer segment shifts, issues, emerging needs, supplier developments and any other relevant data that forms the foundation of your competitive strategy.
- **Implement impact triage:** When changes are identified, analyze the impact on your competitive strategy. There are a host of ways to create and maintain strategic plans – the key is to do it thoroughly and thoughtfully when mandated by your tripwire system signals.
- **Start with a clean slate:** When working off your current strategy, your thinking is instantly influenced and bounded by that strategy. Periodically going to a clean slate – the strategic equivalent of the zero-based budget – can open your eyes to new opportunities. When seen against a white background, opportunities for a successful strategy, be it cost, differentiation or focus, will stand out much more clearly.



## ELEMENT 2: Growth Strategy

Growth is top of mind for most business owners. Seventy-eight percent of business leaders are looking to grow, either through organic or mergers and acquisition strategies.

### Organic Growth

Organic growth — growing the business lines with internally developed products and capabilities — is the favored strategy of 48 percent of business leaders.

Businesses focused on organic growth stand out in the way they view the strengths of their businesses. Those pursuing organic growth recognized strengths in the following factors:

- Year-over-year sales (+11%)
- Retention of staff (+14%)
- Ability to pay vendors/  
clients in a timely manner (+10%)

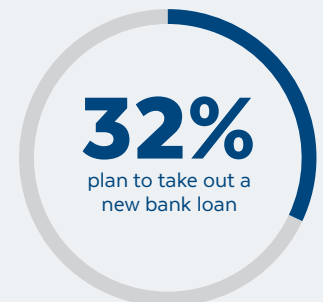
“Organic growth builds a winning product or strategy into business value,” says Dan O’Neill, Chairman and CEO, Greater Washington/Maryland Division at SunTrust. “Organic growth needs three elements: a foundational competitive strategy, a tested and growth-ready business model and a flexible organizational platform that can accept capabilities in line with your plan.”

Let’s look again at the specialty food manufacturer and the execution of its current organic growth plans. The company built a strong organization that understood its core market and was able to pivot to a new market for growth. SunTrust Research shows that 36 percent of businesses will follow a similar path and create new markets for their products.

Thirty-five percent of businesses will grow primarily through expanding a product or service line to a new segment. This provides an opportunity to monetize investments in existing customer acquisition and satisfaction and for a lower cost of sale by cross-selling. Another 32 percent of businesses surveyed are planning to take out additional business loans to fulfill their growth plan.

The valuation impact from executing growth plans can be significant, especially with organic growth often viewed as an indicator of how well internal resources are used to expand profit, ultimately resulting in higher valuations.

**48%** anticipate growing their business organically:





## Mergers and Acquisitions

Mergers and acquisitions (M&A) help companies expand capabilities and customer bases while also offering the promise of synergies, either in cost reduction with consolidation of redundant functions or in revenue growth from new sales opportunities and market strength. Thirty percent of business leaders are looking to grow their companies through mergers and acquisitions.

The best business combinations will:

- Leverage the newly combined management skills to increase sales through new products, new markets or technical advances.
- Combine customer lists to boost cross-sell opportunities and improve the client experience.
- Use combined resources for expansion heft or market power.

Successful mergers and acquisitions require lining up strategy, deal selection and merger execution. Good choices begin at M&A strategy. Todd Shutley, Head of Commercial Specialties and Sales Enablement at SunTrust explains, “M&A for the right reasons and grounded in an understanding of industry dynamics and a reasonable assessment of synergies, merger costs and benefits can create powerful combinations.” Lack of those elements can lead to outcomes far short of goals.

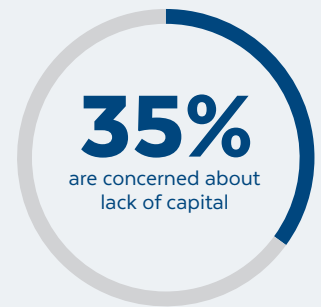
Integration after a merger is hard work. “Orchestrating a successful deal requires lots of different perspectives” says SunTrust Industry Specialty Group Leader Mary-Crawford Taylor. “We’ve had a number of deals lately where the addition of an industry specialist, highly engaged in the process in tandem with a clients’ relationship banker, has really boosted the overall result. The industry specialists know the business dynamics, the players, financial and operating benchmarks, emerging issues, etc. Delivered to the middle market, which doesn’t usually get this level of expertise on the investment banking side, it’s a powerful combination.” Synergies can look good on paper but need to be coaxed by merging customer bases, combining disparate operations, resolving incompatible technologies and reconciling divergent cultures.

There are many assumptions and decisions to get right for a successful merger. Mr. Shutley adds, “SunTrust sees lots of deals in the market, and we are there with

management throughout the entire deal and after closing. The winning formula in M&A is strategic fit, disciplined deal economics and a properly-executed integration plan.”

A M&A growth approach can be very successful, particularly when executed by management teams and investor groups with strong expertise in finding and assembling businesses. Mr. O’Neill advises, “Most M&A deals are put together with the assumption that they will generate substantial accretive value for companies. Those that can push through to the sources of opportunity and avoid the risks are often rewarded quite handsomely.”

**30%** growing through acquisition/merger:





## ELEMENT 3: Divestiture Strategy

Is divestiture the key to your growth plans? Businesses that make sense under one roof today may not make sense tomorrow. Taking a hard look at your business finances, expense structure and capitalization may identify underperforming business lines or units that could benefit from divestiture.



# 14%

of business owners  
are selling off parts of  
their businesses

Pruning the business through divestiture is critically important for many businesses. First, unlike in multi-national corporations, poorly performing or strategically misfit products or business lines have nowhere to hide in more resource-constrained mid-sized businesses. Fifty-four percent of business leaders surveyed cited lack of capital as an obstacle to growth and 40 percent cited limited staff. Businesses facing these challenges can't afford to waste precious resources on secondary or tertiary priorities.

Second, non-core businesses can eat away at your focus on opportunities that are in line with your strategy. As Mr. Cummins asks, "Do you really want to risk misfiring on your best opportunities so that you can accommodate your least promising ones?" He adds, "As a financial partner and advisor to many businesses over the years, I have recognized that leaders with the discipline to clear away distractions so they can succeed will likely do just that."

Third, businesses or their parts may generate more value and cash through sale or partnership. Both financial and strategic investors may have opportunities to use the divested business to fill gaps in their own business lines, cross-sell with complementary business initiatives, put

staff and capabilities to work or affect industry dynamics. Finding companies with any combination of those features can provide cash to put into more strategic opportunities.

Divestiture, whether sale of a business or product line, spin off into a new entity or liquidation for the value of its assets, has never been easier than in today's market. "Divestiture can take many forms: strategic sales, private equity investments, spin offs to management and other creative approaches," says Mr. Shutley. "With private equity sales at \$300B a year and more global firms with the capital capacity and interest in accessing the U.S. market or capabilities of companies here, there are a lot more options to dispose of non-strategic assets than there were ten years ago."

Letting go of part of your business may feel like letting go of a child, but selling, spinning off, or liquidating a non-performing portion may help increase the value more than trying to make it work.

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Beau Cummins, Commercial and Business Banking Executive,  
SunTrust



#### ELEMENT 4:

## Capital/Leverage Restructuring Strategy

Capital planning to balance financial structure and capital mix is a core component of any regular planning process. It can uncover avenues to add value to the business and, if appropriate for the business's plans, outline a path towards owner liquidity.

Businesses are planning to take the following financing steps that will affect their debt/equity mix:



Revisiting your weighted average costs of capital means optimizing the debt/equity mix and funding sources for today's business situation with consideration for tomorrow's plans. For owners, it also means looking across personal and business ownership portfolios when rebalancing.

In today's business environment, the historically low cost of capital continues to present an opportunity to astute business leaders. "Eliminating higher cost equity and substantially reducing the weighted average cost of capital has got to stay at the top of the list," says Mr. Shutley. "Using loans or leases to keep cash flow strong or refinancing higher-rate existing debt while still expanding the business grows value and highlights your business's upside potential."

Adhering to its ideal capital cost was important to a \$20 million annual revenue commercial printer and SunTrust client. The business's expansion plans called for a state of the art digital press to remain competitive in meeting printing turnaround time, quality and equipment efficiency requirements. Having paid off its previous equipment facility, management was able to easily absorb the additional debt of a \$3 million facility to finance the new printer. Leaders expect the additional business growth and

business value created from this new revenue-producing asset will rebalance debt and equity components of enterprise value to their ideal mix.

For some businesses, there is an opportunity in leveraging for transition via dividend recapitalization to support owners looking to liquidate equity. New debt can be used to leverage the dividend payment stream and support an exit for an owner or investor. For smaller businesses, an SBA loan allows for existing or potential ownership partnerships to finance the goodwill of the company and restructure business ownership with a capital infusion for payout.

Finally, the explosive growth of private equity means that it is in the planning consideration set for many companies. In fact, 25 percent of businesses are planning to pursue private equity investments. Private equity bundles together funds and investor expertise to support everything from early stage technology companies to leveraged buyouts of mature companies with an eye for stable, sustainable growth. Private equity groups have become highly specialized around industries, financial condition and company stage of development. Whatever your situation, there is a private equity group designed to work with you and provide investment funds to support your plans.

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## Choosing a Successor

Selecting a successor is often the hardest decision for owners reluctant to let go of the reins of a company. Yet choosing a successor is critical to the health of the business going forward. Knowing your company will be run successfully provides peace of mind for you, your family and your employees.

For example, a SunTrust client recently experienced a change of ownership. The long-term owner “decided it was time to retire and enjoy all of his hard work,” the new owner explains. As a 27-year veteran of the company, the long-term employee turned new owner learned the business from the ground up. Her passion grew along with her knowledge and skills, working side-by-side with the owner and learning every aspect of the business including purchasing, inventory and overall trends of the business. With SunTrust working both sides of the sale, the ownership transition flowed smoothly and the new owner was ready to take over the helm of the company with the flip of a switch. She says, “I think the most important thing is to make the transition seamless. Clients don’t want to do extra work because you acquired a business.”

Creating seamless transitions starts with discussing your vision with your current management team and any advisors or principals in the business. Ask for their visions of the future and what they foresee if you leave the business to determine who, if anyone, is positioned to take over. The new owner consulted with her employees, interviewing everyone on a personal level, asking how they felt about the transition and where they saw themselves in the next 2 to 5 years with the company. Open communication ensured a loyal employee base, and business as usual for the company.

There are a number of issues to consider as you build a successful transition plan:

### Leadership options for new leaders include:

- Family. Consider preparation level and need to supplement with mentors, classes or conferences. Think about interim leadership until the second generation is ready.
- Current management or filling gaps with newly recruited management.

### Dependency on current management

- Degree to which current leadership and company are intertwined in the eyes of community, customers and partners.
- Process of introducing a new leader.

### Impact of transition on company culture and employees

- Ensure a smooth transition by choosing a successor early in the process.
- Integrate new team into responsibilities and duties. Create management continuity through the transition.
- Communicate your plans to help employees adjust to transition.

The financial mechanics of the transaction are equally important whether selling to employees through an Employee Stock Ownership Plan, to investors in a Private Equity Group or selling to another company. Valuation is critical to making the transaction work.

## Retirement Planning

A key step in any planning is ensuring that you and your family will be financially comfortable throughout your retirement. Working to get your personal finances in order, well before the transition point, eliminates any financial surprises going forward. That’s where a private wealth advisor can help you link your personal needs and timing with your outflows from the business to ensure personal financial security as the business continues.

**“A business leader’s transition or retirement is a special case. At the core, you must create financial strategies that maximize the value of your business. You have to get that work started earlier rather than later to amass the funds you will need to move on to the next stage in your life,”** says Mr. Perdomo.

Working on a strategy with trusted financial advisors can help you harness the wide range of resources needed to successfully prepare you and your business for the future.



## ELEMENT 6: Value Maximization

Business value is the single most important metric in planning. Many of the business development options you will consider, including selling, transitioning and recapitalizing, will require a transaction based directly or indirectly on your business's value.

Valuation is typically grounded in current and projected economic performance. Fundamentally, every incremental \$1 in profit could generate \$5 in valuation or more depending on the valuation multiples of revenue or profits in your industry. High growth is important, but for most companies cash generation is the fundamental measure. Capital efficiency is a factor, with businesses that generate profits using less capital usually enjoying higher valuations and greater returns for equity holders. Ms. Kelly comments, "Early stage companies primarily create value by growing market share or profits. As you get bigger, your palette of options to create business value grows. That means exploring structuring of capital sources, targeted company or product acquisitions, strategic pruning of businesses and assets, etc., as ways to grow company value."

"Businesses need to think 'value'", says Mr. Cummins. "Business leaders often become successful because they focus so well on the care and feeding of the income statement. Longer-term planning involves shifting to balance sheet optimization to drive business value."

Keeping your eye on growing business value through capital-efficient profitability growth will serve you well until the time for a sale comes.

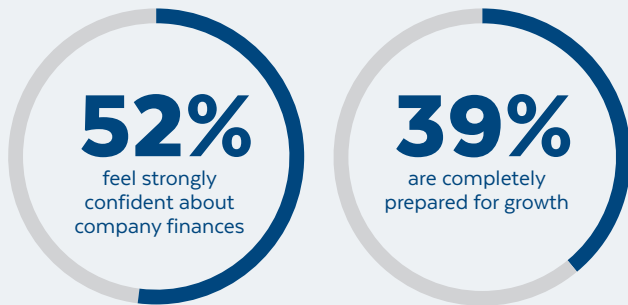
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## Course Setting: Six Years from Now

Planning six years out can be a daunting task. Moving from meeting growth targets to envisioning where you should spend your time and what your company should look like in six years can seem quite a leap. Finding time to plan in a week that is already crammed-full is a challenge and explains why, according to SunTrust Research, 38 percent of businesses don't have a longer-term plan.



### Start with learning

Dig deeper on the parts of the six elements of planning with which you are least familiar. There are many resources. The SunTrust Resource Center has in-depth information and “how-to” guides on many components of building a six-year plan.

### Draw on advisors and peers

Many of the people you work with — CPAs, lawyers, bankers, business partners and management team members — can help you with components of the six-year plan outlined here. People who know you and know your business can lend a friendly ear and provide you with sound judgment and advice. These people will also open their network to you to find others who have been down this path before and can share experience.

### Reach out to technical experts

There are many elements of a six-year plan where it is advisable to seek professionals who can help you with the strategy and execution. Getting the right industry experts, accessing banking experts, securing informed wealth planning, finding a business consultant to help you get your plan on paper — these are all critical tasks toward creating a solid plan. Your SunTrust Relationship Manager can serve as an advisor and help you access the right people.

### Start building a plan

Get beyond the blank sheet of paper and start writing it down. A well-thought-through one-page outline goes a long way toward setting out your direction. Heeding this advice and starting today rather than tomorrow will be critical.

Whether you are starting or updating your six-year plan, have a discussion with your SunTrust Relationship Manager. Your Relationship Manager can help you pull together a team who can support you as you move through creating and executing your six-year plan. To find out more, call your SunTrust Relationship Manager or visit [suntrust.com/sixyearplan](http://suntrust.com/sixyearplan) on the [SunTrust Resource Center](#) for more Six-Year planning information.