This Way Out
A Roadmap to Business Transition

IP Showcase for
Enterprise Ireland
For many business owners, this will be the most important deal of their lives.
What does ‘succession’ or ‘transition’ mean to a business owner?

- Work less or not work at all
- Gradually ease away from the business
- Sell to investors or maintain ownership
- Pass on to family members
- Groom others within the business to take over
- Get the business ready for sale / investment
- Increase the value of the business
- Transfer business wealth while working rather than counting on maximising exit value

‘Transition’ means something different to each business owner
ROCG’s definition of ‘Business Transition’

It’s actually about business **wealth transfer**:

Business transition consists of planning and implementing the actions required to successfully transfer business wealth **both** while operating the business and upon exit.

Transition deals with **both** the owner’s role in the business and their investment in it.
This is how many business owners think about succession – is this you?

- Too early to plan for succession: 60
- No time to deal with the issue: 28
- Can't find adequate advice/tools to start: 17
- Too complex: 12
- Other: 11
- Don't want to think about leaving: 8
- Conflict with family/employees: 3

Business owners – The Self Evident Truth:
You will inevitably leave your business one day – so you have 2 choices now
1. A Planned Exit on term of your choosing – optimal date, optimal value
2. Do Nothing and Crises Exit as best you can – join the disappointed 90%
Other barriers? ……The Owner’s View

- Financing for the successor: 46%
- Finding a successor: 42%
- Too dependent on me: 39%
- Valuing the business: 32%
- Conflicting vision with family: 13%
- Access to cost-effective advice: 12%
- Conflicting vision of employees: 8%

Source: CFIB Succession Can Breed Success: SME Succession & Canada’s Economic Prosperity Report, June 2005
Between **50-70%** of family owned businesses will experience ownership change in the next ten years.

- 40-45% would like to exit within 5 years.
- 60% of owners in the 60-64 bracket have no definite plans.
- Many businesses will simply close with little transactional value being transferred upon the owner’s exit.
- Less than 10% of business owners will get a value even close to what they expect upon transitioning their business.

- Only **5%** of those 40% have a formal succession plan in place.
- **Precedence indicates that 70%** of these will fail to survive the second generation after the death or retirement of the founder.

60% of all entrepreneurs aged 55 - 64 have yet to start discussing their exit plans with their family or business partners.
### PwC Family Business Survey 2014

**What businesses said about succession**

<table>
<thead>
<tr>
<th>Strategy</th>
<th>Ireland</th>
<th>Global</th>
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<tbody>
<tr>
<td>Pass on management to the next generation</td>
<td>31%</td>
<td>40%</td>
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<tr>
<td>Pass on ownership but bring in professional management</td>
<td>29%</td>
<td>32%</td>
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<tr>
<td>Sell to a third party</td>
<td>25%</td>
<td>20%</td>
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<tr>
<td>Don’t know</td>
<td>15%</td>
<td>8%</td>
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</tbody>
</table>
In truth many owners simply feel trapped, even institutionalised within their own business… & without a plan!

“I’m telling you, these walls are funny. First you hate them. Then you get used to them. Enough time passes, it gets so you depend on them. That’s institutionalised.” - Red
For most transaction day only occurs once in a lifetime...

Typical Business Life Cycle

- **Start-up**: Begin thinking about exit strategy issues
- **Growth**: Create and begin implementing business transition plan
- **Maturity**: I think I need a plan
- **Decline**: For Most initial thoughts of exit
- **Crises Exit Day**: Planned Exit Day

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Brendan Binchy | ROCG

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Realization dawns that …

….Transition planning requires more than a single expertise…

…where do I start?
The Advisory Team – different perspectives and expertise

Legal and financial professionals
Owner
Insurance and benefits professionals
Business operations consultants

Attorney and legal
Private banking
Taxation
Financial and accounting advisors
Strategic and operations consultants
Valuation

Estate planning
Financial planning
Investment counsel
Family and management coaches
Business broker
Real estate

brendan.binchy@rocg.com
Synergistic approach is more than important for...

...what may be the most important business decision owners will ever be called upon to make
A synergistic approach is also important when...

...integrating personal and business needs to create a unique and easy-to-implement transition strategy.
One key to transition planning is to make sure that when the transition occurs, it is sensitive and structured, and results in the preservation of as much wealth as possible.

Business Continuity

Implemented on a timely basis – tax savings

Often overlooked is financing – How will the transfer of ownership be financed? Especially if the business remains within the family.

Business value can be tied up in intangible assets

Fair treatment of next generation – equal shares, active involvement of members and passive members, clarity on the distinction and ramifications.
The ROCG Roadmap to Business Transition
A 3 Phase Process – not an event!

Process and expertise are required to lead an Advisory Team in both the planning and the implementation of the owner’s business transition.

- **Transition Planning Phase 1**: 30 - 90 days to develop the plan
- **Transition Management Phase 2**: 1 - 3 years to implement the plan
- **Transaction Management Phase 3**: 3 - 6 months to execute
Phase 2 & 3: The ROCG Transition Planning Process

The ROCG Business Transition Plan

Moving On
Action Steps

What needs to happen to optimise business value and transition readiness?

= Implementing the Transition Plan

Managing the sale or transfer of ownership of the business

2

Transition Management

3

Transaction Management
Management

The ROCG Transition Planning Process – Phase 1

**Transitional Objectives**
What does the owner want to achieve from their succession and exit?

**Personal Review**
What is the personal situation and what are the necessary planning initiatives?

**Business Review**
What is the current business situation and how does it reach its potential?

**Personal Initiatives**

**Business Strategy**

**Consider Best Way to Exit**
What is the best method to transition the business and meet the owner objectives?

**Business Transition Plan**
What’s the Status Quo?

ANALYZING YOUR CURRENT SITUATION

Collect Business Information

Collect Personal and Family Information

Business Review

Taxation Review

Legal Review

Personal Financial Review

Transition Situation Analysis

“Housekeeping” Action Steps

Mgt

How ready are you...Really?

business transition specialists
What are the Deliverables?

IDENTIFYING YOUR OBJECTIVES

- Long-Term Financial Needs
- Lifestyle Needs
- Business Legacy
- Family and Stakeholder Needs

Statement of Transition Objectives
What are the Options?

SELECTING YOUR OPTIONS

- Options for Achieving Overall Transition Objectives
- Options for Selling Business at Required Value
- Develop Contingency Options (for Unscheduled Exit)
- Evaluation of Options for Overall Transition Objectives
- Evaluation of Transition Options for Stakeholders and Family
- Evaluation of Sale Options for Financial Objectives

Contingency Plan
Value

Equity risk factors

- Smaller = riskier
- Lack of management depth
- Over-reliance on key personnel
- Instability of the industry
- Lack of product diversification
- Over-reliance on too few customers
- Over-reliance on suppliers
- Fluctuating earnings
- Pressure on earnings margins
- Over leveraged financially
The Reality of the “X” Factor

X Factor

2-3X 4-6X 6-8X 8-10X 10+

1m 5m 10m 100m+

€€
Transition Timing Triangle
What’s the Plan?

- When will You Transition?
- How will Family and Stakeholder Needs be Met?
- What will the Acquirer “Look Like”?
- For how much?

Transition Plan

“Moving On” Action Steps

business transition specialists
The final product from Phase 1: a formal Transition plan

- The final decision to implement will then be a highly satisfactory step forward for everyone

- The final product is a written succession plan that clearly communicates everyone’s role going forward

- It acts as a contract between shareholders...a promise to support the plan

- Once the plan is implemented, it must be periodically re-examined to ensure it is on track and remains in the best interests of everyone involved
Personal Financial Plan for:
Mr Frank Wise

Business Entity Plans for:
1) The Astute Trading Group Ltd
2) The Prudent Property Partnership

A simple generic example... The Phase 1 Deliverable!

Integrated Personal
and Business
Planning
Utilising
The Financial
Consolidator

A totally integrated financial planning solution that encompasses everything from your private business interests to your complete portfolio of passive investments – their earning & growth potential and all related financing structures
## Current Assets & Liabilities Detailed

**Effective Date:** 01/09/2009

<table>
<thead>
<tr>
<th>Business</th>
<th>Current Position</th>
<th>Assets &amp; Liabilities</th>
<th>Yields &amp; Outgoings</th>
<th>Analysis</th>
<th>Portfolio Analysis - A Private Equity Perspective</th>
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### Assets

1. **The Asute Trading Group Ltd**
   - Current Assets Value: 1,042,052
   - Market Value: 1,042,052
   - Yields: 0%
   - Outgoings: 0%

2. **The Asute Trading Group Ltd**
   - Current Assets Value: 68,477
   - Market Value: 68,477
   - Yields: 0%
   - Outgoings: 0%

3. **The Asute Property Partnership**
   - Current Assets Value: 1,050,000
   - Market Value: 1,050,000
   - Yields: 0%
   - Outgoings: 0%

### Liabilities

1. **Equity Fund (ROCG)**
   - Current Liabilities Value: 600,000
   - Market Value: 600,000
   - Yields: 0%
   - Outgoings: 0%

2. **Global Infrastructure (GIO)**
   - Current Liabilities Value: 600,000
   - Market Value: 600,000
   - Yields: 0%
   - Outgoings: 0%

### Portfolio Analysis - A Private Equity Perspective

**No Planning**

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**Brendan Binchy | ROCG**

**E: brendan.binchy@rocg.com**
The Business
The “laying hen” or “hungry mouth”

### Business Valuation & Projected Performance

#### Pension and Remuneration Capacity Plan

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<th>Transaction Planning</th>
<th>for Mr. Trackman</th>
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#### Profitability

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<td>Expenses</td>
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<td>Profit</td>
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#### Financial Analysis

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#### Valuation

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#### Income & Pension

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#### 5 Year Plan

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#### Capital Yield

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The “laying hen” or “hungry mouth” refers to a business entity that provides regular income (like a hen laying eggs) but also requires continuous investment (like a hungry mouth). This metaphor highlights the importance of a business's ability to generate consistent income while also planning for future growth and sustainability.
# Receipts & Payments

## Further Analysis & Post Planning Position

### Personal Receipts & Payments - Detailed

**Effective Date**

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<td>64,480</td>
<td>88,750</td>
<td>87,073</td>
<td>86,414</td>
<td>85,795</td>
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<tr>
<td>Transfer</td>
<td>61,760</td>
<td>80,000</td>
<td>79,000</td>
<td>78,000</td>
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**Post Transition Receipts & Payments**

**Total Income**

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<td>78,000</td>
<td>77,000</td>
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**Savings & Interest Earning Deposit**

**Property Investments**

**Total Realizable Value**

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<td>80,000</td>
<td>79,000</td>
<td>78,000</td>
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</tbody>
</table>

**Personal Payments**

**Total Payments**

**Business Information**

**Note:**

- Personal Receipts & Payments table includes detailed income and transfer data for each year.
- Savings & Interest Earning Deposit section provides information on savings and investments.
- Property Investments section details realizable values for various property investments.
- Personal Payments section summarizes total payments made.

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**Contact:**

E: brendan.binchy@rocg.com

Business process specialists providing expertise and solutions for your needs.
Domestic Payments
Personal & Lifestyle expenditure
## Taxation
### Current & Post Planning Position

**Pre & Post Planning Position**

**Income Tax Calculation**

<table>
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<th>Years to</th>
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<td>Personal Taxation</td>
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<td>Income Sources</td>
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<td>Business</td>
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<td>Salary</td>
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<td>78,000</td>
<td>93,700</td>
<td>112,200</td>
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<td>State of Profits</td>
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<td>269,490</td>
<td>319,833</td>
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<td>Equity Listed &amp; Private</td>
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<td>Property Investments</td>
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<td>Less: Loan Interest</td>
<td>(66,933)</td>
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<td>(66,933)</td>
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<td>Net Cash Flow</td>
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<td>Total Income</td>
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<td>Total Taxable Income</td>
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<td>PRSI &amp; Health Levy</td>
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**Optimisation**

**Protection**

---

**Business Transition Specialists**
## Post Planning Projected Balance Sheet

Reflecting the Capital Impact of Planning Initiatives

### Consolidation Plan

**Effective Date:** 01/01/2023

### Assets

<table>
<thead>
<tr>
<th>Component</th>
<th>Initial Value</th>
<th>Gains/Reductions</th>
<th>Post Planning Value</th>
<th>Projected Value</th>
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<tbody>
<tr>
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<tr>
<td>Equity</td>
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<tr>
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<td>0.00%</td>
<td>0.00%</td>
<td>0.00%</td>
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### Liabilities

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### Equity

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<tr>
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### Total

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</tbody>
</table>

### Core Portfolio Elements

- **Brendan Binchy** | ROCG
- **E:** brendan.binchy@rocg.com

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# Property Portfolio
## Detailed Analysis & Planning

### Property Investment Plan

<table>
<thead>
<tr>
<th>Property</th>
<th>Year</th>
<th>Land Value</th>
<th>Capital Value</th>
<th>Purchase Price</th>
<th>Net Present Value</th>
<th>Income Yield</th>
<th>Value of Sales</th>
<th>ROCE</th>
<th>Disposal &amp; Gearing</th>
</tr>
</thead>
<tbody>
<tr>
<td>Property A</td>
<td>2023</td>
<td>1,000,000</td>
<td>2,000,000</td>
<td>2,500,000</td>
<td>3,000,000</td>
<td>10%</td>
<td>2,500,000</td>
<td>20%</td>
<td>50%</td>
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<td>Property B</td>
<td>2024</td>
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<tr>
<td>Property C</td>
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<td>4,000,000</td>
<td>4,500,000</td>
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<td>20%</td>
<td>4,500,000</td>
<td>30%</td>
<td>70%</td>
</tr>
</tbody>
</table>

### Disposal & Gearing

- **5 Year Management Plan**

### Income Yield

- 10%

### Asset Class Outlook

- Growth

### Disposal & Gearing

- 50%

---

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### Pension Growth Plan

<table>
<thead>
<tr>
<th>Plan</th>
<th>Initial Yield</th>
<th>Current Yield</th>
<th>Asset Allocation</th>
<th>Projected Growth Rate</th>
<th>Terminal Year Value</th>
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<tr>
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<td>6%</td>
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<td>2%</td>
<td>2%</td>
<td>20%</td>
<td>8%</td>
<td>$20,000</td>
</tr>
</tbody>
</table>

**Tax & Structure**

- Investment & Yield
- Capacity

**5 Year Management Plan**

**Business Transition Specialists**

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Pension Portfolio
Detailed Analysis & Planning

---

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Transition Strategy

- Retirement
- Sale of Business
- Attracting external investors
- Succession
- Divorce
- Estate & Trust Planning
- Financial Independence

STRATEGY FOR TRANSITION

SELECTING YOUR OPTIONS

Options for Setting Business at Required Value
Options for Setting Business at Required Value

Evaluation of Options for Overall Transition Objectives
Evaluation of Options for Overall Transition Objectives

Develop Contingency Option (for Unscheduled Exit)

CREATING YOUR PLAN

When will You Transition?

How will Financial and Stakeholder Needs be Met?

What will the Acquirer “Look Like”?

For how much?

Transition Plan

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Business transition specialists
How do we maximise Business Value?

BUILDING/MANAGING BUSINESS VALUE

Required Business Value

Current Business Value

Business Value Drivers

Identify & Monitor KPIs

Growth Strategies

Strategic Plan

Building/Managing Business Value

Mgt

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It’s too early….isn’t it?

- Early & Often
- Building Value
- Faster
- Procrastination

No. of Improvements

Time → Target Date

Required Value
Managing the disconnect between...
Actual and Perceived Strategic Position

Numerous Opportunities

Critical Weaknesses

Major Strengths

Identify and Develop Core Competence

Selectively Expand

Aggressively Develop

Shore Up

Acquire

Defend

Diversify

Exit

Significant Threats

brendan.binchy@rocg.com
The Key Outcome - A Robust Business Model

- The preferred options = new vision
- Document the new way forward in terms of products/services provided, customers sought after and how the business will make a profit

Benchmark and validate it against ‘the Why’

The business Valuable Formula can then be extrapolated into a full strategic plan
Developing the Business Model into strategic business plan that will deliver the vision...

- We need to expand that Business Model into a full strategic business plan
- The strategic business plan will be the roadmap that takes the business to its desired vision
- It will outline goals for each functional area of the business, which, if achieved, will ensure the vision becomes a reality
The Strategic Business Plan Outline...
A four phase approach to Dynamic Strategic & Business Planning

What gets measured gets managed...
...what gets managed gets done!

Phase One: Document your strategic business plan

Phase Two: Identify the critical success factors (CSF)

Phase Three: Establish key performance indicators for each CSF

Phase Four: Develop a management reporting system
How do we make it investor ready?

GROOMING THE BUSINESS FOR SALE

Due Diligence Review

Identifying Failure Points

Rectify Failure Points

Preparing the Business for Transition

Mitigate Failure Points that cannot be Rectified

Mgt

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How do we change core dependencies?  
... Business on the Owner
How do we change core dependencies? ... Owner on the Business
Who are the optimum investors?

MARKETING THE BUSINESS TO THIRD PARTIES

Establish Business Value Range

Valuation

Disclosure

Appoint a Broker

Legal Review of Transaction Structure

Third-Party Transaction

Sales Memorandum

Develop Marketing Plan

Tax Review of Transaction Structure

In Play

Advisor

Owner
How do we negotiate the best deal?

- Finding Buyers
- Creating a Contest
- Negotiating the Sale
- Legal Advice
- Tax Advice
- Agreeing Terms and Meeting Stakeholders Needs
- Heads of Agreement/
  Letter of Intent

Internal Transaction
Types of buyers

- **Strategic** – usually interested in acquiring a “niche” for own business & generally pays more; needs less admin; generally has €€ to pay seller – find this type buyer first

- **Financial** – usually buying just for an ROI; opportunistic, e.g. Private Equity Firms

- **Individual** – usually buying a job, poorly financed (but see millennials below), they may get poor advice, can be buyer of last resort / least desirable buyer

**BUT** (in the US)….Don’t ignore well educated millennials working through ‘search funds’ (first popularized by Ivy League community)
How do we close the deal and optimise continuity?
How does the owner move on with confidence?
Benefits of a well thought out plan

- Dramatically increase the chances of achieving transition goals
- Ensure business continuity, succession, asset protection & management
- Look after the people they wish to care and provide for - preserve culture and values
- Maintain control of their future with clear financing and funding plans
- Structure the timing of the wealth transfer on a tax and risk effective basis

Entrepreneurs with clearly communicated exit plans reduce anxiety for spouses, children, co-owners and employees
Get busy Living...or get busy Dying

1. **One Certainty**
   1. Tempus Fugit

2. **Two Choices**
   1. Prepare and plan
   2. Join the 90%

3. **Three Challenges**
   1. Creating a climate for Change – this starts with urgency
   2. Engaging and Enabling Change
   3. Implementing and Sustaining Change