

Food and AgriBusiness 2018

83% of Irish food and agribusiness SMEs do not have a clear succession plan.

63% of businesses are struggling to find the right people.

Brexit approaching

49% of companies are not worried about Brexit with 84% of sales in ROI





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Published 4 September 2018 by ifac. Compiled and edited by David Leydon, Head of Food and AgriBusiness, ifac. Research carried out in July and August 2018 by Amárach Research on behalf of ifac. Design: Zero-G. Print: JM Mailing.

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Foreword



John Donoghue,
CEO

Welcome to our Food and AgriBusiness Report 2018. This report is unique. It is based on in-depth research designed by ifac and carried out by Amárach Research. The statistical content comes directly from 200 companies in the food and agribusiness sector. We aren't relying on anecdotes, estimates or assumptions in this Food & AgriBusiness Report; hard facts only.

The findings are clear. Costs are rising, high-quality labour is in short supply and while Brexit looms large on the horizon, many businesses are focused on the problems they can solve through sound management and diligent effort. Succession remains a significant challenge for owner-managers in the sector. Fewer than one in five food and agribusinesses have a clear succession plan in place.

The businesses surveyed are substantial employers, creating jobs and delivering investment throughout the island of Ireland. Entrepreneurs in this sector need more support to grow, to drive innovation, and to create strong durable, and successful businesses. In *ifac*, our goal is to support food and agribusinesses on their journey to success.

Food and agri-entrepreneurs create their own opportunities and add significantly to the risk taking, entrepreneurial landscape in Ireland. Unleashing the power and potential of food and agribusinesses that have the talent, attitude and aptitude to drive the economy forward, and improve the lives and opportunity afforded to people who want to live and work in their local communities, must become a national priority.

Ifac is a 43 year old co-operative owned professional services firm operating from more than 30 locations across Ireland, with more than 400 people serving 18,000 clients. *Ifac* is Ireland's 9th largest practice by turnover and largest by client number. We have been at the very heart of agriculture and food since 1975.

Each year we will go deep into food and agribusiness, we will take the pulse of the sector and report to you, the stakeholders, through our Food and AgriBusiness report. This Food & AgriBusiness report is proof of our commitment and belief in the food and agribusiness sector. Read the report, hear the voice of industry leaders through their survey responses. Let's support their innovation and creativity and work together to drive the sector to continued success in the years ahead.

The findings are clear, costs are rising, high quality labour is in short supply and while Brexit looms large on the horizon, many businesses are focussed on the problems they can solve through sound management and diligent effort.

Thank you to the *ifac* and Amárach Research teams who worked on the project, and most importantly to the participants who took time out from their busy schedules, to give their thoughts and reflections on the food and agribusiness sector in 2018.

#ifacReport

What does Ireland's Food and AgriBusiness sector look like in 2018?



David Leydon,
Head of Food
& AgriBusiness

The 2018 *ifac* Food & AgriBusiness Report sets out to test the pulse and sentiment of the Irish Food and AgriBusiness SME sector.

These businesses are overwhelmingly family owned and operated by entrepreneurs throughout the country. Working with Amárach Research, 200 businesses were surveyed for this report.

These businesses make a significant contribution to their local community, especially in rural Ireland, by creating employment, creating wealth and often by sponsoring and supporting community initiatives.

Our survey respondents run complex businesses with many challenges from securing markets, developing sales, innovating around product and service offering, finding and retaining the right team, managing costs, embracing technology, engaging with a more informed customer and harnessing market trends. Here's how they feel at this moment.

Positive outlook

Across both food and agribusinesses, there is generally a positive outlook for the future, in line with a positive outlook for the overall economy.

With a positive year on the horizon, companies are looking to increase employment. Bigger companies, those based in Dublin and in the food sector are particularly increasing employee numbers. This reflects their more positive outlook

about the coming 12 months. Despite the desire for companies to recruit, finding suitable candidates to run companies is proving difficult with a lack of skilled candidates available a major constraint.

While turnover has increased for the majority of companies, so too have costs which is impacting on net margins. Key challenges for the year ahead include maintaining margins, managing staff and generating sales.

49% of the companies surveyed are not worried about Brexit with only 21% very worried. This is possibly a function of the majority of their sales, 84%, coming from within the ROI and lack of knowledge about what will actually transpire in March 2019.

Just over two thirds of companies are investing in Research and Development (R&D) at varying levels. Company resources play a key role in determining who invests with medium sized companies and those in the food sector more likely to invest in R&D. With constantly changing consumer trends and a need to differentiate, R&D is an important element of business improvement.

Only 28% of SMEs have "perfectly sufficient" broadband for their business while only 7% are doing a significant level of online trading. With the ubiquity of mobile communication and the rise of e-commerce, Irish food and agribusinesses must stay alert to the opportunities

49% of the companies surveyed are not worried about Brexit



online can offer. From an online marketing and promotion perspective Facebook continues to dominate. It is the most popular and effective social media channel by quite some distance with 83% stating Facebook is the most effective platform they use.

Contrasts between food businesses and agribusinesses

Food businesses are certainly more optimistic and more likely to be hiring which may be related to the food sector being more likely to have experienced increased turnover in the past 12 months when compared to the agribusiness sector. Companies involved in the food sector are also more likely to invest in R&D.

Food companies are more open to selling their business in the next five years than agribusinesses. This may be linked to the fact that a greater percentage of agribusinesses are family run.

Food businesses are more likely to have better broadband available for their businesses, they are more likely to trade online and social media is of greater importance in their marketing efforts.

Micro, Small and Medium size contrasts

Looking at the year ahead, levels of optimism increases with company size, as does the likelihood of employing more staff in the next 12 months. The issue of salary expectations heightens as company size grows. Those working for bigger companies have greater salary expectations.

The bigger the company, the more likely that business turnover increased in the last 12 months. However, cost of sales also increased with company size.

As company size increases so does the likelihood of considering selling the business

The bigger the company, the more likely that business turnover increased in the last 12 months.



in the next five years. While only 24% of larger companies have a clear succession plan in place, they are more prepared than micro and small companies.

Social media is equally as important to small and medium sized companies, less so for micro.

Keep in touch

We would be delighted to hear about your experiences in the sector, what trends are impacting on your business and how *ifac* can support you as you grow and prosper.

Our team of sectoral specialists along with our tax, accounting, financial solutions and audit teams can work with SME businesses as a trusted partner who understand the sector and will engage with you in an ongoing and meaningful way.

So keep in touch – follow us on Twitter, @ifac_FoodAgri, and across Facebook and LinkedIn or simply drop me an email to be included on our mailing list – davidleydon@ifac.ie.

#ifacReport

Research Methodology

Amárach Research were commissioned by ifac to carry out independent research with SMEs in the AgriBusiness and Food Sector in Ireland.

Ireland's economy continues to perform exceptionally well with output growth of 7.3% for 2017 and has had the best performing European economy for the last 3 years. The Food and AgriBusiness sector in Ireland, in 2016, generated 7% of gross value added and provided 8.5% of national employment.

Research Methodology

The final sample size was 200, giving an estimated margin of error of +/- 6.89% with a 95% confidence interval. The survey was conducted via telephone through Amárach's in-house CATI service. As this was a survey of SMEs the sample was divided into micro, 1-9 employees (42%), small 10-49 employees (44%) and medium, 50-249 employees (15%) enterprises in the Agricultural and Food sector. The majority of the sample are from micro and small enterprises given the nature of the

food and AgriBusiness. According to the CSO, across SMEs the number of active enterprises involved in Agricultural and Food exports in 2016 was broken down as follows; Micro (339), Small (155), and Medium (95). Looking at the business demography of the food product industry the breakdown of active enterprises is as follows: Micro (1,410), Small (305) and Medium (135).

There was a good spread of SMEs from across the country, within the four main regions, Dublin (16%), Rest of Leinster (29%), Munster (37%) and Connaught/ Ulster (19%). All respondents were either owners, managers or C-Suite.

A sample size of 200 allows for a confident interpretation of the findings both at an overall level and for the most part looking specifically at micro, small and medium enterprises in isolation.



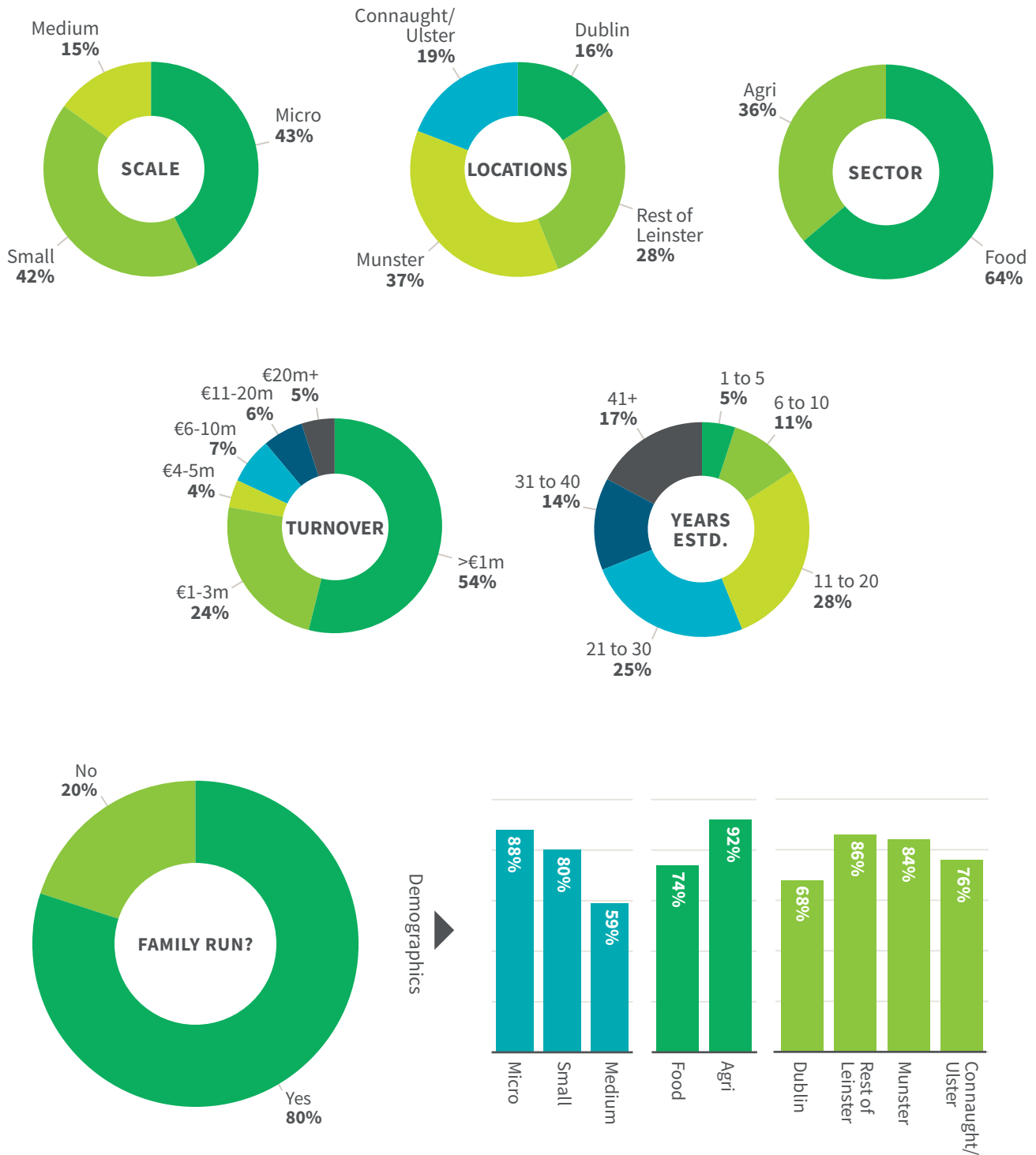
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Ireland's economy
continues to perform
exceptionally well...

Demographic Breakdown



Key Takeaways

83%

of Irish food and agribusiness SMEs do NOT have a clear succession plan in place mainly due to the lack of thought, business viability and no interest from next generation.



Cost pressure

Cost pressure is evident across the industry with 86% of medium sized businesses experiencing cost increases averaging 5%.



3% of businesses experienced cost reduction

28% of all companies are planning to hire

41%

of medium sized companies planning to hire next year

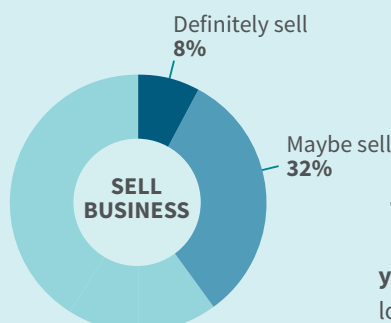
63%

of all employers are saying its somewhat or very difficult to find the right people to run the business.



28%

of companies have perfectly sufficient access to broadband with only 7% doing a considerable portion of business online (a further 24% doing some business online).



40%

would like or intend to sell their business in next 5 years with only 8% definitely looking to sell their business.

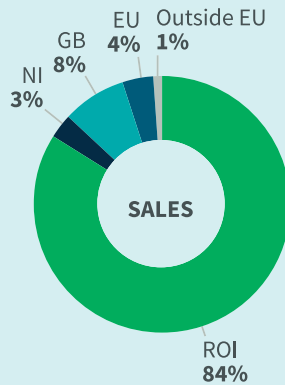


49%

of food and agribusiness SMEs are not worried about Brexit.

Rising tariff costs

is the most worrying aspect about Brexit.



84%

of sales are within ROI with only 11% coming from NI or GB.



Social media

is important for 62% of businesses with Facebook dominant for usage and effectiveness.

R&D is a very key growth driver, it's noteworthy that

32%

don't invest in R&D.



74%

of food and agribusinesses are somewhat or very optimistic for the next year despite increasing costs and Brexit.

80%

of SMEs in the food and agribusiness space are family owned businesses.



1

Business performance, outlook and funding

The financial well-being of all food and agribusinesses is reflected in their business performance, outlook and funding. We asked respondents how their business performed over the last 12 months, and what factors are proving most challenging as they look to the future?

Overall, there is a positive mood in the sector right now with 74% of companies somewhat or very optimistic about the next 12 months. Contributing to this is an increase in turnover across both food and agribusinesses over the past 12 months. However, this is tempered by increasing costs which are stopping most businesses from growing their net margin.

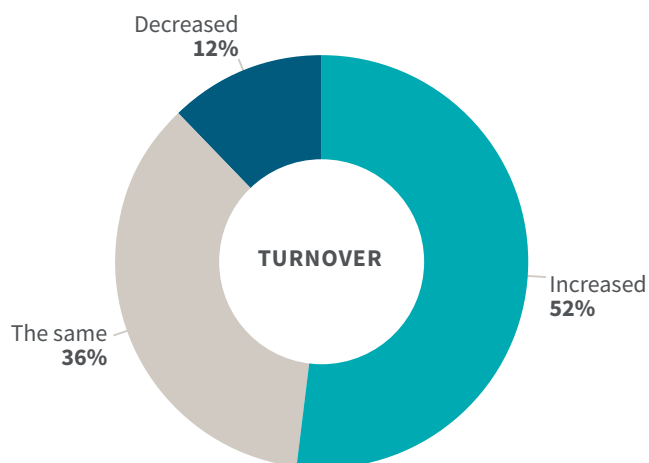
51% of business leaders recognise that maintaining margin is their biggest challenge with managing staff a close second. 78% of those businesses who looked for bank funding were successful.



Business performance, outlook and funding

BUSINESS OUTLOOK

While the overall mood is positive, food businesses are more optimistic than their agriculture peers.



TURNOVER V COSTS

52%

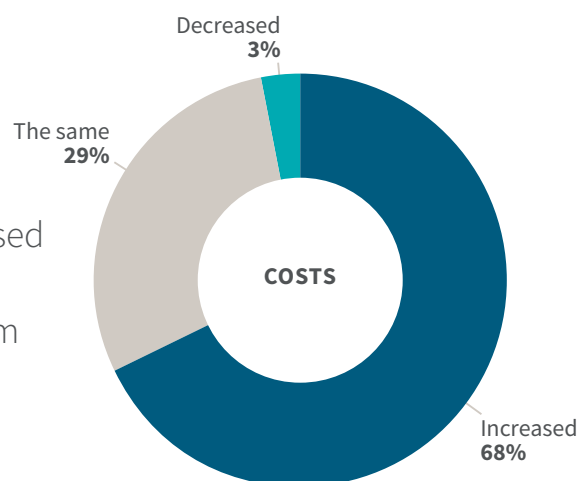
9%
Average
increase

of Food and AgriBusinesses have increased turnover in the last 12 months.

68%

7%
Average
increase

of businesses have reported increased costs in the last 12 months with a range of factors influencing this from staff to materials and fuel.



Business performance, outlook and funding

MARGINS

Net margin has increased for 23% of companies which is disappointing given 53% have increased turnover. Increased costs are offsetting margin improvements and the headwind of cost increases is impacting on the majority of food and agribusinesses.



Net margin retention remains a key focus for owner managers for coming 12 months.

NET MARGINS



The Pallet Test

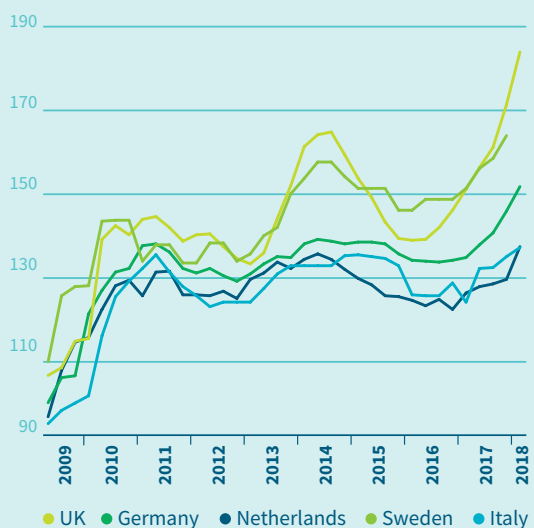
Pallets rarely get much attention however they are a critical part of the food and agribusiness supply chain.

For Irish companies, pallet prices are increasing driven by rising timber costs due to a shortage of logs, developments in Biomass fuel and Baltic supplies being shipped to Asia. The trend began back in October 2017 and became more apparent as we entered Spring 2018 with some companies reporting an increase in pallet prices of between 30% and 50% by March 2018.

As the price of pallets increases, it comes as no surprise that 86% of medium-sized businesses are experiencing cost increases at an average of 5%.

Companies are managing the impact in a number of ways including being flexible about pallet specification and pallet reuse, increasing pallet payload, reducing film use per pallet and sourcing second-hand pallets.

FEFPEB Pallet Timber Price Index Q1 2018
(Q1 2009 = 100)



‘Pallets move the world’

Mark White Professor Emeritus of Wood Science and Forest Products, Virginia Tech

FINANCE

Just over 4 in 10 tried to access finance in the past year. Success rates are high among those who apply for finance with most having a neutral or positive experience.

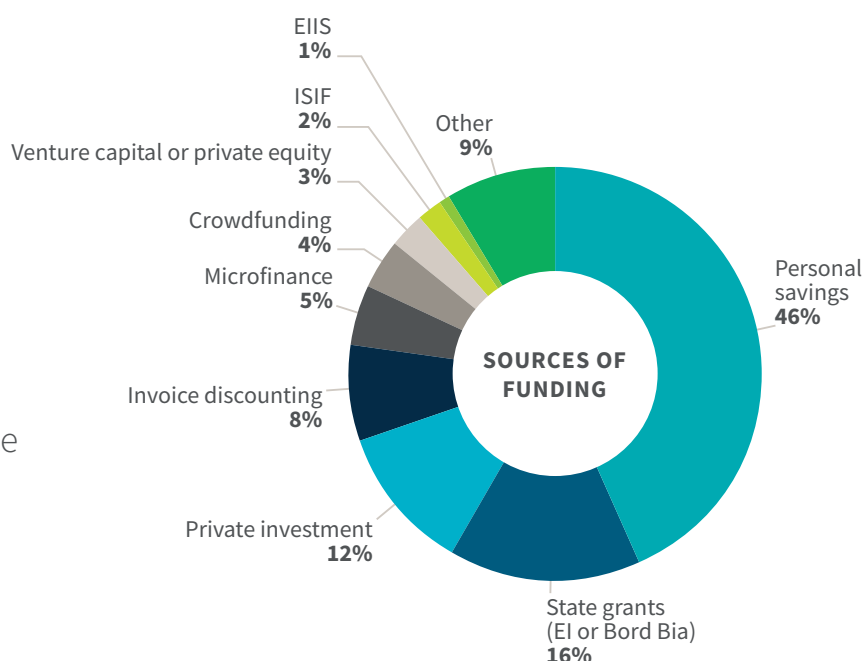
46%
found the
process easy
or very easy

43%

tried to access bank
finance in past 12 months

78%

of those who tried, were
successful in accessing finance

**IFAC ADVICE FOR BUSINESS OWNERS****REVENUE**

A relentless focus on your customer and client needs will help grow revenue. How are your customers changing? How is the market changing? How do you need to innovate to take opportunities?

COST CONTROL

Implement a cost control review process with your team to enable you to successfully grow margin.

AUTOMATION

Examine how automation can lower costs. People are one of the key investments in any business – automating some roles gives opportunity to redirect people into higher impact activity.

DEBTOR DAY

Set debtor days targets and monitor at regular intervals. If the business owner focusses on debtor days the team will follow.

MANAGEMENT ACCOUNTS & CASHFLOW

Management accounts are a critical tool for business owners and should be prepared on a monthly or quarterly basis depending on business needs. At times of uncertainty or business development reviewing your cashflow forecast on a monthly basis will help you spot and mitigate cashflow challenges.

FINANCE

Review alternative sources of finance and include them as part of your funding plan (see overleaf).

PERSONNEL

Look after your team – they are key to growth and difficult to recruit (see page 19 for further advice).

FINANCIAL SUPPORT

Look at what supports are available from State Agencies, for example, a Lean Innovation Grant from your Local Enterprise Office or Enterprise Ireland could help make your business more efficient and save costs over the coming year.

The Changing Financial Landscape for Irish SMEs



Noreen Lacey,
Head of Business
Development

For a Food and AgriBusiness company looking to raise finance - now is a great time to be in the market. Lenders have funding available, pricing is relatively attractive and the range and variety of funding options available continues to increase. Identifying what is the most appropriate source of funding for a business is critical and it is increasingly likely to be a blend of bank debt, investor capital or monies raised from alternative sources of finance.

In March 2018, Irish SMEs applications for loans and overdrafts was about half the rate of SMEs in comparator countries. Interestingly, a significant share of Irish firms reporting “sufficient internal funding” as the reason they did not apply for a bank loan (50.3 per cent)¹. This correlates with the 56 per cent of respondents surveyed in the *ifac* Food & AgriBusiness Report who did not apply for bank finance in the past 12 months. Department of Finance data shows personal savings are a key source of finance, particularly for micro businesses, while private investment is more common among medium companies. Demand for financing is most common among Medium firms and lowest among Micro firms.²

Following a steady decline from September 2013 to March 2016, bank finance rejection rates have begun to gradually increase with SME finance rejection rates at 17 per cent as of September 2017.³ Micro firms experienced higher rejection rates for financing rising from 18 per cent in March 2017 to 28 per cent in September 2017. In contrast, rejection rates among bank applications from Small and Medium firms remains lower at 11 and 15 per cent respectively.

So, what are the alternative sources of funding available?

Data from the ECB/EC SAFE data⁴ indicates that the average SME maintains a relationship with one or more lenders and most SMEs borrow their debt from their main lender. This may be partly explained by a lack of suitable alternative lenders rather than necessarily strong loyalty to one or more banks. The most mature alternative finance industry when it comes to volume as well as the diversification of funding options is in the UK, where more than 10% of businesses are funded through alternative investment and this percentage is growing.

Lenders have funding available, pricing is relatively attractive and the range and variety of funding options available to the sector continues to increase.

Many Food and AgriBusinesses in Ireland (especially family businesses) have a strong aversion to relinquishing equity from the business. But businesses with 100 per cent senior debt are not as attractive to investors and the funding structure needs to be tailored to make a more attractive investor value proposition. The growth of trade finance and the advent of crowd-based funding initiatives are also changing the funding landscape and are becoming more widely used by SMEs.

- 1 Source: Department of Finance SME Credit Demand Survey.
- 2 Department of Finance SME Credit Demand Survey since September 2012 to September 2017.
- 3 Rejection rates are for those SMEs applying for credit and having received a decision in the last six months. These rates are for all finance types (loans, overdrafts, leasing, hire-purchasing and invoice discounting).
- 4 European Central Bank (ECB) /European Commission (EC) Survey on the Access to Finance of Enterprises (SAFE) September 2014 to March 2018.



TYPES OF FUNDING AND FINANCING

i. **Venture Capital Funding:**

This is a type of equity financing which has the advantage for growing firms of not including the obligation to pay the initial investment through normal loan amortisation (payback). Future profits may be returned to shareholders through dividends. Investors often take an active role in management and facilitate knowledge transfer. SMEs obtaining VC funding are concentrated in high-technology sectors, especially at the early stages of their life cycle. VC funding is demanding with high growth expectations and exit strategies generally part of the deal, so a cautious approach is necessary.

ii. **Invoice Discounting:**

Also known as factoring, is a form of short-term borrowing that is extended by a lender to its business customers based on unpaid invoices. The amount of debt issued by the finance company is less than the total amount of outstanding receivables (typically 75% -85% of all invoices less than 90 days old).

iii. **Online Alternative Financing:**

This is a means of soliciting funds from the public for a project/firm through an intermediate platform, usually through the Internet and comprises peer-to-peer lending activities, equity crowd-funding and online invoice financing. It has strong potential to grow and serve the financing gaps among SMEs, especially young firms with medium or high credit risk.

iv. **The Employment Incentive Scheme (“EII Scheme”):**

Under this incentive, Qualifying Investors can obtain income tax relief on investments made in each tax year, into EII certified qualifying SME companies. The EII replaces the Business Expansion Scheme (BES) and will run until 2020. By buying shares in the company, individual investors can obtain tax relief of up to 40% on investments made in each tax year up to 2020.

Many Food and AgriBusinesses in Ireland (especially family businesses) have a strong aversion to relinquishing equity from the business

For SMEs who are looking to secure access to finance, it is important that they are aware of all the options available to them on an ever-increasing menu selection. Lack of awareness about these options, may contribute to the reason why Ireland lags other OECD⁵ countries in terms of our usage

of alternative sources of finance. Investigate the many funding options that are on the market and identify the best partner and finance solution to suit the needs of your growing business.

#ifacReport

⁵ Organisations for Economic Cooperation and Development.

2

Exports and Brexit

Given that Brexit is only 7 months away, we asked respondents to indicate what they are doing to prepare and how they plan to offset any negative impacts.

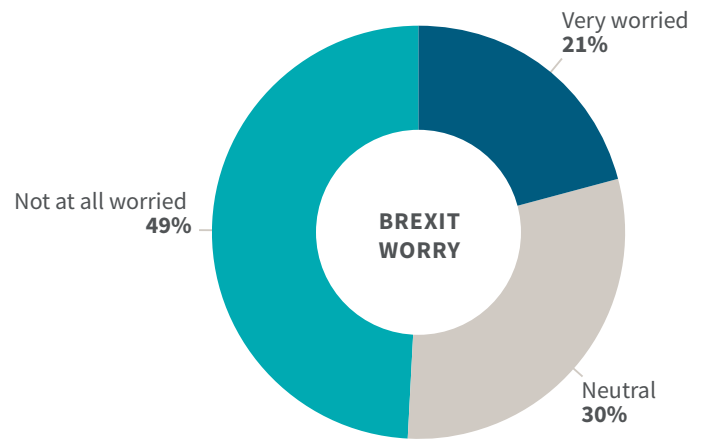
It might be surprising to note that 49% of companies are not worried about Brexit. Strong internal markets and uncertainty appear to be leading to inertia. For those who are worried, tariff's are the main concern. For SMEs in this sector, 84% of sales come from within ROI, 11% from NI and GB and 4% from the EU.



Exports and Brexit

EFFECTS OF BREXIT

On the whole, owners and managers are not worried about the effects of Brexit on their business. Lack of certainty and a strong ROI market is leading to inertia.



21% Very worried about Brexit.

49% Not worried about Brexit at all.



BREXIT ISSUES

With costs already rising in the last year. There is a worry that Brexit could further increase costs.

Key concerns

Increased costs and tariffs

35%

The potential hard border between the north and the south **12%**

Loss of sales in the UK **10%**

Transport disruption **6%**

Importing supplies **4%**

Regulatory changes - certification requirements etc. **3%**

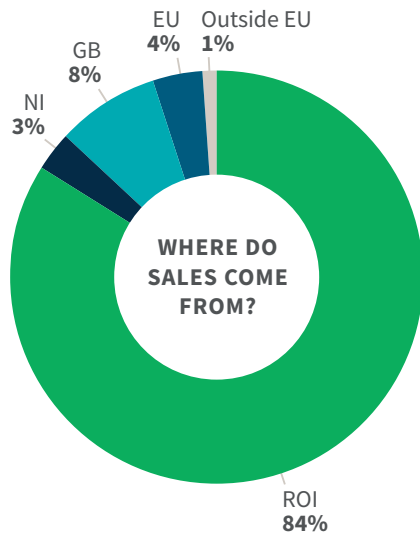
Decline in competitiveness in the UK market **2%**

Exchange rates **2%**

Downturn in the economy **2%**



Exports and Brexit



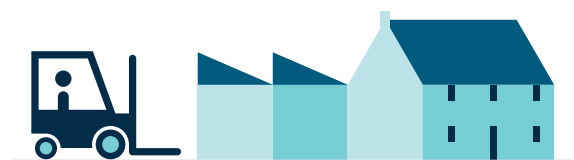
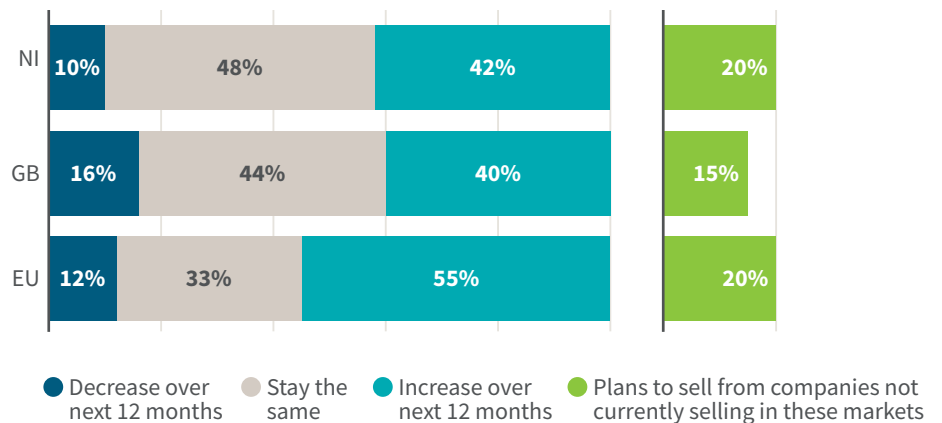
WHERE DO SALES COME FROM?

84%

of sales comes from within the Republic of Ireland.

EXPORT GEOGRAPHY

For those already selling in the EU, there is a propensity to increase selling in this region over the next 12 months, more so than in NI and GB.



EXPORT CONCERNS

Finding the right distributor is a key issue when selling outside of the ROI.

Key concerns

Finding the right distributor **26%**

Managing currency risk and volatility **20%**

Sales and Marketing **17%**

Supply chain **16%**

Developing a value proposition that works in the territory **15%**

Other **3%**

38%

have no interest selling outside of the ROI

IFAC ADVICE FOR BUSINESS OWNERS

SUPPLY CHAIN

Conduct a supply chain audit. Ensure you have looked at your supply chain to assess business impact including the impact of transport delays and tariff changes.

PREPARE FOR WORST CASE SCENARIO

Work with your accountant on sensitivity analysis for your business in a worst case scenario hard or no-deal Brexit.

OPPORTUNITY

Examine the opportunities to replace existing UK products in food retail in particular – there will be opportunities in a hard Brexit scenario for some indigenous food businesses.

ADEQUATE CAPITAL

Make sure you have adequate working capital for increased costs associated with duties, import VAT and additional administrative burdens, along with currency volatility.

TAXES

Work with your tax team to assess the impact of import taxes or other taxes from a hard Brexit.

PREPARE FOR INCREASED SHELF LIFE

For food companies, given the expectation of increased travel times due to delays in and out of the UK, investing in product development to extend shelf life or refining products to suit non-UK consumer tastes is important.

COOPETITION

Engage with your transport and logistics provider. Coopetition and groupage is a way to save money and needs to be investigated as do alternatives to the UK land bridge.

CURRENCY FLUCTUATION

As sterling continues to fluctuate ensure your exposure to negative changes is minimised by hedging, and where possible, invoicing and receiving payment in euros. For price sensitive products sterling changes will impact on competitiveness.

OPTIMISE COST BASES

The economy may slow down so make sure your cost base is optimised to deal with the difficulties this could cause.

DIVERSIFICATION

Continuing to work on new non-UK markets for your products and services is vital but be aware that the time and expertise it takes to build new substantial markets is significant.

ACCESS SUPPORTS

Finally, make use of the Brexit services available from the State including, Enterprise Ireland, Local Enterprise Board and Bord Bia, to equip yourself for the coming challenge.



3

People

With a positive year on the horizon, we asked respondents to tell us how the lack of a skilled workforce affects overall business performance.

28% of companies are looking to increase the size of their team. This is especially the case with bigger companies and those in the food sector. Despite the desire to recruit, finding suitable people to run companies is proving difficult with a lack of skilled candidates available. Companies report a noted lack of interest in roles. This suggests they may not be meeting the salary expectations of potential candidates and/or that competitors are proving more attractive.



People

RECRUITING

28%

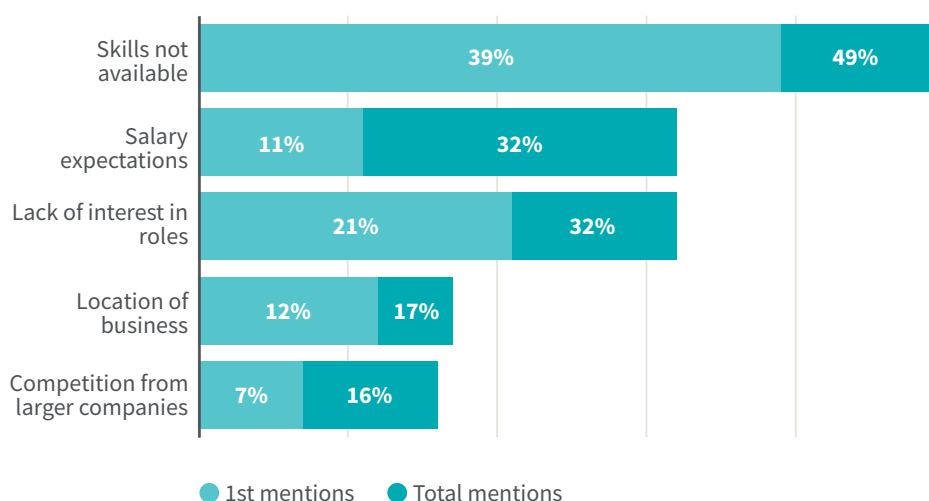
of companies expect to hire more staff in coming 12 months.

63%

expect it to somewhat or very difficult to recruit the right people.



Main reason behind difficulty



IFAC ADVICE FOR BUSINESS OWNERS

RETENTION

Look after your current team. Good people are hard to attract. This report highlights the importance of having an effective retention strategy.

LOCATION & LIFESTYLE

For companies operating outside the M50, your location can be presented as a real advantage. Living and working locally is ideal for work life balance and offers a lower cost of living.

WORKPLACE CULTURE

Try and ensure that your business is an attractive place to work. Develop a positive professional culture with good conditions for all your team.

REFERRALS

Incentivise your current team to refer potential team members to you.

FLEXIBLE WORK CONDITIONS

Look at flexible working conditions and pay appropriately to attract the right team.

SIZE

Competition from bigger companies will always be a challenge. However, by highlighting the opportunities of working as part of a smaller team you can compete. Advantages include, more personable environment, direct access to senior team and variety in the role.

KEEP – SHARE OPTION SCHEME

In some limited circumstances, the KEEP Scheme (Key Employee Engagement Programme) offers business owners the opportunity to include share based remuneration in a tax efficient way as a tool to retaining key staff. Changes are expected to this legislation which will make this scheme more attractive.

4

Digital development

With broadband an ongoing challenge for companies in the food and agribusiness sector, we asked respondents if they have adequate broadband connectivity and what they are doing to promote their business and sell online.

Only 28% have perfectly sufficient broadband for their needs.

Most (69%) are not e-commerce enabled and only 7% report that they do a lot of trading online. As customer habits change, it is important for food and agribusiness SMEs to position themselves to take advantage of the opportunities that arise.

62% of respondents see value in their social media presence.

While there is much talk of the demise of Facebook, it is still the most effective online platform for this sector.

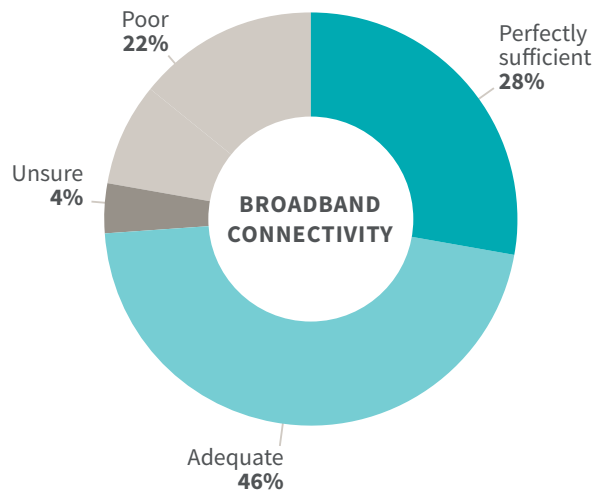


Digital development

BROADBAND CONNECTIVITY

28%

have perfectly sufficient broadband to carry out the work they need



Micro companies are less likely to have sufficient broadband

ONLINE SALES

7%

Trading and a lot of business being done

58%

of businesses have no plans to sell online.

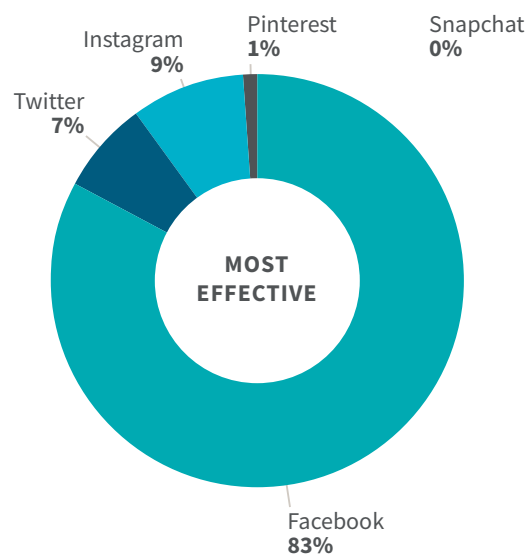
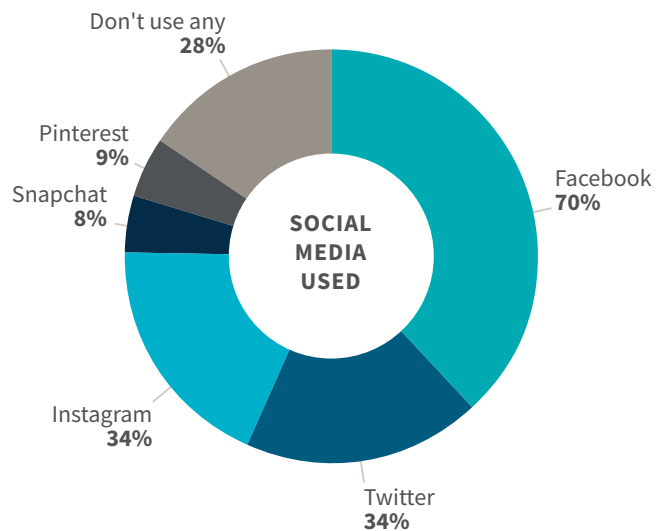
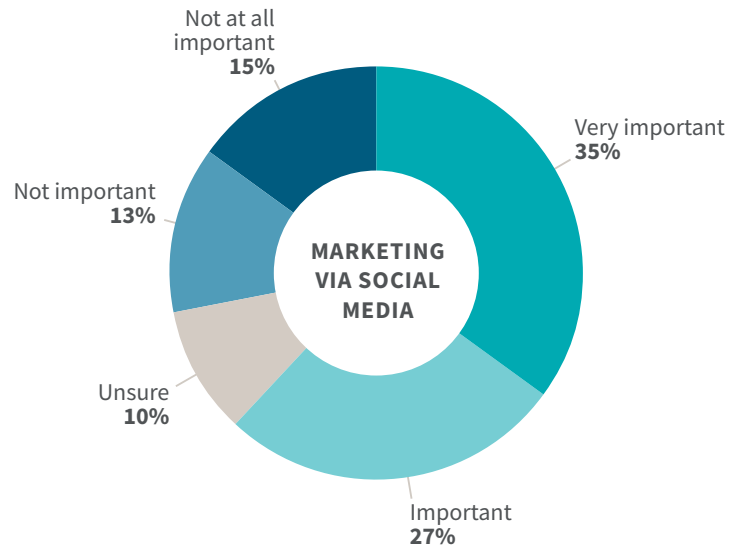


Digital development

SOCIAL MEDIA

62%

say social media is
important or very important
to their business.....



83%

believe Facebook
is the most
effective platform

IFAC ADVICE FOR BUSINESS OWNERS**NATIONAL BROADBAND PLAN**

Despite repeated delays on the roll-out of high-speed broadband across the country it is important that business owners keep pressure on the Government and their local TDs to implement the National Broadband Plan - without adequate broadband it will be difficult to maximise growth and innovation.

DIGITAL MARKETING

Examine how your customer is evolving and the role social media can play in your sales and marketing strategy.

E-COMMERCE

With online sales of €5bn in 2017, up 20% a year over the last three years, there are opportunities for food and agribusinesses to sell online and increase margin by selling directly to your customer. Maximising your own website by optimising SEO, offering convenience including next day delivery or no minimum orders all help to drive sales. Don't forget Amazon though – it can be transformational for your online sales. Finally, the Local Enterprise Office, through the Trading Online Voucher Scheme, provide €2,500 to micro and small businesses in matched funding to develop an e-commerce website and assist you to trade online.

LOCATE YOUR MARKET

Very few people don't have a digital life so it's important to spend time working out where your customers live online. A focus on Facebook is still most effective but a multi-platform approach is vital as user behaviour continues to evolve with younger demographics' heavy users of Instagram for example.

EXISTING MEDIA

Despite the impact of social media it would not make sense to ignore tried and trusted ways to drive sales and build your brand. Both print and radio continue to be proven mediums for many businesses.

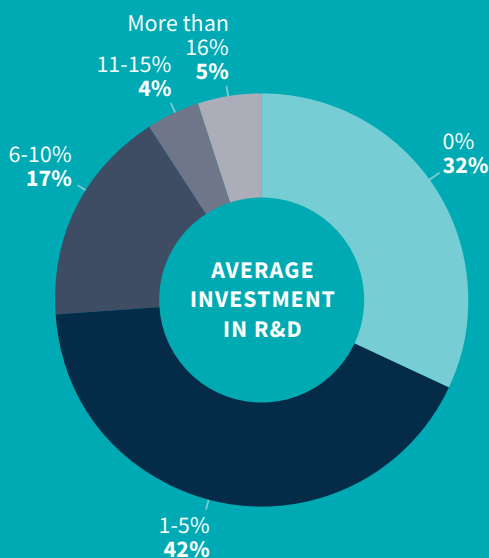


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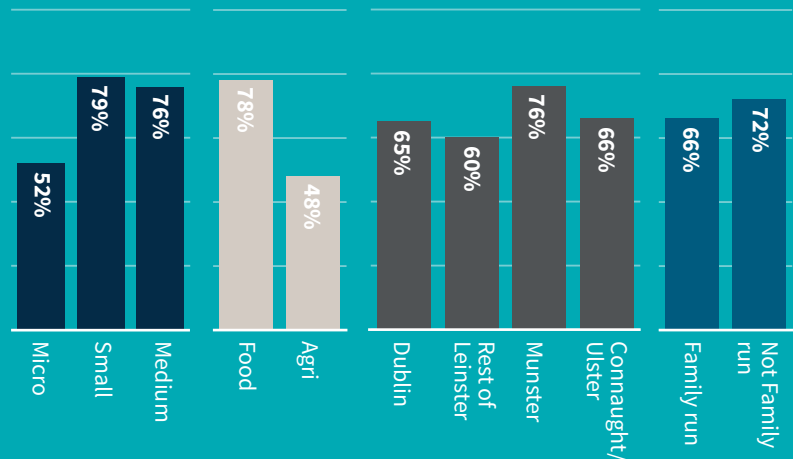
Research and development

R&D can pave the way for cost savings and increased efficiencies. We asked respondents how much they are investing in R&D?

We found that 32% do not invest currently. Small and medium-sized businesses are more likely to invest in R&D than micro enterprises.



Invested at least 1%



Research and development

Maximising your research and development claim



Robert Johnson,
Senior Tax
Consultant

The R&D Credit is one of the most valuable corporate tax credits available to companies, however directors, especially in small to medium businesses, often fail to maximise the benefit. Indeed, many do not claim R&D Credits at all due to the perceived difficulty and costs of making a claim.

Whether you are already claiming R&D credits or are thinking of doing so, it is worth considering the six Checklist questions set out below.

CHECKLIST

- 1 Have you documented your time and that of your employees who are working on the R&D project?
- 2 Have you documented all the costs, from raw materials, to labour, to overheads on the project?
- 3 Do you have a system in place to document these costs? Can you access real time information from this system?
- 4 Have you purposely built an office/building/laboratory for R&D purposes or for mixed use purposes with part of the building used for R&D purposes?
- 5 Is your business ownership structure set up to take advantage of reliefs (applicable if you have 2 or more companies in a trading group)?
- 6 Have you sought legal protections for the fruit of your R&D labour? Patents, plant breeder rights for example and have you documented the costs of doing so?

Important points to remember

- R&D is linked to technology, not products. Even if a product is later deemed unfeasible or undesirable, the costs incurred in developing it may still be allowable for the R&D Credit.
- Keep a checklist of the allowable costs.
- Document all projects, no matter how big or small, and whether there was a scientific or other problem which required R&D to solve.
- If a project does not involve a technological obstacle to overcome, then it is unlikely that it is a R&D project.
- R&D into improving production/waste/ etc. processes in your factory can be allowable too.
- Most Revenue clawbacks of the R&D credit are due to poor record keeping. Make sure you have a strong system in place to document everything.

Don't forget if you earn income from a patent or other legally protected IP which was developed and required R&D to develop you could potentially avail of a reduced CT rate of 6.25% on this income using Knowledge Development Box (KDB) reliefs.

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What is an R&D Tax Credit?

An R&D Tax Credit is an additional tax credit equalling 25% of the relevant R&D costs of a company.

6

Succession

Whilst your business can live on forever, unfortunately you will not. We asked respondents if they have taken any steps to plan for the succession of their business.

As company size increases, succession planning is more likely to be on the agenda however, regardless of size, all businesses should give some thought to what will happen if/when the time comes for the present owners to exit.

A significant majority (80%) of businesses are family run and many are lifestyle businesses where selling is not on the agenda. Indeed, with 54% having turnover below €1m, the value that could be realised is limited.

While half of respondents do not plan to sell their business, 4 in 10 would consider doing so in the next 5 years. Willingness to sell is highest among medium-sized food businesses that are not family run.

Succession

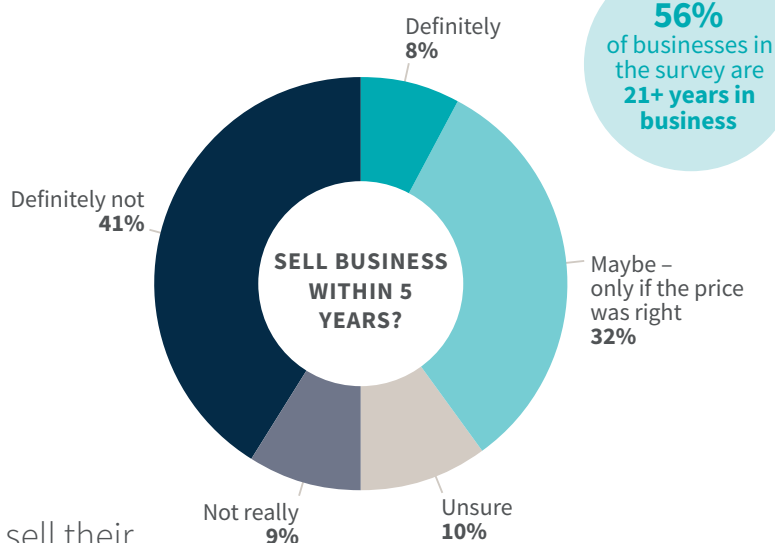
THINKING OF SELLING?

8%

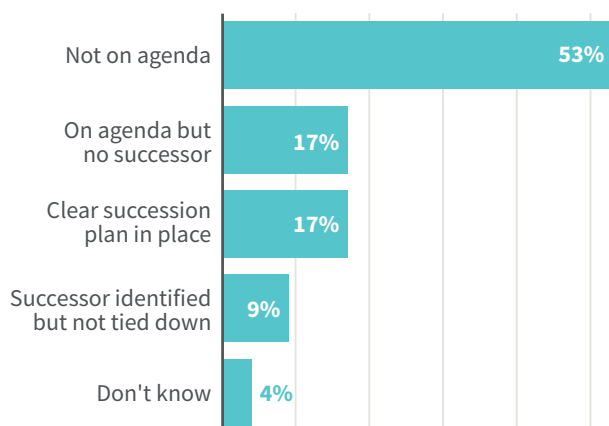
would definitely sell their business in next 5 years

40%

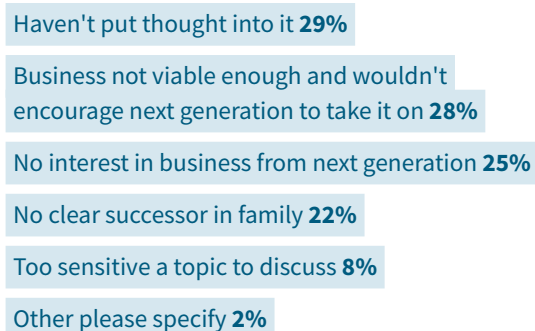
would or might sell their business in next 5 years



SUCCESSION PLANNING



The challenges with succession planning in an Irish food and agribusiness?



IFAC ADVICE FOR BUSINESS OWNERS

PUT A PLAN IN PLACE

In a family situation, it is vital to discuss and agree on the future of the business taking into account the wishes and needs of all family members.

INVOLVE ALL SHAREHOLDERS

Likewise where other shareholders are involved a conversation needs to happen and a plan put in place.

ASSETS

Where a level of assets has built up in the business, succession planning is essential. Retirement, illness or new opportunities can necessitate handing over assets sooner than might otherwise have been intended.

TIMESCALE

Giving yourself a 7-10 year window will allow you to take advantage of the various reliefs and tax planning opportunities available.

PUT A TAX PLAN IN PLACE

After you get a valuation of the business a comprehensive tax plan will need to be put in place covering Income Tax, Corporation Tax, Stamp Duty, Capital Taxes for the company and the individual.

NO SUCCESSOR?

Where assets have accumulated and you do not have a successor, consideration should be given to the sale of the business or accessing the asset value through salary payments, pension contributions and a retirement lump sum.

Business Succession Planning



Early planning is essential if you want to extract cash from your business in a tax-efficient manner, explains, Declan McEvoy, *ifac's* Head of Tax.

At a minimum, you should be looking at a

7-10
year plan...

Business Succession Planning doesn't always mean retirement. It could mean onward sale.

Retirement is not the only reason why you might need to extract cash from your business. Unexpected opportunities, illness or family circumstances can all trigger an earlier exit from your business than you might otherwise have planned. Whatever the circumstances, if assets have built up, you will need to decide how best to extract them to fund your future plans.

The earlier you think about this, the better. At a minimum, you should be looking at a 7-10 year plan which will allow you to take advantage of the various reliefs and tax planning opportunities available.

Value

When you are contemplating any kind of transaction involving your business, you need to know what it is worth. Businesses are usually valued using an income approach. Low income businesses will have a lower value than similar-sized businesses with higher margins so optimising your business well in advance is the key to enhancing its value.

Business Structure

Your options for extracting cash will depend on your business structure. A sole trader contemplating retirement might plan to sell the business or bring in a partner to take over in due course. For a partnership or company, the strategy might be to sell your share of the business to your co-owners or partners. Where there is no cash in the company but the company is profitable, the company may be able to raise finance to buy you out.

Whatever the structure and circumstances, a comprehensive tax plan will need to be put in place covering Income Tax, Corporation Tax, Stamp Duty, Capital Taxes

for the company and the individual, and VAT. It is vital to seek professional tax advice as the decisions you make will have far-reaching consequences for your personal financial security as well as for your business.

No Successor

Depending on how your business is structured, where assets have built up and you do not have a successor, your options to access these resources potentially include running down reserves through salary payments, pension contributions and a retirement lump sum. You may also consider withdrawing the balance of any director's loan due to you, a termination payment of up to €20,000 plus €765 for each year of service, or even voluntary liquidation.

Successor

Where there is a successor, it is likely that assets will not be taken out of the company. Instead, your shares in the company will be passed to your successor. In this scenario, you will need to consider how much you require for the shares you are passing on. Do you want a lump sum? If so, how much?

Capital Taxes

If your exit strategy involves selling the business, or selling your share in the business, capital taxes will need to be considered.

Capital Gains Tax (CGT) is a tax on any gain that you make when you dispose of an asset. CGT is currently charged at a rate of 33 percent. You can offset a capital gain against a capital loss incurred in the same year – or in previous years if the loss has not already been offset against a subsequent gain.

Capital Acquisitions Tax (CAT) is a tax on gifts and inheritances. You may receive gifts and inheritances up to a set value over your lifetime before having to pay CAT. Once due,

CAT is charged at the rate of 33 percent. An important point to keep in mind is that if your business is sold or transferred under value to a person connected to you, there may be CAT implications.

Various reliefs are available that can minimise your exposure to capital taxes. You might apply for Entrepreneur Relief if you are selling to invest in a new venture, however Retirement Relief could be a better option if you are planning to retire or pass on the business to a successor.

Entrepreneur Relief

Under Entrepreneur Relief, a 10 percent rate of CGT applies in respect of the chargeable gain on disposal of qualifying business assets on or after 1 January 2017 up to a lifetime limit of €1m. Gains greater than €1 million are still charged at the Capital Gains Tax rate of 33 percent.

A qualifying business is a business other than the holding of securities or other assets as investments, the holding of development land or the development or letting of land. The relief applies to individuals only.

To qualify for entrepreneur relief, you must be a director and/or employee of the business and spend at least 50 percent of your working time in a managerial or technical capacity for a continuous period of three out of the last five years prior to the disposal.

Retirement Relief

If you are 55 or older, you may be able to claim Capital Gains Tax relief when disposing of any part of your business. Although this is referred to as Retirement Relief, you do not need to retire from the business or farming in order to qualify. There are two types of retirement relief. The first type applies when you pass your business on to your child, favourite nephew

or niece, or foster child. Capital gains can be fully relieved if you are aged under 66 at the time of disposal. While there is no limit on the value of business assets that can be passed tax-free to your child in this way if you are under 66, a limit of €3,000,000 applies thereafter. Consequently, it's important not to delay if you plan to avail of this relief.

The second type of retirement relief applies when you dispose of your business to a person other than your child. In this instance, if you are aged under 66, the gain can be fully relieved provided that the proceeds of the disposal do not exceed €750,000. This limit is reduced to €500,000 if you are over 66. Where the disposal proceeds exceed the limit, marginal relief may be available. It's important to be aware that the limits are lifetime limits per individual.

The two types of retirement relief operate independently. So, if you had two separate businesses you could claim both. For example, you might pass your first business on to a family member but sell your second business to another person.

Conclusion

When contemplating exiting your business, the importance of planning cannot be overstated. It is never too early to start. Certainly, by the time you reach 50, you should be putting in place structures to minimise tax on the future sale or transfer of your business. Keep in mind that factors such as age, value held in the company and how long the company has been trading can all have tax consequences. As is always the case in tax matters, obtaining professional advice will help you achieve the optimum outcome.

#ifacReport

Keep in mind that factors such as age, value held in the company and how long the company has been trading can all have tax consequences

Comparisons and contrasts

There are some differences and some similarities in the results between food and agribusinesses. Here are some of the key comparisons and contrasts.

OUTLOOK

Looking at the year ahead, food businesses are slightly more optimistic than agribusinesses.

Levels of optimism increase with company size, as does the likelihood of employing more staff in the next 12 months.

RECRUITMENT

In line with their greater sense of optimism, food companies are more likely than agribusinesses to be increasing their staff numbers. However, both sectors are currently experiencing difficulty recruiting people to run their business. The biggest issue is lack of available skills. Salary expectations are a greater challenge in the food sector where new recruits tend to expect higher pay.

Medium-sized companies, and to a lesser extent, small companies find it most difficult to recruit the people they need to run their business.

The issue of salary expectations heightens as company size grows. Candidates seeking jobs in bigger companies typically expect higher salaries.

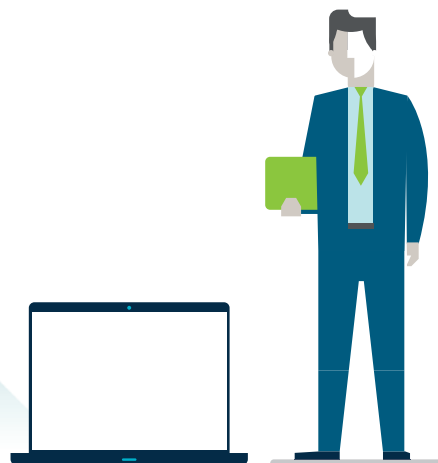
Medium-sized companies are the most likely to have issues regarding a lack of interest in roles. Location is also more of an issue for medium sized companies than for micro and small.

MARGINS

A more positive outlook for the year ahead in the food sector may be related to these businesses being more likely to have experienced increased turnover in the past 12 months than their agribusiness peers. However, food businesses are also more likely to have incurred an increase in the cost of sales. When it comes to managing the business, both sectors are likely to have difficulty maintaining margins.

The bigger the company, the more likely that business turnover increased in the last 12 months. However, cost of sales also increased with company size.

Difficultly maintaining margins increases with company size. Managing staff is more of an issue for medium sized firms while generating sales and dealing with increased customer expectation is most challenging for small companies.





R & D

Companies involved in the food sector are more likely to invest in R&D.

Small and medium sized companies are most likely to invest in R&D, with almost half of micro firms not investing anything in R&D.

FINANCE AND FUNDING

Both sectors are equally as likely to apply for bank funding and enjoy similar success rates.

They are also equally as likely to use personal savings but those in the food sector are more likely to source finance from state grants.

Small companies are most likely to have tried to access finance in the past 12 months, however they also found the process the most difficult. The majority of those who applied were successful across all company sizes.

Micro companies are most likely to use personal savings as a source of finance, while medium-sized companies are more likely than others to get finance from private investment.

SUCCESSION

Food companies have a greater propensity to sell in the next five years than agribusinesses. This may be linked to the fact that a greater percentage of agribusinesses are family run.

As company size increases so does the likelihood of considering selling the business in the next five years.

While only 24% of larger companies have a clear succession plan in place, they are more prepared than micro and small companies.

BROADBAND AND DIGITAL MARKETING

Food businesses are more likely to have better broadband and to trade online. Social media is also of greater importance in the marketing efforts of these companies.

Medium-sized companies have the most sufficient broadband while small and medium-sized companies are most likely to trade online.

Social media is equally as important to small and medium sized companies, less so for micro. Facebook is the most popular channel and medium sized companies are most likely to find it effective while Twitter and Instagram are used more often in small and medium companies and less so in micro companies.



Sound advice, independent solutions

Whether you're looking to access funding, export to new markets or seize on a new opportunity – our approach means that we have the expertise and access to independent advice at every stage.

Our process

We want to know what matters most to you. No one knows your food or agribusiness better, so by listening to you, we gain a deep understanding of your business, your challenges and your ambitions.

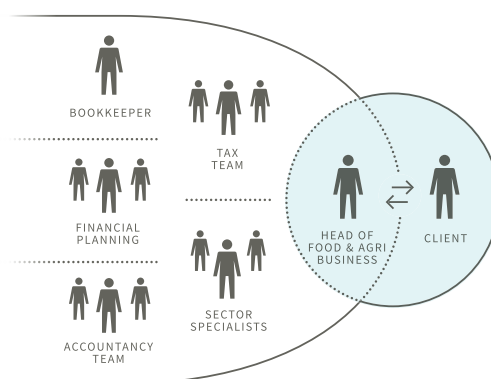
Building on this deep foundation and knowledge of your plans, we draw on our financial and sectoral expertise to help you make informed commercial decisions. Your insight will show us where you are now and our experience will guide you to where you want to be.

Our approach means that each client has access to a national team of experts with the knowledge and skillsets to help your business grow. We have significant expertise in tax, accounting, audit and financial services. This is combined with our

commercial, digital and food and agribusiness know-how as well as deep farming knowledge.

Our flexible approach means we regularly take the time to check in with you. We can routinely track, monitor and review performance and work with you to make adjustments when necessary, giving you the confidence and continuity to grow within an ever changing landscape.

Our process of ongoing monitoring and support means that your business is always one step ahead.



OUR APPROACH

ifac's Head of Food & AgriBusiness is the first point of contact between you, the local team and our national service and sector specialists. This approach ensures you have access to the right knowledge and specialist advice that best suit the needs of your enterprise.

We specialise in a number of key areas which provide you with expert advice and services to help your business grow.



Strategic Management

We bring multiple perspectives and competencies to your strategic planning process. We work closely with the leadership team to plot the right path for your business.



Funding & Corporate Finance

Whether it's peer-to-peer lending, bank finance, equity investors, funding from Enterprise Ireland, LEO or Intertrade Ireland or an EIS we have experience to help you navigate your way to success.



Tax Structuring, Succession and Advisory

Our specialist tax team ensure your corporate structure works for your business and operates in the most tax efficient manner. Our significant succession planning experience helps family owned businesses navigate this challenge from start to finish.



Research & Development

When you invest in R&D we are there to ensure you claim your R&D tax credits or avail of Knowledge Development Box relief. Careful planning, preparation and documentation are needed.



Commercial Management

We bring extensive experience and commercial knowledge from sales and marketing to digital development, e-commerce, export and distribution.



Management Accounting

We bring disciplined financial management from both a revenue and cost perspective, variance analysis and margin for each line of business.



Audit

Our Audit team conduct external and statutory audits and collaborate with you to add value to your business by identifying problems and highlighting opportunities to improve.



Financial Planning

Managing and looking after the wealth and succession plans of directors and founders.



Payroll

As PAYE modernisation is introduced, our payroll team will ensure accurate and compliant payroll management.



Making Connections

After 40 years in the farming and agribusiness sector the ifac team have unrivalled contacts and connections.



SECTOR SPECIALIST

David Leydon

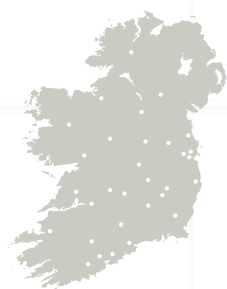
Head of Food & AgriBusiness

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We're here to help



Leinster

Bluebell, Dublin 12
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 Drogheda, Co. Louth
 Enniscorthy, Co. Wexford
 Kilkenny, Co. Kilkenny
 Kilkenny SME, Co. Kilkenny
 Lucan, Co. Dublin
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