Crowe

Leadership insights

Smart decisions. Lasting value.

Crowe collaborates with Ireland's business leaders to share their expertise

Inside this publication we bring together a wide range of advice and views from some of Ireland's top business people, along with practical guidance and observations from Crowe's practice leaders.

This series of articles is directed towards small- and medium-sized enterprises, which have always been a key focus for Crowe. SMEs form the backbone of the Irish economy and for over 75 years we have provided strategic financial advice to business owners, enabling them to meet their personal and business goals.

We have collaborated with eight of Ireland's most respected business leaders to bring you their thoughts on the opportunities and challenges facing business owners in today's increasingly complex business environment. Each reveals their personal experience and unique perspective on the factors required to maximise the potential of a business.

Our contributors, who come from a range of business sectors, have a wealth of experience and a keen understanding of the Irish business environment. Their backgrounds may be varied, but their insights cover many topical themes such as:

- Funding growth
- Scaling a business
- Internationalisation
- Developing a brand
- Building business value
- Buying and selling businesses
- Managing a family business
- Attracting and retaining talent

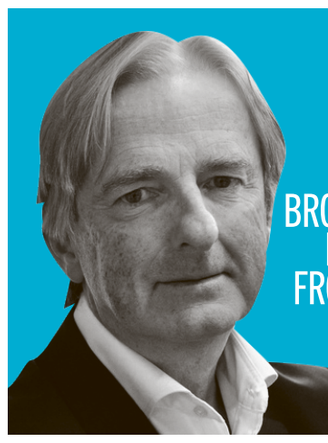
We wish to sincerely thank Bob Etchingham, Michael Holland, Caroline Keeling, Patrick Kennedy, Gary Lavin, Bob Lee, John Moore and Brody Sweeney for giving their time so willingly and for sharing their personal stories.

We hope that Crowe's *Leadership Insights* provides you with the insight and inspiration to help you on your personal journey to success.

We help business owners make smarter decisions today that create lasting value for tomorrow.

Smart decisions. Lasting value.

Naoise Cosgrove,
Managing Partner, Crowe.



Witness the fitness The VitHit brand journey

VitHit founder Gary Lavin talks to Crowe partner *Clodagh O'Brien* about early regrets, brand integrity and the importance of perseverance along the road to global success.

5 DIGITAL MARKETING TIPS

If your customers are online, then your business needs to be online. Here are five tips for companies looking to develop and implement a digital marketing strategy:

CHOOSE THE RIGHT ONLINE CHANNELS FOR YOUR TARGET AUDIENCE

Over 90% of Irish adults have a presence on at least one social media account. Research where your customers are online and what they use the different channels for, and make sure you're there.

MAP THE CUSTOMER JOURNEY

A clear understanding of your typical customer journey will show how they progress through the sales funnel – from initial awareness through to purchase and on to retention. Then design messaging that is relevant to each stage in their decision-making path and map it against the relevant online channels.

CREATE AN ADAPTABLE DIGITAL MARKETING STRATEGY

Given the evolving nature of digitalmarketing, with many new trends, tools, techniques and platforms emerging on a regular basis, your digital marketing strategy should be as flexible as possible to allow for these new opportunities.

SET GOALS, ASSIGN TARGETS, TRACK ACTIVITY AND MEASURE PERFORMANCE

A key benefit of digital media lies in its accountability. Clear performance metrics and KPIs need to be outlined and activity tracked and measured against these targets so you can see what is or isn't working well and adjust accordingly.

RESOURCE ADEQUATELY

In order to create and implement a successful digital marketing strategy, you will require investment in terms of staffing, time and financial resources. Depending on the size of your business, the resources available and the level of online marketing activity planned, you may require a dedicated person or even a team.

American business magnate and former politician Ross Perot once said, "Most people give up just as they are about to succeed." A mantra that without one stubborn entrepreneur's inherent self-belief could have held true for VitHit, a drinks brand that hit 20 million sales across more than 15 countries worldwide during 2018.

"I've had a lot of pitfalls, lost a lot of money," begins beverage entrepreneur Gary Lavin. "I walked into a lot of walls, got bruised and battered. I failed so many times, but I just didn't give up."

A professional rugby player with a knowledge of nutrition and wellbeing, Lavin was forced to look for an alternative line of work after suffering a career-ending injury at the age of 24. Lavin was quick to understand the importance of reducing the body's intake of sugar, and so his concept for a nutritionally viable vitamin drink was born.

He traces his idea for Vits (it was later rebranded to VitHit) back to a gym in 1999. "I was on a treadmill and this guy who was running beside me got off and started drinking a Powerade," explains Lavin. "I thought, 'My God, does he know there's 28 grams of sugar in that drink and your body can only burn 25 grams of sugar a day?' And then I came to the realisation that perhaps everyone was unaware of this type of nutritional information."

> I'VE HAD A LOT OF PITFALLS, LOST A LOT OF MONEY. I WALKED INTO A LOT OF WALLS, GOT BRUISED AND BATTERED. I FAILED MANY TIMES, I JUST DIDN'T ACTUALLY GIVE UP

The trailblazer was ahead of the curve in realising that sugar, rather than fat, was the key cause of obesity – a notion that has only become widespread, certainly across the mass media, in recent times. Armed with a vision for how his vitamin drink should both look and taste, Lavin set about creating his brand. "I wanted the product to look as good as, if not better than all the competition out there. I wanted the product to be clean, inside and out."

The challenges of setting up a successful early-stage business quickly dawned on Lavin, however. After several years of poor sales, he realised that some tough decisions needed to be made if closure was to be avoided.

Market research was an expensive and unrealistic option for the company at this time, but Lavin shrewdly enlisted an informal college focus group to gauge public opinion of the brand. The quick realisation was that consumers associated the name "Vits" with a German product. The brand name became the starting point: Vits became VitHit, and sales soon grew by 30%.

Lavin knew he was on to something, but felt more work was needed to improve the visual aspect of the product. After discovering what he believed was the ideal bottle design to take the brand to the next level, Lavin moved manufacturing from Limerick to the UK. With a limited budget to spend on advertising and promotion, the brand had to concisely grab the attention of the consumer in an already cluttered marketplace. Lavin commissioned the skills of a talented, as well as modestly priced, student to improve the product labelling with a design that is still broadly in place today, albeit with a few small changes over the years.

Gary Lavin, above, founder of VitHit drinks brand.

THIRSTY WORK

VitHit is a range of low-calorie, low-sugar drinks containing water, juice, teas and vitamins. The company sold 20 million bottles during 2018 and is positioned in more than 15 countries worldwide. With a growth rate of 35% per annum, VitHit is the fastest-selling functional drinks brand in the UK and the market leader in Ireland.

BRAND NEW OUTLOOK

A key strength of the VitHit brand is its name, which sums up exactly what the brand will deliver. "We always try to be simple and direct. The secondary message consumers pick up from the label is another USP for VitHit – its low sugar and calorie count – something retailers have been eager to jump on," Lavin says.

The Irish drinks sensation believes in setting ambitious targets for his team. An example of this ambition was seen in his approach to an initial listing with Tesco UK. Frustrated with where the product was physically placed within stores, he took matters into his own hands. Using what he refers to as "a mixture of charm and bribery" (mainly in the form of some free cases of product) Lavin convinced about 50 individual managers to move his product to the front fridges. His persistence paid dividends, as VitHit became one of the top five best-selling products out of nearly 50 competitor brands over the resulting weeks.

Lavin passionately believes that the brand name and its supporting elements are the most important assets. "The VitHit brand is copyright-registered in multiple territories," he says. "People have tried several times to create copycats, so protecting your brand is vitally important. You have to have a love and belief in your brand; you've got to defend it with your life."

STRENGTHS AND WEAKNESSES

When asked if he regrets any of his early decisions, Lavin admits that one mistake was pushing the brand into too many markets before it was ready. "It's important to set a stake in Ireland first – get yourself set up and profitable here. Getting proof of concept in Ireland makes it easier when looking to set up elsewhere. If you can sell drinks in this weather, you can sell them anywhere!"

Looking at the present, he recognises that VitHit is too dependent on the northern hemisphere markets. Sales in winter can drop as much as 35% and the ambition of the company is to establish in more southern hemisphere markets to compensate for that seasonal cycle. "It's all about making connections, going back again and again and doing the right trade shows," he explains. "Any barrier can be overcome. If you want something bad enough, you'll work hard for it. There's always ways to get things done."

Interestingly, VitHit has no plans to develop new products at the moment, with the primary focus on expanding to new countries rather than attempting to extend the product range. Lavin believes firms should focus on what they are good at. "Rather than spending 90% of your time coming up with new brands, spend 90% of your time on what you do really well," he says. "One of my strengths is knowing my weaknesses. Therefore, I'd advise early-stage businesses to hire skilled staff to concentrate on certain areas where you may struggle."

> RATHER THAN SPENDING 90% OF YOUR TIME COMING UP WITH NEW BRANDS, SPEND 90% OF YOUR TIME ON WHAT YOU DO REALLY WELL

THE SOCIAL NETWORK

Like any modern brand, the team at VitHit keep abreast of the latest influences and trends in the social media space. After struggling initially with its online presence, the brand's reputation has grown steadily since finding the right channels and social partner. Lavin comments: "Instagram is hugely influential in the food and beverage sector and we find it the most cost-effective social option for our brand to reach a wide audience, and it delivers a stronger brand recall than other channels."

With a current growth rate of 35% per annum, VitHit is the fastest-selling functional drinks brand in the UK and the market leader in Ireland. With a well-justified belief in the strength of his brand, Lavin has further ambitions to become the strongest brand in the global functional drinks market. No longer bruised and battered, VitHit's triumphant founder is now reaping the rewards thanks to an overwhelming sense of determination and a belief in his own ability.

Clodagh O'Brien
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Clodagh has extensive experience developing online and offline marketing stratey, organisational development, business planning and innovation for a wide range of clients.

The Irish banking environment has changed considerably as the economy has emerged from the recession. Greater concentration in the banking sector means that SMEs have less choice and must prepare better and work harder when it comes to applying for funding. With this in mind *Andrew Whitty*, partner with Crowe's tax department, outlines the key criteria banks use when assessing loan applications.

The five considerations for SME loan applications

CONDITIONS. CHARACTER. CAPITAL. CAPACITY. COLLATERAL.

Access to investment and working capital is a key concern for SMEs. Banks look carefully before they lend money and a high level of financial sophistication and time investment from SME companies is essential when navigating the application process. They traditionally assess loan applications based off five primary factors – the "Five Cs": Character, Capital, Capacity, Collateral and Conditions.

CHARACTER

Ownership structure: A clearly defined group structure outlining the ownership and corporate constitution is a critical starting point in understanding the composition of the business.

Track record: Tell your story and highlight the key milestones of your successes. Demonstrate your ability to produce a well-positioned product together with the competence and business acumen to deliver profits.

Management team & organisational structure: Include biographies of the organisation's key people and their business experience. Consider what safeguards are in place to protect against loss of critical team members.

Culture: Articulate your business culture and the measures you take to protect and enforce the organisation's integrity. This will ultimately feed into the bank's risk assessment.

CAPITAL

Purpose: How much capital is needed and how will it be used? Do you need a short-term working capital facility (overdraft / invoice discounting) or are you looking to finance a long-term asset (term loan)?

The debt structure and loan term will vary depending on use of funds and the risks involved. Consider these risks and assess the cash flows.

Amount of capital needed: Do your research and prudently estimate the amount of capital required. There is little point in underestimating the funds needed and falling short because of overly ambitious estimates. Ultimately it will impact your credibility and limit your ability to achieve your goals with the funds raised.

Equity input: Be clear on how much equity you can bring to the deal. Each lender will have restrictions on maximum levels of funding subject to sector or product parameters.

Leverage: Every sector and business operates under its own prevail§vving conditions and nuances. Lenders will assess the business based on customers and competition and determine the level of debt leverage based off that information.

CAPACITY

Trading history: Historical financials should be easily interpreted to provide clarity on the cash-generation cycle. Consideration should be given to financial metrics that link audited accounts to operational performance.

Current trading: It is critical to demonstrate that quality management reporting systems are in place that report up-to-date performance to bridge the gap between audit year-ends.

Borrower commitments: Provide transparency on terms, conditions and repayment obligations of any existing debt or loan agreements. Pre-existing debt will impact a lender's view on available cash flows.

Projected performance: Comprehensive financial projections need to reflect any potential risks and demonstrate capacity to cover repayment schedules. Consider introducing sensitivity analysis to cover all eventualities, but most importantly, bridge current and future performance with detailed assumptions.

Debt Service Cover (DSC) / Interest Cover (IC): A strong loan application will demonstrate sufficient "headroom" to cover DSC / IC ratios. In simple terms, free cash flow must exceed scheduled loan repayments.

COLLATERAL

Security: What is available to the lender to mitigate the risk of loan default? At its most basic this is about defining what can be pledged to protect the lender if a loan is not repaid. Security will be tailored subject to the type of loan and can range from personal guarantees to a charge over specific assets.

Loan to Value (LTV): Specific to property assets, LTV is a risk measurement that quickly illustrates the level of security cover relative to the level of debt. LTV is calculated on the open-market value of an asset (prepared by an independent valuer). The location and type of property will determine the maximum LTV threshold for a particular asset. Lenders will consider the LTV on drawdown but also set residual LTV targets in line with the loan amortisation profile.

Pricing and rates: Well-secured loans reduce lender risk and this will be reflected in interest rates and pricing. Quality liquid asset security will attract lower interest rates whilst loans against unsecured cash flow will command more expensive pricing (and shorter terms!).

Covenants: Borrowers will need to be mindful of continuing to satisfy covenants on leverage and repayment cover on a continuing basis. In certain circumstances, third-party or shareholders' loans may be subordinated or capital expenditure levels may be restricted to agreed levels.

CONDITIONS

Customers: Consider your customer base and the spread of revenues across your service / product base. What are your standard payment terms and how do you mitigate working capital lock-up (for example, extension of supplier credit terms)?

A strong line of "blue chip" business with one customer gives visibility on good quality earnings and can act as a reference point for other customers. But equally, business owners should be mindful of the pitfalls of customer concentration, so it's essential to demonstrate the factors that protect against loss of key customers.

Suppliers: Think carefully about your key suppliers and the factors and risks impacting their business. A well-managed SME appreciates the importance of preserving a key supplier relationship but also avoids becoming dependent on a third party. Understand your supplier terms and maximise these whilst making sure you pay on time.

Competitors: Know your competition and track their service / product development. Articulate the key differentiator that drives your business success.

Market: What macro-economic and/or political factors influence your business – such as the impact of Brexit on your customer or supply chain? An accomplished SME understands the legislative and regulatory changes that will impact its business model – so identify and understand the risks and threats and communicate the mitigants for your business.

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Andrew has extensive experience providing tax advice and strategic support to a broad range of the firm's national and international clients.

BUILDING YOUR BRAND

Branding for SMEs is often something that isn't a primary focus, but needs to be. "We believe that branding is at the centre of everything that you do," says Clodagh O'Brien, a partner with Crowe's consulting department. "The best brands are relevant, coherent, consistent and maintain a continual focus."

BRAND PLATFORM

Your brand platform comprises the key building blocks for your brand strategy and positioning. It outlines the essential traits of your product or service which will inform all marketing decisions for the future. Key to your platform is your brand's personality. Business owners need to think about what kind of personality their brand embodies. It will influence your tone of voice and the language you use in messaging. Are you serious or fun? More expert or irreverent?

Brand values are also central to your brand platform. They should reflect your organisational values – the core behavioural traits of your business. As O'Brien says, "Everybody stands for something and every business stands for something."

BRAND POSITIONING

Brand positioning is about how you compare to your competitors, and what your value proposition is. "What are the emotional and rational benefits that people get from using or interacting with your product or service?" asks O'Brien. Often when differentiating yourself, it's about what you're not as much as what you are.

BRAND IDENTITY

How you want to look to your target audience is a significant part of bringing your brand to life. This can often be a starting point for consumers to differentiate between brands but can fall empty without clear brand positioning and a solid brand platform in place.

TARGET AUDIENCE

A deep understanding of your brand will help you understand your target market. Most brands will have a wide range of audiences but it is important to focus on a bullseye audience. It is also important to consider how your brand connects with key decision-makers along the journey to the end consumer. For example, in the case of FMCG brands, that could be distributors or buyers – so how well does your brand align with theirs?

MESSAGING

Modern brands come to life through storytelling. Strong brands are adept at telling a story that resonates and connects (emotionally and rationally) with their target audience. In messaging to your target audience think, "How can I bring my story to life in a way that will motivate them to purchase my product or service?"

COMMUNICATION CHANNELS

When identifying a communication channel, find out where your target audience go to find information and why they choose the particular channels they do. Certain channels work for certain audiences and some channels are better than others for different tasks or at different times. For example, outdoor and print work well for brand recognition, radio works better for creating an emotional connection with an audience and digital can be very strong for direct response.

CUSTOMER ENGAGEMENT

Today's successful consumer brands develop an interactive communications approach that gives customers the chance to review, respond and engage with the brand. Strong brands recognise the importance of creating a dialogue with their customers.

EMPLOYEE ENGAGEMENT

An important element at the moment is recruitment and attracting the right kind of person who will live and define your brand. O'Brien says, "Active employee engagement ensures that there is coherent messaging and behaviour every single time a customer or potential customer interacts with the business."

Pitch perfect

SME funding strategies

In an interview with Crowe's managing partner *Naoise Cosgrove*, 3D4Medical's John Moore imparts sound strategic advice for SME businesses on the lookout for investment.

With over 30 years' experience leading successful start-up companies, John Moore, founder and CEO of 3D4Medical, has built his software company from the ground up to become the world's most successful producer of medical technology apps and platforms.

Moore acknowledges that the firm's road to success has been, at times, a rocky one and offers some practical information on how small businesses should seek investment. "Potential lenders or investors will focus on the core management team as the primary engine to the business, so it is important to be well-prepared and put your best foot forward," says Moore. "To succeed in any capacity with your business, a great pitch is necessary. Know exactly how to explain your business in each situation – you would be surprised at how many people I've seen who really don't know how to put across their business idea in a succinct way."

> TO SUCCEED IN ANY CAPACITY WITH YOUR BUSINESS, A GREAT PITCH IS NECESSARY

INSIDE OUT

3D4Medical is the world's most successful producer of medical technology apps and platforms. It has reinvented the way students learn anatomy and allows medical practitioners to engage with patients through a truly interactive interface. The firm's award-winning software has been featured on-stage at Apple and Microsoft events and is used daily in universities and clinical organisations around the world.

THE BUSINESS MODEL

In the early days of looking for funding, Moore knew how critical it was to demonstrate to investors that the business was viable.

Irish lenders did not understand the software market, their comfort zone was bricks and mortar businesses. "It became very clear that even if you had the best idea and the best software in the world, it's really not very useful unless you have a proven business model," he states. "Getting one or two deals over the line to show that it actually works will make your company worth ten times as much. That type of proof will get an investor excited."

> GETTING ONE OR TWO DEALS OVER THE LINE TO SHOW THAT IT ACTUALLY WORKS WILL MAKE YOUR COMPANY WORTH TEN TIMES AS MUCH

In 1997, after returning from spending time in the US, Moore set up a software business which created medical training software that used 3D technology, something that was unheard of at the time. After trying unsuccessfully to raise finance in Ireland, he spent two months in the UK meeting with pharmaceutical companies and seeing if they'd be interested in using the technology to train their sales reps.

After securing deals with Janssen-Cilag and Merck, Moore arrived back in Dublin and was able to secure investment. "It's actually pretty easy once you can prove the business works, and you can say: 'Look, I can do this without any money. There are a lot of pharmaceutical companies out there, with your investment we could make this a big company.'"

STRIKING A DEAL

In 2015, an opportunity arose to take 3D4Medical public on the AIM, the London Stock Exchange's international market for smaller companies. At the time, it felt like the right move for both Moore and the business. However, with papers due to be signed, Malin plc came in at the last minute with an offer to invest in the company. While an injection of capital from a serious investor was a good prospect for the company, it also gave Moore the opportunity to realise some of his investment and take some money out of the business.

Moore feels that Irish venture capitalists try to discourage founders from doing this, which can be a limiting factor in growth for the company. "The founder has grown the business to a certain size, but they're starved of money," he says. "They know their company is worth something, but they have nothing to show for it. If you're a mature business that is successful, try to take money off the table."

SUCCESS IN PROGRESS

Moore suffered an early bump in the road with a previous company, FDS, which was liquidated after a decision by the company's directors. He found this early failure created barriers for potential Irish lenders, who had a tendency to focus on past failures, rather than the exciting opportunity being presented to them. "US lenders do not view early failures in such a negative light, as the assumption is that you learn more from these than you will from success," says Moore.

> DON'T COVER UP YOUR FAILURES. TELL PEOPLE ABOUT YOUR FAILURES AND LET THEM KNOW HOW YOU GOT AROUND THEM AND WHAT YOU HAVE LEARNED

He also feels that the setbacks he has faced over the years have helped to build a strong business that can react to changes more readily. These challenges have also helped him build up resilience as a business leader.

"Don't cover up your failures," he advises. "Tell people about your failures and let them know how you got around them and what you have learned. At the end of the day, an investor is more interested in the people running the business than in the business itself. They know that what they are investing in now is likely to morph into a different business in several years."

Crowe managing partner Naoise Cosgrove and John Moore.

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Naoise leads Crowe's corporate finance and restructuring team. He has extensive commercial experience advising Irish and international clients across a wide range of sectors.

FINANCIAL ADVICE FROM CROWE

SMEs need to work harder and prepare better when it comes to applying for funding, and are increasingly turning to more alternative sources.

With extensive experience in mergers and acquisitions and joint ventures, managing partner and head of corporate finance at Crowe, Naoise Cosgrove, is well-placed to provide an insight into how Irish businesses should approach funding applications.

Cosgrove explains that funders and lenders have an "extreme" appetite for information. "They want to have lots of data, and if you can't provide it at the application stage, it creates a sense of uncertainty about your ability to manage the business. They want to know what the nuts and bolts of the business are. What are the revenue streams, risk and opportunities related to the business?"

Cosgrove adds, "In addition to explaining your business in depth, modern business leaders need to persuade potential backers that they recognise potential economic and market factors and, more importantly, have a plan to address them."

Whatever is happening in the wider environment that could influence your business, Cosgrove advises not to shy away from it. Instead, impress funders with your knowledge and forethought in tackling the macro factors within your industry. "Know the potential pitfalls. Brexit clearly is an obvious focal point for people. For certain businesses the tax landscape can be a critical factor and for others it can be the competitor landscape," he notes.

It is also vital that the numbers stack up and that the management team are on top of their financial projections when approaching investors. "Many funding applicants fail as they have unrealistic expectations on what they can raise," he adds. "They end up unable to demonstrate sufficient future cash flow to manage the business and the loan repayments. The loan-to-value ratio is an important criterion for lenders, and adequate security against the loan may still be sought."

IRISH SME FUNDING

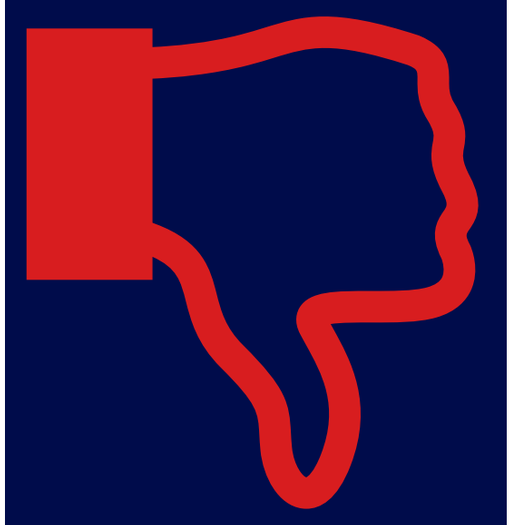
CENTRAL BANK OF IRELAND 2019 SME MARKET REPORT

90%

THE TOP THREE BANKS ACCOUNT FOR 90% OF ALL NEW LENDING IN Q4 2018

1 IN 5

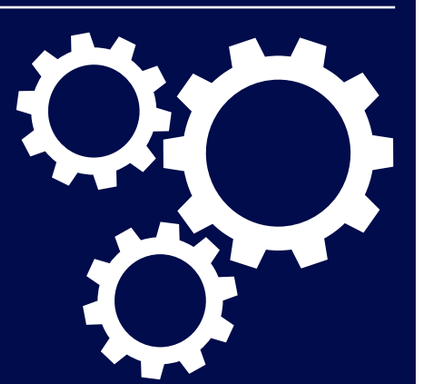
20% OF SMEs MADE FORMAL APPLICATIONS FOR FINANCE. THE MAJORITY OF MICRO, SMALL AND MEDIUM FIRMS FINANCE INVESTMENT FROM INTERNAL FUNDS



SME BANK FINANCE REJECTION RATES WERE 15% IN SEPTEMBER 2018. FOR MICRO FIRMS, REJECTION RATES REMAIN ABOVE THOSE OF LARGER FIRMS

5.7%

INTEREST RATE FOR NON-FINANCIAL CORPORATION LOANS OF LESS THAN €250K IN JANUARY 2019 – DOUBLE THE EUROPEAN AVERAGE FOR SIMILAR LOANS



ANNUAL NET GROWTH IN SME CREDIT HAS DECLINED BROADLY WITH THE EXCEPTION OF THE MANUFACTURING SECTOR

Culture club

Finding and retaining talent

Bob Lee shares his insights with an audience of business leaders.

In a discussion with Crowe partner *Roseanna O'Hanlon*, Bob Lee, an expert on building high-performance workplace cultures, shares his unique understanding of how businesses can attract and retain great talent.

Given the continuing war for top talent, corporate culture has become increasingly important in the modern workplace. A high-trust environment from the top down is a common competitive advantage that the world's best workplaces tend to share.

Bob Lee, founding director of the UK and Ireland arm of Great Place to Work, likens a company's culture to the position of a deputy CEO. "When the CEO leaves the room, culture takes over," he explains. "The established way of doing things will always prevail. It is important to be clear about what kind of company you want to be. If you don't shape that culture, somebody else will."

Through extensive research, Lee has determined that companies with high-trust cultures outperform peers and generate a superior return for investors. The top companies consistently deliver greater stock market returns, recover quicker from external shocks and experience lower staff turnover.

> IF YOU DON'T SHAPE THAT CULTURE, SOMEBODY ELSE WILL

Perhaps it's a common cliché, but people join companies and leave managers. "The manager fills the role of connecting employees to a company," says Lee. "They are the first point of contact and the face of the company in the eyes of staff. The manager is key in every workplace relationship. They can be the difference between whether an employee loves or hates their job."

If you look at a company as a balancing scale, with the employer on one end and the employee on the other, you find two different perspectives: the employer's vision for the company, and the reality of life within the company as experienced by staff. This gap is bridged by trust embodied by management.

Lee's book, *Trust Rules – How the World's Best Managers Create Great Places to Work*, outlines the attitudes and behaviours that set the world's best managers apart. A trust relationship is built on keeping your promises, according to Lee. "If you can't rely on someone, you are unlikely to trust them. And if you can't trust them, you are unlikely to have a positive relationship with them."

Lee adds: "Most managers keep their big promises, but it's the little promises that employees remember most. One of the key things about promises is that if you make fewer promises, you'll break fewer promises. Managers should pause and think what is being asked of them before making a promise that they are in danger of not keeping."

If there is a danger that you might have to break a promise, even through no fault of your own, be sure to communicate this in advance to the staff member. "There is a culture in Ireland to agree to favours too easily and then avoid admitting to a broken promise," says Lee. "This doesn't work in the workplace."

Most employees work consistently well. But, unfortunately, few are thanked or praised often enough. Recognition is simply making others feel valued and appreciated for their work. "Employees so rarely receive personal attention from their leaders that, when it happens, they'll notice," comments Lee. "However, never show recognition when it is not deserved. If you praise everyone and everything, your praise will mean nothing. Many of us have been on the receiving end of an insincere comment from management. This might seem like the right thing for a manager to say at the end of a long day, but more often, employees want a reason for such a compliment. It needs to be qualified."

Lee continues: "Explaining to them specifically what the praise is in relation to enhances their relationship with management because it demonstrates a sincere interest in their work, reinforcing their sense of value to the company."

As the front line in most companies, employees see firsthand what is working well and what can be improved. They often have great suggestions for how to improve efficiency, save money, enhance customer service and boost productivity.

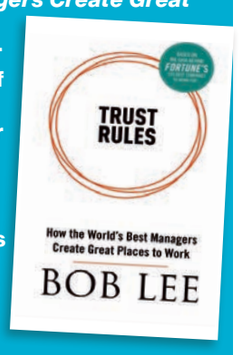
For Lee, an expert in driving market-leading business results for clients, a manager's response to suggestions from staff is incredibly important. "All ideas should be viewed positively, as they show enthusiasm," he says. "A bad idea needs constructive feedback, and a good idea needs engagement and development. By ignoring or failing to respond to a staff member's idea, a manager is essentially discouraging that member of staff and affecting their productivity, motivation and morale. This causes staff to stop caring."

He adds: "You need good processes to capture employee ideas, and you need structure around critical conversations. Constructive feedback establishes a good relationship in which the employee continues to learn.

> A BAD IDEA NEEDS CONSTRUCTIVE FEEDBACK, AND A GOOD IDEA NEEDS ENGAGEMENT AND DEVELOPMENT

PLAYING BY THE RULES

Bob Lee is the author of *Trust Rules – How the World's Best Managers Create Great Places to Work*, the international bestseller based on an analysis of Great Place to Work's global database of over two million employees in 80 countries around the world. The book outlines 16 simple rules to help managers build a high-trust workplace culture, which in turn leads to greater productivity and employee engagement. *www.trustrules.com*



OWNERSHIP AND RESPONSIBILITY

Change in any organisation can be hard for those affected. It can be disruptive and lead to a perceived lack of control. High-trust managers understand this and create opportunities for employees to take part in the decision-making process.

Lee comments: "Trusting staff to take initiative is incredibly important. It encourages them to be the best they can be. Employees who are involved in this way develop a deeper sense of ownership, as well as a sense of responsibility."

If a business can develop a reputation as a good place to work, the company is more likely to attract and keep the right candidates. "Many companies can have beautiful state-of-the-art workplaces and attractive benefits, but are lousy places to work," says Lee. "They might be successful at attracting talent, but lose it just as quickly."

He continues: "Enjoying the workplace is about having the freedom to be yourself. Invest time, not money, in finding the right people. Develop positive relationships within the workplace and you'll create an environment for your staff to express themselves and, ultimately, move the company forward."

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Roseanna provides audit and assurance services to a wide range of clients and has overseen recruitment and HR for the firm.

Sharing success

Share-based remuneration schemes – which is best?

Attracting and retaining staff is a key issue for employers. How to reward staff in a manner that encourages both performance and loyalty is a constant challenge. Share-based remuneration has long been a feature of employee incentive plans. However, the tax treatment, while not the only consideration, can make or break such incentive plans. Fortunately, there are tax reliefs available which we now consider.

KEY EMPLOYEE ENGAGEMENT PROGRAMME (KEEP)

Introduced in Finance Act 2017, KEEP is likely to be of benefit to employers who wish to award employees the opportunity to earn a bonus based on future share price performance without them necessarily becoming long-term shareholders in the company.

HOW THE SCHEME WORKS

KEEP applies to qualifying share options granted between 1 January 2018 and 31 December 2023. In summary the scheme works as follows:

An employee is granted an option to acquire shares at a price that is no lower than today's market value – therefore the employee is not awarded any existing value in the company.

If, by the time the employee exercises the option, the shares have increased in value, they are not subject to tax on the uplift at that time

Instead, they will be subject to Capital Gains Tax (CGT) on the uplift if and when they dispose of the shares and realise this uplift.

The employer will not be liable to Employers' PRSI.

TAX TREATMENT

The scheme entitles employers to award a bonus, contingent on share price appreciation, that is not subject to Income Tax, PRSI or USC. Instead it is subject to CGT rates. However, unlike the UK's Enterprise Management Incentive (EMI) scheme, there is no easing of the conditions for the 10% CGT rate under Entrepreneur Relief to apply to shares issued under the KEEP scheme.

ADVANTAGES

Incentivisation: Employees are incentivised to maximise performance, knowing that they will share in any future share price appreciation.

Flexibility for employer: The employer can be selective in offering it to employees, i.e. there is no requirement to offer it to all employees.

Flexibility for employee: The employee will have a considerable period of time (up to ten years) during which to exercise the option. Once exercised they do not have to retain the shares for a minimum period and can choose to dispose of the shares immediately after exercising the option. This gives flexibility for an employee to exercise the option at an opportune time to maximise value.

Facilitates broader employee participation: As an option-based scheme, employees tend in practice to exercise the options and quickly sell the shares to realise their value. With employees not opting to become long-term shareholders, employers are encouraged to extend the benefits of share-based remuneration to a wider group of employees without greatly expanding the shareholder base.

Cost and administration: While there are some administrative obligations, KEEP is still likely to carry a much lower cost and administrative burden than some existing share-based remuneration schemes (in particular the Approved Profit-Sharing Scheme), making it more attractive to SMEs.

DISADVANTAGES

Lack of rigidity: While the likelihood that most employees will not end up becoming long-term shareholders in the company can have its advantages, it may not appeal to employers who are keen to lock in key employees as shareholders for a period of time. Such employers may find the Restricted Share Scheme more appealing.

Time value of money: An employee may prefer to take a cash bonus up-front, even if subject to Income Tax, rather than a bonus that is uncertain and might not be realisable for a number of years.

Realising value: There is no certainty that the employee will be in a position to realise value from any shares after exercising an option. For instance, will the company create a market in the shares or will a redemption of the shares be possible?

RESTRICTED SHARE SCHEME

In some cases, an employer may wish to award shares directly to some key employees. In addition to giving them a greater sense of responsibility and incentivising them to drive company performance, it may also serve to instil loyalty in employees. Unlike the KEEP scheme, this allows the employer to give the employee some of the existing value in the company.

TAX TREATMENT

Where an employee is given shares in their company, they are subjected to income tax, PRSI and USC on the market value of those shares. Furthermore, the tax is payable at that time even though they most likely won't have realised any value from the shares.

The tax legislation however provides for a reduction in this tax liability where a time restriction is placed on the share disposal. The reduction in the taxable value of the shares increases with each year and can be as high as 60% if they are held for more than five years.

The downside is that the tax liability, although greatly reduced, will still be payable up-front even though the employee will not yet be in a position to realise any value in the shares.

ADVANTAGES

Building a senior team: This scheme may be useful where there are key employees to whom the employer wishes to give a stake in the company.

More tangible value for employee: The employee in this case is getting shares that have an existing value. This is in contrast with the KEEP scheme where they get no benefit from the options unless the share price appreciates.

Loyalty: The employee is locked in as a shareholder for a number of years, which can have the effect of engendering greater loyalty.

Incentivisation: As shareholders, the employees will be incentivised to drive share price performance.

DISADVANTAGES

Administrative burden: A Trust needs to be set up to hold the shares for the restricted period, which can add a layer of complexity.

Realising value: As with the KEEP scheme, a key challenge is how to enable the employee to convert the shares to cash.

Time value of money: As with the KEEP scheme, the employee may prefer an up-front cash bonus, especially when the restricted period is factored in.

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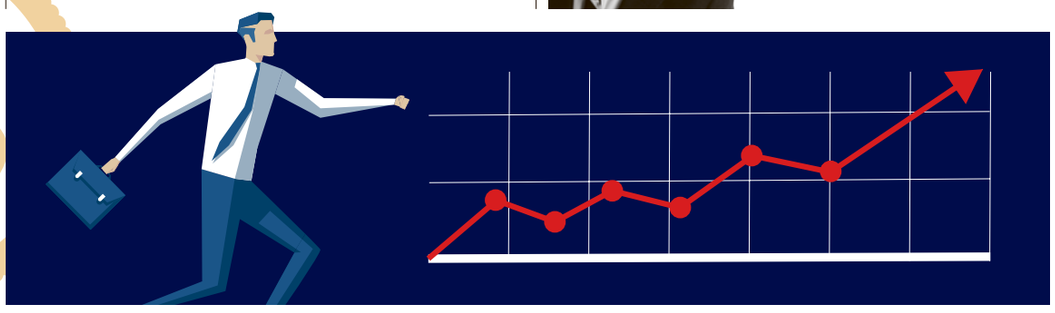

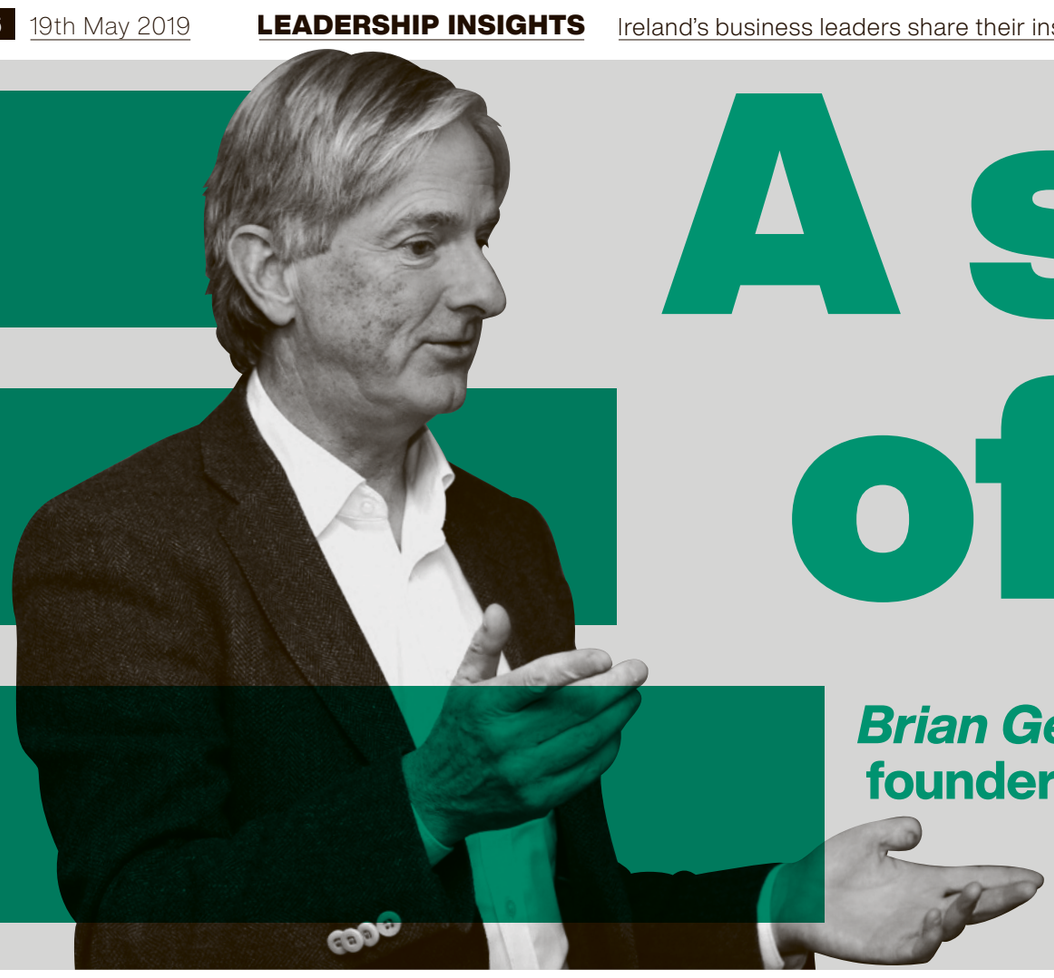

A strategy of scaling

***Brian Geraghty*, audit partner with Crowe, discusses with founder of Camile Thai Kitchen Group, Brody Sweeney his approach to scaling SME businesses and some valuable lessons he has learned along the way.**

With over 30 years' experience as an entrepreneur and business owner, Brody Sweeney knows how to prepare, manage and optimise growth in a business. After experiencing great highs and lows in his career, he is now very firmly back on track and is excited about what the future holds. "It's probably the most exciting time in my business career as I can see the possibilities that lie ahead," he enthuses.

However, if we journey back to 2009, things were far from perfect for Sweeney. Having gone into examinership with O'Brien's Sandwich Bar, he was burned out. The process of starting a new company from scratch didn't appeal to the usually energetic entrepreneur at this juncture. However, as he was out of work, broke and faced losing his home, a new venture became a necessity.

Having eyed the takeaway industry for a number of years, Sweeney quickly spotted a gap in the market. "The top two takeaway foods in Britain and Ireland are Chinese food and fish and chips," he says. "I noticed that there were no proper brands established within either of these sectors. I put my thinking cap on as a marketer and realised I could set up a modern version of a Chinese takeaway."

> PEOPLE WHO ARE CLEVER IN BUSINESS CHANGE THEIR PLAN WHEN IT ISN'T WORKING

After selling his car and raising money from a family member, Yum Chow was born in 2010 at a premises in Dublin 8. However, he soon came to the realisation that Yum Chow was not going to be the success he had envisaged. "Four weeks into it I knew it wasn't going to work," he says. "Customers were not willing to pay a premium for a Chinese takeaway and they didn't differentiate our brand from the other main-street Chinese takeaways."

Sweeney was faced with yet another possible business failure. But a lifeline came in the form of a home-delivery Thai food operator who wanted Sweeney to help scale his business. Sweeney switched the Chinese takeaway into a high-end Thai food delivery in the space of eight weeks and the business took off. However, six months after pooling their skills together to form a successful business, the two decided to part ways and Sweeney rebranded the business to what we now know as Camile Thai.

Brody advises that business owners should never fear a pivot in business. "What I've noticed is that people who are clever in business change their plan when it isn't working," he says, "and they'll keep changing it until they figure out a way of making the business work."

LIGHT-BULB MOMENT

For such a meticulous business planner, Sweeney could never have envisaged that in the space of a year he would have set up a business, changed the name above the door three times, entered and exited a partnership and finished up in what he felt was a good place with a successful venture.

He believes having a bias for action is important. "When scaling your business, the bias for action doesn't guarantee success, but it does mean you're choosing action over inaction. By acting quickly, you open up opportunities that give you further impetus to drive you forward."

He continues: "Even if it turns out that you haven't taken the exact right course of action, the bias for action means that one decision leads to a chain of events."

With the increasing pace of modern life, Sweeney found himself in the right place at the right time to take advantage of the boom in the home delivery food market. "Our typical customer is a young urban professional couple who will typically consume media across multiple screens at the same time at the end of a working day while sitting on their couch. They are extremely busy and are reluctant to cook or go out for food."

The food entrepreneur explains his light-bulb moment. "We are not really in the food business, as I see serving good quality food as a given. We are in the technology and logistics business and that business is all about speed of delivery."

Sweeney used the logistics approach of a well-known pizza delivery brand as a blueprint for Camile's approach. "Research showed that the quicker you deliver, the greater the propensity for customers to reorder," he says. With that thinking in mind, Sweeney now grows the business in locations where the catchment area is no further than seven minutes' drive and ensures that orders can be fulfilled and with the customer within 30 minutes.

He says: "As much as 87% of our orders can be delivered in under 30 minutes, and that rises to 97% of orders within 45 minutes, which is much better than our competition can manage."

> WE ARE IN THE TECHNOLOGY AND LOGISTICS BUSINESS AND THAT BUSINESS IS ALL ABOUT SPEED OF DELIVERY

NURTURING TALENT

Although Brody recommends engaging with customers to get a feel for the business, he would rarely, if ever, work on the operational side of the company. He believes in hiring the right employees to deal with operational issues, so that he, as the business owner, can focus on core activities like strategic expansion.

He comments: "My job is to work strategically on the business to build up shareholder value. I try to avoid getting stuck working on the operational side, as it's not where I can add value. I will visit branches each week and find ways we can improve things, but I don't work in the branches. My job is to look forward; it is not in the now."

Sweeney puts considerable resources into finding people who are a suitable fit and share the company's ethos and culture. "SME businesses need to change their mindset and compete for staff in the same way they compete for customers," he advises. "They need to be proactive about creating an environment that will attract the kind of people you want to work in the business."

As the majority of Camile's staff have migrated to Ireland, Sweeney realises the importance of offering support and help in areas such as visa applications, language skills and housing. "You need to invest in your staff and provide them with opportunities to build a meaningful career with you," he says. "Give them the right support and training and they will repay you."

CLEAR SCALING PROCESS

A standardised operational process is imperative for successfully optimising the growth of a brand. "The branding, service and quality must be consistent across all branches," says Sweeney. "This year we've moved from being a small business to a medium-sized one, and that transition is difficult. We bootstrapped this business to get it started with very little money and now it's kind of catching up on us and we're having to professionalise and put systems in place."

Over the course of the last ten years, takeaways have moved from an occasional indulgent treat to a regular part of the young urban professional's diet. Camile Thai works with online influencers like Roz Purcell, Finn Ní Fhaoláin and Susan Jane White to promote the brand.

Additionally, on Saturday mornings, novice and amateur cooks can take classes with Camile to learn how to prepare and cook healthy Thai dishes. It is this approach and the strength of the brand that allows Camile Thai to charge a 40 to 50% premium over other Thai takeaways.

It is also imperative that SME owners understand and recognise where the value in scaling lies and are not distracted with other vanity projects that can quickly throw a successful business into a state of confusion. Most businesses will at some point either be sold or passed down to a family member, so it is important to create a structure that maximises value in the business and makes it most attractive for a potential purchaser or for the next generation.

When looking to scale a business, a defined brand is one of the first things you need to have established. "Camile Thai's key differentiator is that we are the healthy takeaway option," declares Sweeney. "We use fresh ingredients, list our meal calorie count and we were the first mainstream restaurant to have a vegan section on the menu."

> MY JOB IS TO LOOK FORWARD; IT IS NOT IN THE NOW

> SME BUSINESSES NEED TO CHANGE THEIR MINDSET AND COMPETE FOR STAFF IN THE SAME WAY THEY COMPETE FOR CUSTOMERS

He concludes with one final key piece of advice. "Know what the main purpose for scaling the business is: whether it's more locations, increased revenue, becoming a brand leader or selling the business. But most importantly, never lose sight of your goal."

Brody Sweeney shares his insights on scaling businesses.

READY TO GO

Healthy takeaway and home delivery business Camile Thai was set up in 2011. Over the past six years, the company has grown to 18 restaurants across Dublin, Belfast, Limerick and London. With ambitious plans to scale the business to over 100 locations over the next five years, Camile Thai is on course to become a dominant brand in the food industry.

VOTED BEST THAI IN IRELAND 2016

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8 KEY DRIVERS OF BUSINESS VALUE

Drawing on Crowe's experience along with international research from analysing over 20,000 business sales, the following are eight key drivers of building business value that business owners should focus on:

FINANCIAL PERFORMANCE

Businesses with higher margins than their competitors are attractive to buyers. This enhanced margin reflects either more efficient processes, a willingness of buyers to pay a premium for their products or services or a dominant market share.

GROWTH POTENTIAL

Businesses that can be easily scaled are more attractive. Buyers buy into the future potential of a business. If a potential buyer sees an opportunity to scale a business more quickly and effectively than the current owner then there is an immediate value-add.

INDEPENDENCE FROM KEY CUSTOMERS, SUPPLIERS OR EMPLOYEES

At different stages in a company's development there can often be an over-reliance on a customer, supplier or key employee. This is not unusual. However, a business owner needs to focus on removing this risk.

CASH-GENERATIVE

Valuable businesses are ones that can generate cash and require less cash to fund operations or growth. The easiest way to take cash out of the seller's pocket and put it in the buyer's is to mismanage working capital.

RECURRING REVENUE

What is the proportion of automatic, annuity-based revenue a business generates each month? The less risk in a business, the greater the sale price. Businesses like Netflix, online newspapers or cloud accounting service providers generate recurring income with their subscribers. Plus, the cost of service to each new customer is very small.

MARKET CONTROL

How easily you can protect your market share or control your territory – either through market size, a brand USP, distribution, or other barriers to entry. Domestic waste-disposal companies are a good example of this. Once they achieve a certain scale in even relatively small territories it is difficult for a new entrant to gain sufficient market share without incurring significant costs. Far easier for a competitor to acquire them than enter into a long battle.

CUSTOMER SATISFACTION

Satisfied customers are more likely to remain with a business and refer it to other customers. Successful companies always try to improve their customer satisfaction. A superior customer experience, for example, is a key differentiator and a core value of the Virgin Group that allows them to enjoy higher margins through customer loyalty and referrals or customer recommendations.

INDEPENDENCE FROM OWNER

Owners whose company is dependent on them day-to-day are stuck in the owners' trap. The job of a business owner is to remove themselves as quickly as possible from the day-to-day operations of the business. Why? Because they will not be around when the new buyer wants to take over. If the business owner is the main holder of expertise, customer relationships, service delivery then they are the business and without them there may not be anything to sell.

The power of persuasion

Building lasting business value

Crowe partners Gerard O'Reilly (left) with Patrick Kennedy talking at a Crowe leadership event.

Patrick Kennedy speaks candidly with Crowe partner *Gerard O'Reilly* about his ten years with Paddy Power, the issues the firm grappled with and the lessons he learned along the way.

Through extensive experience gained in his current roles as Non-Executive Chairman of CarTrawler and Chairman of Bank of Ireland, as well as previously as Chief Executive of Paddy Power, Patrick Kennedy is well-versed on the requirements necessary to build and protect business value.

When Kennedy joined Paddy Power back in 2005, he felt "the analytical backbone of maths and technology" was the company's most striking element. Looking at Paddy Power's competitors – long-established second- and third-generation bookmakers – he recognised that the company's technical expertise was a major advantage and he was convinced that the firm needed to position itself as an authority in the maths and technology sector. This insight informed the company's recruitment strategy: while competitors hired experienced bookmakers, Paddy Power's approach was to engage the skills of the smartest maths and technology people from Ireland and abroad.

The global betting and gaming market was worth about $300bn and was growing steadily at just above GDP during this period. However, the key factor for Kennedy was that only 5% of the market was online. "I believed the online piece of the pie was going to explode," he says. "And by focusing on the company's own strengths, while identifying competitor weaknesses, Paddy Power was ideally placed to maximise on the emerging opportunities in the sector."

> THE SINGLE BIGGEST PREDICTOR OF FUTURE OUT-PERFORMANCE IS TO HAVE THE BEST PEOPLE IN THE SECTOR

INVESTING IN TALENT

Kennedy attributes the success of the organisation at that time to the unbridled enthusiasm and talent of its employees. "The main learning that I took from my ten years at Paddy Power is that the single biggest predictor of future out-performance is to have the best people in the sector," he declares.

When Kennedy joined Paddy Power, 1,300 staff were employed at the company's "Power Tower" headquarters in south Dublin; by the time he departed the company this number had grown to 5,000. He admits that the hiring process was challenging. "If you are going to try to hire the best, you need to be creative and search for non-obvious hires," states Kennedy. "You need to take risks, and not all of them are going to work. The important thing when mistakes do happen is to recognise them early, hold your hands up and be as fair as possible in solving them."

Kennedy also recognised the pivotal role a robust people strategy offered the company as it scaled. "We had grown so quickly and we thought a lot of the informal processes that were in place to get us to where we were would continue to work for us. But the reality is that as you get bigger, you need to formalise a lot of these processes."

A STRATEGIC FOCUS

Acknowledging the correct areas to focus on is essential for the success of any firm. For a high-growth firm expanding overseas, this is especially pertinent. "It is key for the management team to be really clear on the top five things they want to accomplish," says Kennedy. "Don't let your team become distracted by a long list of ever-changing possibilities. Each opportunity should then be viewed through the lens of how well it serves the five core strategic objectives, and board meetings should be seen as an operating review against those five priorities.

"Avoid short-term gains from what may look like attractive business opportunities, but which do not serve the long-term strategy of the business. It was important for us to be clear about what we wanted to do, and, more importantly, what we weren't going to do. Merger and acquisitions should be the servant of strategy, not the master of it."

> MERGER AND ACQUISITIONS SHOULD BE THE SERVANT OF STRATEGY, NOT THE MASTER OF IT

Earlier failed attempts in expanding into international markets helped to inform and refine Paddy Power's international expansion strategy under Kennedy's stewardship. The decision to expand into Australia came after two failed attempts to crack the German and Spanish markets. Thus, the firm was more cautious and invested significant time and resources to gain a better understanding of the local market. Kennedy explains: "When the company realised the potential opportunities of Australian expansion, a senior member of the team visited a year before any investment was made in order to get to know the market, the customers, the competitors and the regulator."

After careful consideration, it became clear that the best way to enter the market was through acquisition, rather than organically as was attempted in Germany and Spain. "The market was at a scale and rate of growth that meant entering organically would have been too slow," Kennedy says. "Instead, we purchased the number two and three players and combined them to take a market-leading position."

After investing heavily in customer research to inform brand strategy, the firm kept its existing Australian brand, but adopted the Paddy Power tone of voice and marketing approach. "We understood how vital it was to ensure a senior team with local experience was in place," explains Kennedy. "So, we left the Australian management team to run the business along with two senior managers based in Dublin."

> IT IS KEY FOR THE MANAGEMENT TEAM TO BE REALLY CLEAR ON THE TOP FIVE THINGS THEY WANT TO ACCOMPLISH

POWER PLAY

Patrick Kennedy is Non-Executive Chairman of CarTrawler and Chairman of Bank of Ireland. He was a former Non-Executive Director at Elan and CFO of Greencore. Between 2006-2015, as CEO of Paddy Power, he turned the bookmaker into one of Ireland's most dynamic and successful companies. Under his stewardship, the company more than tripled its staff from 1,300 to over 5,000 and turned into a billion-euro business. He oversaw its international expansion and the explosion in the online and mobile markets, flipping the revenue model from 80% Ireland and 80% retail to 80% international and 80% online.

KEEPING AGILE

One of Paddy Power's key strengths during this time was keeping an approach and structure that allowed the company to be agile. "Perfection is the enemy of good enough" was a mantra within the organisation. And when the firm recognised the potential of online and mobile platforms, it was quicker than its more traditional competitors to react. This allowed the company to steal market share and build a market-leading position online and on mobile, becoming the first bookmaker in the world to feature on both the iPhone and Android app stores.

An implication of these new business models is that, as they emerge, the lifespan of companies is shortening substantially. Kennedy, an authority on how to recognise, build and protect value for businesses, is adamant that success requires constant adaptation in order to remain efficient and competitive. "60 years ago the lifespan of an S&P company was 61 years; nowadays, it is 15 years. And there is only one company from the original Dow Jones index still listed today. Part of that is due to the pace of change, but part of it is also due to the failure of businesses to adapt."

> PERFECTION IS THE ENEMY OF GOOD ENOUGH

Emerging technologies will continue to change business models fundamentally. "Proximity to market and customer, which used to be a key obstacle to international success, has been turned on its head through e-commerce. Your potential customer base and competitors will become increasingly more global," concludes Kennedy.

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A global approach

Bob Etchingham, CEO and co-founder of Applegreen, shares his invaluable insights with Crowe partner *Chris Magill* into how businesses can reap rewards from expansion into international markets.

Applegreen, with over 300 sites across Ireland, the UK and the US, and with more than 3,400 employees, is one of the great successes within the forecourt and convenience retail sector.

With over 30 years' experience in the retail fuel market, CEO Bob Etchingham had a clear strategic vision for Applegreen when he co-founded the company. "I thought looking to international markets made perfect sense for us," he comments. "A growing business is a fitter and stronger business compared to one that is stationary, so the strategy and culture within the senior management of Applegreen is always to grow. If you want to grow your brand more rapidly you need to look at a second platform, plus beyond a certain market share in one territory you can face certain challenges." He felt that Applegreen could face a limit or ceiling to growth within Ireland so looking internationally made sense.

In the forecourt and convenience retail sector, size does matter. With the buying power of over 200 food outlets across three markets, Applegreen has strong relationships with key international brands. "In the modern global economy, it is easier to trade across borders and it is easier to open doors and establish relationships as a large customer," says Etchingham. "By being involved in more than one market, you are spreading the macro risk of a business. This can provide comfort and reassurance to lenders and stakeholders if you have your risk spread across different geographical locations."

For an Irish fuel company, making the move across the water to the UK was the most logical first step. Etchingham describes why the company then decided to enter the US market, as opposed to mainland Europe. "Applegreen

> *IT'S IMPORTANT TO LEARN THE NUANCED DIFFERENCES IN NEW MARKETS*

knew the US market well and had strong industry contacts," he says. "It was a familiar market to us. There was no language barrier, unlike the rest of Europe, and the transparent way of doing business in the US suited us."

Growth in the early years for the company was through acquiring existing sites. Within a specific territory, Applegreen's acquisition strategy was based purely on the merits of that particular site, rather than a desire to geographically cluster sites.

Etchingham explains how there is no one tried-and-tested method for uncovering opportunities. "They can come from all angles," he says. "It's more a case of letting it be known in the industry that you are interested, putting feelers out with agents, going to trade shows and conferences and talking to people."

CONTROL VS AUTONOMY

In the early days, when Applegreen first expanded into the UK market, the company tried to manage much of its operations from Dublin. While this might be cost-effective and efficient, it proved hard to adequately penetrate the market. Etchingham explains: "It can often lead to the overseas team being short-changed as the home team are too stretched managing both, and thus the overseas market can suffer through the lack of a dedicated focus. We've learned to move away from that approach and now hire local management teams in new markets and give them as much autonomy as possible."

The Applegreen approach to expanding into new markets was to start small. When an opportunity presents itself, it's vital that one takes a steady, calculated approach. "It's important to learn the nuanced differences in new markets," says Etchingham. "People have different ways of operating and it's important that you understand that and adapt to it. You

> *PEOPLE HAVE DIFFERENT WAYS OF OPERATING AND IT'S IMPORTANT THAT YOU UNDERSTAND THAT AND ADAPT TO IT*

often have to adjust your model or brand offer in international markets, and identifying and carrying out these adaptations takes time."

Different markets have different requirements and expectations, which can affect your product offering and your pricing. Even within a single territory there can be marked differences. "The north of England is very different to the south," says Etchingham. "People have a lower average income and are more cautious about how they spend. London and the broader South of England, like the Republic of Ireland, is quite affluent, and people are more liberal when it comes to spending."

Gaining credibility and building trust can be difficult when you are a new player in an established foreign market. Etchingham speaks from experience on the matter. "When we went to the US, we partnered with Subway," he says. "They are a familiar and trusted brand in the US and by having them in our stores customers were given a sense of reassurance. Within the fuel station sector, fuel only accounts for about 30% of revenue. So linking with the Subway brand helped establish our brand in these markets."

Bob Etchingham shares his insights with an audience of business leaders.

FUNDING GROWTH

Applegreen's initial growth up to the early 2000s was funded by oil companies in return for a commitment to long-term supply contracts. From 2003 to 2013, however, growth was largely funded by bank debt. When the recession hit, a lot of that funding dried up and the company had to rely on its own funds to acquire sites. In 2012 and 2013, a range of opportunities presented themselves that required a larger injection of capital. As a result, a decision was made for Applegreen to go public.

Etchingham and Applegreen were hell-bent on avoiding funding growth through equity. "It was not so much about losing equity; it was more the possible challenge of working with others who might not have had the same time horizon as our team," he explains.

Etchingham recommends other business owners to list on the AIM – the sub-market of the London Stock Exchange that focuses on smaller firms – if it is at the right stage of growth. "It brings with it a lot of positives," he advises, "not just in raising capital, but also in establishing a stronger reputation. It also helps with recruitment and in contractual negotiations, such as property leases."

FOOT ON THE GAS

Applegreen was founded in 1992 by Bob Etchingham and Joe Barrett. The company was taken public in 2015 and after entering the UK in 2008 (73 sites) and the US in 2014 (22 sites), the group recorded a turnover of €1.4bn in 2017. Even with their growing international footprint, Ireland remains the principal market, accounting for about 70% of earnings.

REWARDING TOP TALENT

Etchingham stresses the importance of having excellent staff based in a territory when expanding to new locations. "You need to recognise and take full advantage of the opportunity, so you have to put your best people on the ground to maximise that opportunity," he says. "It is also important to preserve the internal culture of the business and having senior people on the ground in new territories ensures that this culture and ethos is preserved."

He adds: "After being in business in Ireland, you can take the importance of the relationships you have built up for granted. But when you move into a new market, making the right contacts and establishing the right relationships is vital. You need to gain people's trust and build goodwill. When Applegreen established in the US, particularly in the north-east, being Irish was a huge plus and opened a lot of doors. But, once that door is open, building on and sustaining those relationships is absolutely essential. It is an investment that will pay dividends."

Finding and nurturing the right talent should be a focus from the early stages of a business. There will come a point as you grow the business where you start to lose touch with certain aspects of it. "You can't be there all the time and to keep the business healthy you need the right people operating things for you. Focus on building your team from the beginning to ensure you have long-standing, trusted individuals in place who know the business well."

Applegreen ran its first share options scheme in 2007, which has proven very successful in rewarding and retaining talent within the

> *YOU WILL ALWAYS HAVE DOUBTS, AND IT IS DIFFICULT, BUT YOU KEEP GOING*

business, especially now that the employment market is more buoyant.

Building a strong sense of ownership is key. Etchingham outlines the importance of keeping your top team motivated by giving back some of the value-add that they have created. "At site level, we have a structure that encourages local operators to treat it as their business, with a number of operational and HR decisions made locally," he says. "It is very heavily incentivised towards commission, with the opportunity to significantly increase their remuneration through quarterly bonuses. Also, since going public, we have a long-term incentive plan to help align employees' interests with the firm's."

Expanding abroad is undoubtedly a bold move. Did Etchingham ever have doubts? "Of course, everyone does," he says. "You will always have doubts, and it is difficult, but you keep going."

He continues: "Remember back to when you first decided to start a business, and consider the doubts you had then. But you persevered and established your business. You will undoubtedly go through similar apprehensions and doubts when going abroad, but look how far your business has come from that initial spark. With the right market research, you will know if going abroad is the right move for your business. It's just a matter of backing yourself when the time is right."

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EXPANDING OVERSEAS: TAX CONSIDERATIONS

Irish businesses are increasingly seeking new markets abroad. However, commercial benefits can be diminished if foreign taxes are not dealt with correctly. Five things to watch out for if operating internationally:

STRUCTURE

When determining the correct structure businesses should consider:

- **Minimising the cost of operating in the foreign country**
- **Any regulatory requirements**
- **The ease of making payments to and receiving payments from the foreign operation**
- **The ease of winding up the foreign operation**

OBTAIN EXPERT ADVICE

Don't assume that all tax systems are the same. Obtain expert advice on your obligations for payroll taxes, VAT (or similar tax) etc. Simple administrative errors can lead to penal fines and even prosecution by foreign tax authorities.

LOCAL TAXES

Many countries, such as the United States, operate state and local taxes in addition to federal taxes, which will vary depending on where you establish your business. Lack of planning for and compliance with local taxes can have serious implications.

WITHHOLDING TAXES

Irish businesses are familiar with withholding taxes on interest and dividends. However, some jurisdictions will also levy withholding taxes on international payments for services (e.g. engineering, architectural etc.) which might take time to recover or in some cases are not recoverable. If not factored into the original pricing, any withholding tax can eliminate the anticipated profit from providing the service

INCENTIVES

Don't forget the possibility of an employee availing of the Foreign Earnings Deduction (FED), which is a potentially valuable tax relief available for employees for time spent working in certain foreign countries.

The art of buying and selling

In an interview with Crowe partner *Aiden Murphy*, leading Dublin businessman Michael Holland offers a personal perspective from a long career that has seen him successfully buy and sell a range of businesses across a number of sectors.

Buying or selling a business can be an onerous task, with a multitude of important considerations to absorb before a business can change hands.

One of the country's most recognised hoteliers and an experienced player when it comes to buying and selling businesses, Michael Holland is an expert in getting deals over the line. The Fitzwilliam Hotel Group owner believes the fastest way to grow a business is through acquisitions. "It usually improves your overhead ratio to turnover, thereby growing profitability," he explains. "It can provide great synergies when the new acquisition is bedded in. And often it can improve your margins and provide you with access to new markets, while also having the hidden benefit of getting new management into your business."

Holland highlights another compelling reason for going down the acquisition route to build your business in advance of a possible exit. He states: "Although you may buy a business for a five-times multiple, when you take into account the synergies and the overhead savings, this can drop to a three-times multiple – which is a 33% return or a three-year payback on your investment."

The size of a firm is a significant factor, while picking the right time to buy a business will depend on your own finances and resources. "Smaller businesses tend to sell for an EBITDA multiple of roughly five times, whereas larger businesses command a larger multiple," says Holland. "So, on the basis of that logic, larger is better when it comes to maximising your sale price."

He continues: "It is important to have an efficient system of management and control in place, as acquisitions are a time-consuming process. A good time to buy is when your sector is in a growth phase and you have a strong business plan. These factors will ensure you can find the funding you need, which can be challenging, especially when purchasing trading, non-asset companies, as banks will often be slow to lend."

On the flipside, in terms of selling up, it pays to consider a sale based on the economic or business cycle you find yourself in. "After several years of sustained growth in your sector, and with the economic cycle at a high point, it could be a good time to sell. There will be an appetite in the market for acquisition and funding should be readily available."

When selling your business, you should also cut down on operating costs. "Reduce every single overhead to a minimum, as every euro you save could be worth five times that on a sale price," advises Holland. "Set yourself up as a non-essential operating person. In doing so you can exclude your salary from the EBITDA calculation."

> *REDUCE EVERY SINGLE OVERHEAD TO A MINIMUM, AS EVERY EURO YOU SAVE COULD BE WORTH FIVE TIMES THAT ON A SALE PRICE*

If your company has just experienced one of its best trading years, it could also be a good time to put it on the market. By demonstrating strong trading results, your business will appear attractive to purchasers and you can maximise your sale price.

Or perhaps you have identified a strategic purchaser who might be interested in your business? Understanding the benefits your business might bring to a potential purchaser puts you in the driving seat and ensures that you have a strong negotiating position.

IDENTIFYING TARGETS

When an attractive business presents itself, it is important to spend time properly analysing its potential. Holland stresses the importance of researching the market fully. "Look for a strategic target that shows strong possible synergies with your business," he says. "A lot of information can be found about your competitors that could open opportunities. Information such as their ownership structure, owners' ages and the financial status of a business could point to a potential opportunity. And word of mouth can uncover further detail about possible succession plans or other potential trigger points for a sale. The key is to create or unearth hidden value."

Whether buying or selling, you should begin preparing at least 12 months out, as it can often take that long to close a deal. "By being ready to do business, you are more likely to be successful and strike a deal," says Holland. "You don't know when an opportunity will appear, so it's important to be prepared."

He adds: "If you are looking for a business to buy, try to identify a target before it's made sale-ready. If you are able to get in early before the company has appointed external advisors, you often end up purchasing at a more advantageous price."

Although business owners should take control of the process and drive a professional team, Holland also outlines the need for strong external business advisors. "You'll need to take on expert advisors in corporate finance in order to reach prospective buyers," he advises. "I can't emphasise enough how important a good corporate lawyer is – this is key to whether a transaction will run or not.

"But don't be afraid to go for it; fortune favours the brave," the well-known hotelier concludes.

Businessman Michael Holland reveals the importance of analysing any potential buy.

HOLLAND'S BUYING AND SELLING ADVICE

Prepare well in advance for either a sale or acquisition of a business.

Analyse your target's business in depth – understanding where value can be created will lead to a much more fruitful purchase or sale.

Celebrate your company's strengths and have a plan in place to tackle the weaknesses – showing that you can turn them into a potential opportunity for the future.

Focus on your Heads of Terms document – it sets out the terms of the commercial transaction agreed between two parties in the course of negotiations.

Take control of the sale process – attend every meeting personally. It is your business so do not let your professional advisors become the principals.

Ensure that all information that goes out to a potential buyer is vetted beforehand.

Limit your fees in the event of an unsuccessful purchase or disposal of the business.

Take good tax advice.

Do not warrant your future trading figures – you can never predict the future.

Sidestep earn-outs if you see a lot of synergies – they usually lead to disappointments and disputes.

Do not keep the owner of an acquired business for long – look to put your financial officer in charge of acquired business.

Avoid disclosing sensitive financial and operational information to a wide list of potential buyers.

GOOD HOSPITALITY

Michael Holland is a leading Dublin businessman with interests in a wide range of sectors, including hotels and leisure, food and retail, and property. He is the owner of The Fitzwilliam Hotel Group and the Four Star Pizza chain of 57 outlets. In 2017, he sold Irish Welcome Tours, one of the country's leading inbound tourism operators.

THE fitzwilliam HOTEL

FOUR STAR PIZZA

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Aiden has extensive experience in Receivership and Liquidation assignments and creating the right strategy to be implemented to optimise recovery.

Key factors to consider when buying a business

The benefits of buying an existing business are manifold. Buyers can benefit from acquiring a well-known brand, a strong customer or client base, an established supply network, key management team, critical licences or a strong physical location.

However, whilst buying an established business is considered to be less risky than starting your own, it does not come without several risks. Potential buyers need to enter any negotiation with their eyes open, their homework done and an attitude of "buyer beware".

Here are a number of factors for buyers to consider which can help reduce the risks when acquiring a business and ensure you receive value for money on your investment.

TARGET THE RIGHT BUSINESS FOR YOU

Many people make the mistake of buying the wrong business. It is vital to buy a business that is the right fit for your skillset and experience or one that fits with your existing business.

There is a common misconception that if a business owner decides to sell, there must be something wrong with the business. In reality businesses are sold for a number of reasons, including owner's age profile, health reasons, divesting of non-core operations, a requirement for increased investment in the business or possibly a personal financial shock that can place the business in distress if not sold.

If your own research has not yielded results then consider asking an advisor to help identify viable targets. They have connections with other advisors who might have suitable targets or often know of companies for sale which are off-market. Advisors can also help pre-screen and carry out research on a company before approaching them.

PRICE

An independent assessment or business valuation should be carried out to establish the future potential of the business, what the target business is worth and how much you are willing to pay.

Factors such as client retention and whether the business has recurring revenues can have a significant impact on the business valuation, so it is important to explore beyond the basic financials.

We would advise that an accountant evaluate the financials of the business very carefully to make sure the historical financial performance represents a true reflection and correlates to the price being asked.

According to industry data, businesses typically sell for between 15% and 25% below the seller's initial asking price. So ensure you have considered all relevant factors carefully before submitting a bid and agreeing commercial terms.

HEADS OF TERMS

It is imperative to focus on the Heads of Terms as it sets out the price and commercial terms and ultimately forms an important part of the final agreements.

This is a buyer's opportunity to set out their position. Don't forget that the seller's initial asking price is just a starting point for negotiation. The Heads of Terms will help bring focus to the negotiations and "flush out" any misunderstandings at an early stage.

Commercial and legal advice should be sought in preparing this key document as advisors will highlight issues that had not previously been considered.

DUE DILIGENCE

Due diligence is essential to develop a full understanding of the business you are acquiring and to identify any potential risks that might leave you exposed. A business that looks great at first glance could have a number of issues.

Due diligence will help in identifying the warranties necessary to protect the purchaser against any future liabilities. This could include possible problems in relation to employees, titles to property, insurance and banking facilities.

Depending on the size and complexity of the target business, the following due diligence should be carried out: financial, taxation, legal, Insurance, property and environmental.

STRUCTURE

Careful tax planning is a key element in buying a business and should be carried out at an early stage in the process. It is crucial that you choose the correct structure to allow you to scale the business without incurring significant costs. Different structures will have their pros and cons and can have a significant impact on the tax liabilities a buyer could face.

For example – whether the sale of the business should be an asset purchase or a share purchase. Picking the correct structure will enable the new business to maximise growth and minimise tax liabilities.

FUNDING

A good time to secure finance for a purchase is when the sector that business operates in is in a growth phase. A strong business and integration plan will assist in securing the funding you require.

Consideration needs to be given to the cash flow available within the existing business and what funds it can commit to avoid over-leveraging. Future working capital and CapEx requirements should be considered before making the offer. The cost of the purchase, including professional fees, also needs to be factored into the funding commitment needed.

Bank and alternative senior debt lenders are unlikely to lend 100% of the funding required. As a result, you may need to turn to a private equity partner to narrow the funding gap. Each financing source comes with its own pros and cons, so do your research and talk to an advisor to make sure the funding source you choose is the best for your bottom line.

INTEGRATION AND MANAGING THE CHANGE

Many mergers and acquisitions fail because of poor handling of change management and a lack of effective integration.

Company culture plays a major role in whether an acquisition will be a success or a failure. For the business being acquired, there may be a resistance to change or towards the new owner from existing staff.

Communication is critical. As soon as possible, take the time to meet with key staff to understand the roles they play and how the business operates day-to-day. Maintain a focus on your key strategic objectives and your development plan and bring key employees with you on that journey to ensure early buy-in and efficient implementation.

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Essential steps to selling your business smartly and safely for maximum return.

Selling your business requires forward planning and a structured, well-thought-out process. You need to be in control of each stage of the sale from start to finish to ensure you maximise your return. The following are ten crucial steps involved in a sale process and show the value a carefully chosen business advisor can bring to the table.

1 PLAN YOUR EXIT STRATEGY

It is worth planning and preparing your exit strategy as early as possible, regardless of the reason for the exit. Finding the right business advisor who understands the owner's selling requirements and strategic goals and who can guide you through the steps to a successful sale is paramount. The advisor can also help you understand the various exit strategy options, criteria for the most appropriate buyers, the timing of the sale and the tax consequences of the different transaction structures.

2 BUILD BUSINESS VALUE PRIOR TO SALE

It is important to take a step back and look at the business objectively through the eyes of a prospective purchaser. There are many attributes that will make your business appear more attractive – things like strong, long-term relationships, an effective management team, recurring revenue streams and streamlined processes.

Working with an advisor who has the relevant transaction experience and understands your business can help you build greater value in your company in the run-up to the sale process.

3 DETERMINE A BUSINESS VALUATION

For many owners the sale of a business is an emotional one, often the culmination of a lifetime's work. As a result, owners can often have unrealistic price expectations or are poor at identifying where the real value of the business lies. The sale process can often get derailed by sellers and buyers having completely different expectations about the value of the business.

A third-party valuation is a critical step in the process and the best way to provide a realistic and objective estimate of what your business is worth. Your business advisor is better placed to provide evidence of the value of the business, which will bring credibility to the asking price.

4 CONDUCT INTERNAL DUE DILIGENCE

In today's market, prospective buyers want as much transparency as possible and are performing careful due diligence. Spending time to properly evaluate and present your company's financial and business history and future projections is a crucial element in the sale process.

A seller can avoid red flags by working with their advisor to ensure that everything is in order and that the right information is provided at the right time to help facilitate a smooth sale process.

5 FINDING THE RIGHT BUYER

There can often be a large number of potential buyers for a business and typically owners are not best placed to identify the right candidates on their own. Finding a buyer can be one of the most time-intensive elements of the process, but is clearly an important factor in ensuring a successful deal.

Types of buyers generally break down to the existing management team, strategic buyers and financial buyers, each of whom will have different evaluation criteria and come with their own pros and cons.

However, not all potential buyers who express an interest may qualify. A good advisor will be able to properly screen interested parties to assess early on whether they are a credible buyer and have the financial standing to execute the deal.

Good planning and a well-structured sales process are integral to maximising your return.

6 PRESENTATION OF THE BUSINESS

Time and consideration should be given to the marketing material for the deal. A well-presented information memorandum increases a buyer's confidence and the likelihood of a successful sale.

Your information memorandum should capture the key credentials of the business – detailing the ownership and management structure, trading performance, key growth opportunities, competitive advantage and market data.

7 TRANSACTION STRUCTURE

A business sale has many financial and professional considerations for the management team and owner. The purchase price is only one component of the overall result.

Every deal is different and consideration should be given to the most advantageous corporate structure for the sale. In advance of initiating the sale process, the current structure should be reviewed from a legal, tax and stamp duty perspective, restructuring if necessary to help maximise the return. Reliefs such as retirement relief, entrepreneurial relief and transfer of business relief need to be considered.

A business often holds investment assets or has assets surplus to its operations that could be sold off without affecting the underlying business. To maximise financial return it is important that such assets are identified and consideration given as to whether or not they should be included in the sale process.

8 NEGOTIATING THE DEAL

Once potential purchasers have been identified and marketing material prepared, a formal approach can be made to solicit first-round offers. Success from this point forward largely depends on managing interactions with potential purchasers. A strict deadline should be set from the outset to ensure competitive tension is generated.

Offers received in the first round often dictate the format of the next stage of the process – whether a second round of bidding is required or a preferred bidder is brought forward. Often an exclusivity agreement is entered into to allow the potential purchaser to evaluate the company.

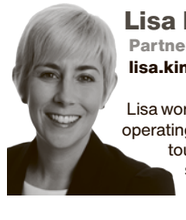
In these negotiations it is important to put yourself in the purchaser's shoes to gain a perspective of the factors important to them and how they compare to factors important to you. This will give you greater control over the process and visibility of any potential stumbling blocks. An experienced business advisor will help lead these crucial negotiations, providing advice and guidance on best practice to maximise the sale price.

9 FINALISING LEGAL DOCUMENTATION

There are a number of legal contracts that need to be drawn up when selling a business. The purchase agreement will define all the details of the transaction and is the definitive document outlining the terms of the sale. It can often include other transaction documents such as a non-compete agreement or an earn-out clause where the seller remains with the business for a set period of time.

10 MANAGING THE PROFITS FROM THE SALE

Once the sale has been completed it is important to obtain the correct financial advice so you can map out your financial goals and determine how best to invest your money. It is also important to review the tax structures put in place at the beginning of the process and liaise with your tax advisor on any changes that may need to be implemented.



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Succession planning tips for family-owned businesses

For most business owners their largest and most important asset is their business. As a result, there are few more important considerations when building and growing a business than the owner's eventual exit.

With family businesses, succession planning can be especially complicated because of the relationships and emotions involved and because most people are not that comfortable discussing topics such as ageing, death, and their financial affairs. Perhaps this is why a large percentage of family-owned businesses do not survive the transition from founder to second generation.

But a well-structured succession strategy helps to mitigate a wide range of risks and ensures the future stability and value of the family business as well as considering the potential tax liabilities of transferring ownership and minimising tax liabilities.

Here is a summary of the key considerations to address during succession planning.

ADVANCE PLANNING

Successful retirement from the business and succession cannot be planned overnight. The necessary steps have to be taken well in advance so that the building blocks are in place when the time is right.

The benefits of early consideration of the issues and long-term planning can be significant as it:

- **Gives you the time to consider your options fully and establish to whom you wish to transfer assets**
- **Allows you time to involve family members in your decision and open a dialogue**
- **Ensures you have the time to mentor and gradually introduce your chosen successor into the business**
- **Ensures you can maximise the different reliefs available to reduce the tax costs of asset transfers, as many of these are subject to stringent conditions, some of which require careful long-term planning**
- **Gives you time to find the right advisors to help you put together a successful succession plan**

Therefore, sitting down to consider and discuss these matters at an early stage, even if you regard such transfers as being many years away, is strongly advised.

THE TAX CONSIDERATIONS

Ultimately there are a number of tax considerations which will inform your approach to succession planning. Irish tax policy is generally supportive of businesses transferring between generations, and there are several tax reliefs available, outlined below, that are designed to minimise tax payable on such transfers.

Transferring assets can give rise to:

- **Capital Gains Tax (CGT) which applies to the person disposing of an asset (including a transfer by way of gift)**
- **Capital Acquisitions Tax (CAT) which applies to a person receiving an asset by way of gift or inheritance**
- **Stamp Duty, applicable when you transfer ownership of property and certain assets**

In the case of business transfers, areas such as pension planning and tax-efficient extraction of funds by a retiring shareholder can also be important.

Since 2009, CGT and CAT have both increased from 20% to 33% while the CAT Class A exemption threshold (Parent to Child) has fallen from €542,000 to €310,000. Taxes on income have also risen with the introduction of the USC while pension funding limits have been significantly restricted.

MAXIMISING TAX RELIEFS

There are a number of potentially valuable reliefs in this area:

- **Business Assets Relief and Agricultural Relief reduce by 90% the taxable value of certain assets for CAT purposes**
- **Entrepreneur Relief provides for a reduced 10% rate of CGT on the first €1m of gains on the disposal of certain business assets**
- **Retirement Relief can provide for a full exemption from CGT on the disposal of certain family businesses or farms**
- **The Dwelling House Exemption provides for an exemption from CAT on the transfer of a family home, although only in restricted circumstances**
- **The Young Trained Farmers Relief provides an exemption from Stamp Duty on the transfer of farm assets**
- **Pensions and termination payments on retirement can provide an opportunity to extract funds from a company tax-efficiently**

However, availing of these reliefs is not straightforward as they can be subject to stringent conditions, which can include minimum periods of ownership or active involvement in the business. If not carefully planned for in advance, by the time the assets are being transferred it may not be possible to meet these conditions.

Maximising the use of these reliefs may impact your other objectives with your succession plan so it is important to consider the bigger picture. Tax is an important consideration but it should not be the driving force. There are a range of non-tax issues which need to be considered and you will need to balance all of your objectives and decide on the approach that best meets your needs.

GIFT NOW OR INHERITANCE LATER?

In considering the timing of the transfer you will need to consider both your own situation and that of the beneficiaries. A frequent discussion that arises with clients is the timing of the wealth transfer. Should this happen by gift or inheritance? The simple answer is both. It is never too early to pass to the next generation if the transfer of the subject assets suits the family situation (i.e. the beneficiaries are of suitable age and responsibility) and capital tax liabilities can be kept to a minimum (or exemptions / reliefs can be achieved).

A lifetime transfer of assets involves considering CGT for the person making the gift with CAT and Stamp Duty being the considerations for the beneficiary. A transfer on death by inheritance only requires the consideration of CAT by the beneficiary as no CGT or Stamp Duty arises on death.

TRANSFER TO FAMILY OR THIRD PARTY

In transferring a business, you will need to consider its interests as well as those of your family members. You may find that within the family there is no one suitable to shoulder the responsibility of running the business. In these situations, a sale to a third party should be considered. You will also need to consider if you wish to have any involvement in the business after the sale or transfer and what option provides you with the best provision for your retirement.

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The fruits of labour

Caroline Keeling poudly displaying a bowl of strawberries grown by the family company.

Managing a family business calls for clear communication and self-management

Caroline Keeling talks with Crowe audit partner *Neil Davitt* and shares her insight and some practical tips on how to successfully manage a family business.

The Keelings family story stretches back to the 1920s when the current farm was established in north Co. Dublin. Three generations later, current CEO Caroline Keeling is continuing the family tradition of providing the best-quality fresh produce to consumers.

Before joining the UK business in 1994, Caroline Keeling studied food science at university and took a job with frozen food producer Green Isle. It was this external experience – along with the experience gained from working her way up the ranks at Keelings – that gave her the confidence and deeper understanding of the industry that led to her appointment as CEO, and later Chair of Bord Bia's Horticulture Board.

> I'D DEFINITELY ADVISE AGAINST COMING INTO THE FAMILY BUSINESS AT A YOUNG AGE. IF YOU GET THE CHANCE, WORK SOMEWHERE ELSE TO GAIN EXPERIENCE

Work experience under the tutelage of her father was an undoubted advantage for Keeling in getting a taste for the business in those early years. However, she recommends caution regarding committing fully to the business at a young age. "I'd definitely advise against coming into the family business at a young age. If you get the chance, work somewhere else to gain experience and also build your qualifications," she says. "When I joined the company, one of the first questions I was asked was, 'What qualifies you for this role, other than your name?' Be prepared for that question, even from customers."

When Keeling took the reins of the business in 2006, managing the generational transition posed a significant challenge. Her father was in his early sixties when he stepped back from the day-to-day responsibility of running the business, but still had a lot of passion and energy.

> IT'S IMPORTANT TO GIVE FAMILY MEMBERS A MORE HOLISTIC PERSPECTIVE ON THE BUSINESS, AND THROUGH OWNERSHIP THEY'LL SEE THE BUSINESS IN A DIFFERENT LIGHT

"Although keeping a role within the company as our Chair, it was through a new outside role as Chair of Horse Racing Ireland that my father was able to channel his energy," says Keeling. "Each generation has played a vital role in the expansion of our business and I think how you decide to involve the next generation is a big decision."

Giving family members ownership is key. "One thing we do believe in quite strongly is to pass ownership over, even if it's a small ownership, at a young enough age. It's important to give family members a more holistic perspective on the business, and through ownership they'll see the business in a different light."

ORGANISATIONAL STRUCTURE

The dynamics of a family business can bring both challenges and opportunities. Keeling has formed a strong management team around her, made up of both family members and third-party supports to ensure rounded advice. "It's important to design an organisational structure that works for both the business and the family," she states. "The non-family board members, I personally think, are really vital. It's easier sometimes for a non-family board member to raise an issue than for a family member."

She continues: "All board members are encouraged to challenge decisions. Senior management have to have a strong voice in the business and it needs to be heard. It is important that business decisions are not being made amongst family members behind closed doors."

Keeling believes structures also need to be in place to facilitate levels of ownership and control. Open and honest communication between family members regarding what people want from the business is also key. As part of that communication, a conversation about shareholder agreements should take place in the early days of the business. "I do believe quite strongly in the up-to-date shareholder's agreement, which does have a mechanism for exit," declares Keeling. "A review of agreements every five years gives an opportunity to discuss key things and enables conversations that might not otherwise happen."

CONTINUOUS DEVELOPMENT

After taking over the business from her father, the former IMAGE Businesswoman of the Year realised that in her pursuit to drive innovation she needed to divide her development into three key areas: intellectual, emotional and physical intelligence.

Education is a powerful tool and over the years Keeling has attended various business courses to improve the way she views the industry. She recommends networking with others who are involved with family businesses. "One of the things I did for industry experience and continuous development was to ask for help," she says. "I reached out to senior business leaders at conferences and picked their brains. This enabled me to gain valuable insights from the experience of others."

> IF YOU LEARN HOW TO MANAGE YOURSELF, YOU CAN PROBABLY LEARN HOW TO MANAGE OTHERS

Another important element is to understand how your personality fits into the business. For Keeling, psychometric tests helped her understand how her traits, strengths and weaknesses were impacting her work. "If you learn how to manage yourself, you can probably learn how to manage others," she says. "I'm in the 0.03% of people who welcome change, which means I'm not that empathetic to someone who isn't open to developing the business."

In the wake of this discovery, Keeling was able to alter the way she brought new innovations to the table, and worked hard to improve her team-leading and management by balancing dominance with encouragement. Physical intelligence can often be overlooked by those in business, according to Keeling. "Stress management, sleeping, nutrition and fitness are all important in order to perform at your best."

With multiple dynamics often across several generations within a family business, it is important to remember that a return on investment needs to delivered. "A family business should be run like any other, while also being mindful of protecting family relationships," says Keeling. "The proper company structure, shareholder agreements, job allocation and communication will all help a family business flourish."

GROWING SUCCESS

While most recognised as a popular consumer brand, Keelings also runs a successful technology arm, Keeling Solutions, which licenses software to other fruit producers around the world. With a clear expertise in food distribution and logistics, the company also manages Tesco's fresh and frozen food distribution in the Republic of Ireland and has developed Food Central, a dedicated food distribution park north of Dublin Airport.

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FAMILY CHARTER – PLANNING THE WAY

Transitioning family wealth and businesses to the next generation can be a challenging and time-consuming task. Over time, family assets become increasingly complex as business interests grow and asset portfolios expand. Lack of planning can lead to costly public family breakups and dissipation of wealth. Also, relationships across generations and between different family members are more complex than ever. With issues arising from divorce and the potential of children from other marriages, a family charter (or family constitution) is an important safeguard to protect and manage a family's wealth.

A family charter is a bespoke document created for a family with their input. While it is a living, breathing document and subject to revision from time to time, it is worth a family investing the time at the outset to document what the principles, goals and aspirations of the family are, as well as the family values, not only for the current generation but also for future generations.

The charter sets out to devise a framework for all family-related matters. Typically, it not only focuses on the family's business affairs but may include succession, education, health, maintenance and support for family members as well as protection of the family and their wealth.

It outlines how each family member will work together and how they should engage with and approach decisions across areas such as the family businesses and their governance, passive and active investments and family structures. It is common for a charter to lay out principles for dealing with disputes, distributions, responsibilities and power. Underlying legal agreements such as shareholder agreements, trusts etc will accompany the charter.

One key area charters may focus on is defining the terms on which a family member may join the family business. For example, what roles family members play, if interviews are conducted and what remuneration is provided. This can avoid conflict within the family business between family and non-family employees. Because entering the family business is no longer a rite of passage, modern charters often outline the minimum experience and qualifications a family member needs for a position within the business. Family charters may also cover the treatment of external appointments.

"Family" has a broad definition and a crucial constituent of a charter is defining who is covered by it. For example, should it be just direct descendants or will it cover the wider family group of relations by marriage?

In today's complex environment, family charters are far more commonplace than before and an important tool to enable successful succession planning and wealth protection for families.