New Davy fund helps BES raise €3.2 million

By Elaine O'Regan

BES Management, a joint venture company owned and managed by Davy and BDO, has raised a €3.2 million fund under the new Employment & Investment Incentive Scheme (EII Scheme).

The Davy EII Fund is the nineteenth fund raised by BES Management. The EII Scheme was introduced by the government to provide a source of equity funding for SMEs at a time when funding from traditional sources is limited.

BDO partner Sinead Heaney said the new Davy EII fund was "actively seeking" suitable companies to invest in.

"Essentially, it builds on – and replaces – the old Business Expansion Scheme (BES), taking the benefits of the BES and extending them considerably with the following key changes," said Heaney.

The EII Scheme widened the remit for companies that could raise EII funds significantly, she said.

"It's no longer only manufacturing companies and those involved in internationally-traded goods and services, as was the case with BES. 'EII funding is effectively available as a source of finance to all companies – some minor exceptions apply," she said.

"Companies can now raise a lifetime limit of up to €10 million whereas, under BES, the limit was €2 million. Furthermore, under the new scheme, the amount that can be raised in any 12-month period has also been increased from €1.5 million to €2.5 million."

The EII scheme now also has a shorter investment term of three years compared to five years under the BES. For private investors, Heaney said the EII scheme offered attractive tax relief of up to 41 per cent to invest in medium-term equity capital in companies.

"As a result of the wider remit and increased investment limits, we have been experiencing demand from companies which previously did not qualify – as well as those, which had previously reached the €2 million BES-limited."

The fund operates on a competitive basis and is seeking to invest in established businesses with a track record, strong management team and a defined investment strategy.

The EII fund is an equity investment, which is repayable after the three-year investment period.

Andrew Bourg, director of BDO's Corporate Investment & Business Advisory said BES Management was Ireland's longest-running BES manager.

"The Davy EII Funds follow a defined investment strategy by investing the funds in a range of companies across a number of industry sectors, which spreads the risk and provides a more balanced portfolio," he said. In the last 15 years, Bourg said the funds had invested about €128 million in some 140 indigenous Irish-owned firms, including Green Farm Foods, Helix Health, Big Red Book, Glenisk Yogurts, IBAT College as well as a number of windfarms.

Brian Davy is chairman of BES Management

Brian Davy of Davy, Sinead Heaney, partner, BDO and Andrew Bourg, director, BDO

What not to do when starting up your own business

New business owners face a steep learning curve. Here, **Shane O'Toole** lists the top ten mistakes start-ups should avoid


Shane O'Toole

By avoiding common pitfalls in the early stages, you stand a better chance of surviving and thriving in the long term.

1. Going it alone

It is difficult to build a scalable business if you are the only person involved. Some businesses can start with one person, but to get to a stage where the business can actually generate profits in excess of the founders' contribution, additional employees are needed. Make sure your pricing allows for you to bring in other people or you will find it very difficult to grow.

2. Asking too many people for advice

It's good to get advice, but too many opinions can cause confusion and slow down progress. Choose your advisers carefully, pay for input if necessary and set up a monthly review with them.

3. Spending too much time on product development and not enough on sales

It's hard to build a business without a good product or service. It's impossible to build without sales. Many start-ups spend too much time on their products and often run out of money before the market has been approached properly. Without sales, you don't have a business.

4. Targeting too small a market

It is tempting to try to corner a niche, but your company's growth will quickly hit a wall if the market you're targeting is too small. Think about it – if your product/service is only of benefit to companies with 5,000-plus employees in Ireland – then you are limiting yourself to a handful of potential clients. Always be open-minded on where you can make money.

5. Entering a market with no distribution partner

It is easier to break into a market if there's already a network of agents, brokers, manufacturers' reps and other third-party resellers ready, willing and able to sell your product into existing distribution channels. Fashion, food, media and other major industries work this way; others are not so lucky. Make a list of potential referral sources before you start your business and ask them if they'd be willing to send business your way.

6. Overpaying for customers

Spending big on advertising may bring in lots of customers, but it's a money-losing strategy if your company can't turn those dollars into life-time customer value.

Figure out how much you need to spend to get a customer and what profit you can make on the relationship. It is no good spending €10,000 on advertising to get 1,000 new customers if you lose 5 cent per customer when the cost of acquisition is taken into account.

7. Raising too little capital

Many start-ups assume that all they need is enough money to rent space, buy equipment and stock – and drive customers through the door. What they often forget is that they also need funds to pay for salaries, light and heat, insurance and other overhead expenses until their company starts turning a profit. To avoid this, prepare a rolling 12-month cash flow analysis monthly.

8. Raising too much capital

Believe it or not, raising too much money can be a problem, too. Over-funded companies tend to hire too many people too quickly and waste too much money on non-core activities, distracting from the main goal of delivering a return on investment.

Sometimes these companies don't get their product to market due to lack of funds and second/third round financing is not possible as the management team is no longer viewed as credible.

Money makes the world go around so watch finances from the very start and create a management information system to enable the measurement of key metrics on a monthly basis.

9. Not having a business plan

This is like trying to run a marathon without training. If you wouldn't attempt to run 24 miles without working out a plan to build your stamina how could you expect profits without working out the steps that need to be taken along the way.

10. Over-thinking your business plan

While I have met a couple of successful people that haven't prepared a business plan, I have also met individuals whose business is five years in the making on paper and may never take off.

The key is to get the balance. In real terms, there is very little excuse for poor planning these days, with all the supports offered from free templates to subsidised mentoring. Remember, it is okay to make mistakes and learn from them. The key is to ensure they don't cost more than you have.

Shane O'Toole is managing director of Advanced Accounting

AIB confident of continuing high levels of foreign direct investment

In a competitive global economy, Ireland is holding its own as a popular location for global investment, and high levels of foreign direct investment (FDI) are set to continue, according to Diarmuid O'Neill, head of corporate banking Ireland, AIB.

"We have a very low corporation tax environment. There is a readily-available supply of skilled labour and the cost of doing business in Ireland has reduced year-on-year with regard to rents, business services and general business costs," said O'Neill.


Diarmuid O'Neill, head of corporate banking Ireland, AIB

As the only English-speaking country in the euro zone, with easy access to the EMEA (Europe, Middle East and Africa) region, O'Neill said, Ireland is a strategically important location for international corporations.

"In addition, one of the most important fundamentals is the pro-investment policy of successive Irish governments over the last three decades."

The attraction for investors went beyond Ireland's corporate tax regime, O'Neill said.

He pointed to the IMD World Competitiveness Yearbook in 2011, which identified Ireland as the most popular destination for FDI due to, among other things, our legal regime and the availability of labour.

While emerging economies like China and India will play an increasingly important role, O'Neill said the US would remain at the heart of Ireland's FDI landscape.

"US investors continue to see Ireland as having a great future and as being a key European player. This confidence in Ireland is demonstrated by the exceptionally strong start to the year, which has seen significant investments and expansions by leading international companies," said O'Neill.

Ireland's FDI pipeline is currently strong, with some 40 companies from across the globe looking into the possibility of setting up operations here.

The IDA's target is to ensure that one fifth of Ireland's greenfield investment comes from emerging markets.

O'Neill said AIB was fielding many requests from these jurisdictions regarding the possibility of doing business in Ireland.

He said trading relations between Ireland and the US were "critical" to the Irish economy.

"Bilateral trade is about €27 billion. In the mid-Nineties, inward investment in Ireland was €11 billion – it is now €165 billion."

With hopes high for an export-led recovery, Irish companies and US multinationals will have a crucial role to play.

"Look at the trade between Ireland and the US; there are 1,300 companies of Irish descent in the US. Ireland has invested €34 billion in the US and employs about 80,000 people," said O'Neill.

'We are offering FDIs a full range of retail and corporate products'

There are about 600 US-owned business operations here, accounting for combined investment of €165 billion and 100,000 jobs.

O'Neill has worked with AIB's FDI unit for the past 12 years, travelling regularly to meet the heads of multinationals with a presence in Ireland.

He said that, while AIB held a leading position in Ireland's FDI market, its aim was to sell not AIB but rather Ireland as a location of choice.

The bank's FDI unit employs 36 staff whose sole focus is to service multinationals in Ireland.

"We offer FDIs a comprehensive range of corporate and retail products and each corporate is assigned one dedicated relationship manager who will be their one point of contract.

"It is a very customer-centric model," O'Neill concluded.

AIB