



Autumn 2007

Old Mill and food orientated businesses

At Old Mill accountants and financial advisers we are proud of our tradition of providing accounting and business services to growing food businesses. Over the years we have built up a wide and diverse selection of clients who operate in the 'food industry' in its broadest sense.

In many cases these businesses have grown from traditional farming roots. Farmhouse cheese makers loom large, farms who diversified many years before it became fashionable and have now grown into very significant businesses. We look after some of the largest farm shops in the region – more recent but no less significant examples of diversification.

From food wholesalers and distributors to commercial food manufacturers; from small value added producers to restaurants we look after food businesses of every shape and form. Although there is a rich diversity of business there are common themes that run through their interests and requirements. With our experience of the sector Old Mill is ideally positioned to provide service and advice both to the businesses and the individuals who run them.

Farm shops – how far can they grow?

There has been a rapid growth in both the number and scale of farm shops over the past five years. In the West Country every market town now seems to have at least two farm shops around the edge and there are many others that are seemingly in the middle of nowhere.



There is no doubt that the market for farm shops has been growing but some pundits have been questioning whether the market has reached saturation point and question whether the current level of growth is sustainable.

In reality there is probably considerable room for further growth but some of the simple solutions of just stocking more lines and opening a café may need to be re-examined and businesses need to discover new focuses to build on their strengths.

The farm shops which we look after at Old Mill range in turnover from millions to only tens of thousands. Not all these farm shops have the same aspirations and we are increasingly seeing specialisms emerging within the range of shops.

Old Mill can help farm shops identify which strengths they can develop. As well as accountancy and tax work we have also helped farm shops and food businesses with strategic planning and marketing advice.



Family companies

The majority of food companies in the West Country are family run with family members being involved in the day-to-day running of the business. Large or small most companies have a very strong family involvement. As accountants this offers us interesting opportunities to help. Each family will have different circumstances and we need to look at what is the best business arrangement for them. Longer term aspirations can determine whether a sole trader, a partnership or a limited company is the most tax efficient option for now or the future.

A major issue for many family companies is often over succession and Inheritance Tax. The experience that Old Mill has gained dealing with families over a number of generations allows us to help with proactive planning to enable transitions to be as painless and tax efficient as possible.

Pensions planning is another area which Old Mill can help with. Changes in the pension regulations for April 2007 mean that associated Commercial property can now be put into a Self Invested Personal Pension (SIPP) and this is proving to be a very attractive and tax efficient way forward for many family businesses.

New business planning

One of the sad features of food companies is that so many are started with a bright idea and a lot of enthusiasm – but do not progress beyond that point. All too often more than 10% of the prospect businesses on our food sector mailing lists have ceased trading between one year and the next. Working with your Old Mill accountant can help ensure proper business objectives

are set and that practical plans are drawn up to achieve these objectives.

For many businesses the difficult stage is to progress on from being a cottage industry. This point of gear change is one in particular that Old Mill can help you manage. No-one goes in to business to fail – Old Mill advice can be instrumental in helping you ensure you succeed.



Buying and selling a food business

The food sector is quite noticeable for having an extremely active market in companies. From major national companies to local specialist food shops there is constant activity. If you are looking to sell a food business the most important thing is careful planning and preparation – grooming the business over a number of years to optimise its value.

Old Mill has a vast experience in helping food business through these transactions. Our Corporate Finance team in Exeter help larger businesses through purchases and sale including due diligence and valuation work. For smaller businesses our Business Services teams throughout the business have hands on experience in helping with sales and purchases often acting as facilitators alongside your bankers and solicitors.



Case study – Dorset Blue Soup company

Dorset Blue Soup is an excellent example of what can be achieved with initiative and enthusiasm – but the experience also highlights some of the problems that can arise with growing food businesses.

Set up five years ago by Emily Davies, Dorset Blue Soup stems from a classic opportunity. Her father, farmer Michael Davies, had been early into farm diversification when he re-launched the famed Dorset Blue Vinny Cheese twenty five years ago. In the process some cheese does not get utilised and it was found this made a superb base for rich warming soups. Enter Emily with her drive and enthusiasm.

Emily found that there were other potential economic soup ingredients available, particularly with gluts from local growers, and a full range of soups has developed. With sales of soup tending to be seasonal a range of chutneys has been added to utilise some summer gluts and spread production throughout the year.

Emily's enthusiasm is very much taken with finding innovative ways of marketing what she produces. The obvious route has been retail but this has not been as simple as it appears – especially as the soups have a relatively short shelf life. She sells direct to local farm shops, delicatessens and four 'local' Waitrose supermarkets. However attempts to sell through wholesalers have not produced the results hoped for and margins become squeezed.

She has always been keen on promoting the business through local shows, markets, point to points and even

Packaging and the environment



Claims of excessive and badly designed packaging increasingly hit the headlines. 'Wrap rage' is prevalent. The role of packaging is to present, protect and preserve our food. Without developments in packaging technology we would not have the sophisticated retail distribution which exists today.

Without packaging we would be forced to resort to local shops on every corner or old fashioned bartering. In short, the major cities of the world would come to a grinding halt in a matter of weeks.

Innovati is a packaging consultancy set up three years ago by Jonathan Fowle. After many years of experience in the packaging industry he found that his expertise and experience was in demand in an industry that had to face a changing future. He is able to offer independent and objective advice to all companies from small and medium enterprises to international businesses.

Jonathan explains: "The UK government is encouraging us to use less packaging and to sort our household waste for recovery. Laudable aims. It has formed an organisation named WRAP (Waste Resources Action Programme) to assist companies to reduce the volume of packaging. Funds are available to food and non-food producers to encourage implementation. Substantial grants have been awarded to down gauge both carbonated drinks PET bottles and glass beer bottles. Fresh produce packers have been given funds to

lightweight their wrapping films. Local South West businesses should take note and be pro-active. Several leading retailers and brand owners – including M&S, Sainsbury and Nestle – have signed up to the Courtaulds agreement. This is a voluntary arrangement to reduce the amount of packaging consumed. The leading retailers have also been keen to parade their green credentials with bags for life, promises to recycle plastics into clothing and become carbon neutral.

Recycling is like education. We all believe in it but our record of putting it into practice is poor. In the UK we recycle about 15% of our waste although probably about a half could be recycled with an appropriate infra-structure.

Glass can be transformed into new bottles, paper is pulped into cardboard, cans go into more cans and PET bottles can be converted into clothing. Recycling a plastic bottle saves sufficient energy to power a 60W light bulb for 6 hours. The complication is that plastics are comparatively lightweight and local authorities get brownie points for reducing the weight of rubbish sent to landfill."

Given the plethora of alternatives and the complexity of legislation, it is little wonder that consumers, local authorities and local businesses are unclear what to do about packaging and its impact upon the environment.

A coherent approach can really improve the financial outlook for businesses and packaging can often be sourced more cost effectively. The good news is that local help is at hand to guide you through the maze. Jonathan Fowle can be contacted at jonathanfowle@hotmail.com.

Glastonbury Festival. The success of sales of warm soup to be consumed on the spot seems to offer considerable potential and Emily is currently exploring a few possibilities to expand this side of the business. Sales to catering outlets such as food pubs are another area to explore.

There is no shortage of ideas and will to succeed but sometimes Emily finds it difficult to measure just how successful each initiative is. Which parts of the range are generating most profit – indeed with design and packaging costs could it be that some parts don't actually pay? Which are the most profitable routes to market, where is most margin generated? How should she properly cost her own time and the time of friends and relatives who often help out?

It was to find answers to questions like these that led Emily to turn to Old Mill as accountants. She felt that



their more proactive approach with a willingness to go beyond the basics would help her focus the business into more manageable proportions. With motherhood imminent Emily needs to be sure that the business is set up on a sustainable, rational footing.



Food festivals

Local food is now huge PR. 'The rather negative image of farmers as producing Butter Mountains' and 'Milk Lakes' has been replaced by the fashion for 'local food'.

This has encouraged a proliferation of 'Food and Drink Festivals' across the region which give valuable opportunities for food businesses to promote themselves to the increasingly important local market.



Old Mill are pleased to have been involved with local food festivals for a number of years including as a sponsor of the Mendip Food and Drink Festival and organising events at the South Somerset Food Festival.

www.mendipfoodfestival.co.uk

(19th to 28th October 2007)

www.southsomersetfoodfestival.com

(29th September to 7th October 2007)

www.exmoorfoodfestival.com

6th – 14th October 2007

Client profile – Brown and Forrest

Establishing the right team of professionals before you embark on a Management Buy Out will be a key factor in making sure the transaction goes smoothly. Jesse Patisson, owner-manager of the Somerset based smokery and fine food company, Brown and Forrest, found it was the only way to keep stress levels to a minimum.



Jesse has been managing the business at Hambridge, near Langport, for five years and only became the owner in September 2006. He feels very lucky to have gathered around him a top class team of accountant, financier and solicitor and "in the end the purchase all went beautifully smoothly".

Brown and Forrest started as a small family business in the early 1980's smoking eels in a converted cider barn at Bowdens Farm in Hambridge, which overlooks a peaceful corner of the Somerset Levels. For the first 20 years most of their business was mail order and also very seasonal (75% of annual turnover arriving in November and December). The range of products has grown to include mouth-watering delicacies such as salmon, haddock, poultry, cheeses and garlic. Since Jesse joined the business it has gone from strength to strength; they now have a thriving shop and restaurant on site and supply 22 'Michelin' restaurants including

some of the very top eating venues in the country. They provide exclusive products to Fortnum and Mason and Jesse is proud to have Hugh Fearnley-Whittingstall as a friend too.

Jesse previously worked as an Agricultural Consultant and as the Chief Executive of a Farming Co-operative in East Anglia but on approaching thirty he realised that he was feeling unsatisfied with his career and knew he ultimately wanted to work for himself. Through Jesse's wife's family in Somerset he knew the owners of Brown and Forrest and began doing some consultancy work for them before discussions turned to a longer term commitment. He agreed to manage the business with a view to buying it four years later as the family had no interested successor.

When looking for an accountant to see him through the Management Buy Out, Jesse felt very strongly that he wanted somebody who was "commercially minded, not just numbers minded". A contact recommended Old Mill and they struck up a good rapport straight away. In calculating the value of the business there was much discussion on the subject of 'goodwill' and how much 'book value' this represented. Brown and Forrest actually had very few tenable assets, apart from "fridges and freezers", as the smokery and restaurant property was rented.

Old Mill were able to put Jesse in touch with both "a decision-making, imaginative banker" and very quickly a team was put together to enable a smooth and trouble-free transaction.

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