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Value-added Business Success Factors: The Role of Investor Attitudes and Expectations

here has been a surge of interest in farmerowned business ventures that seek to capture additional value from commodities past the farm gate. Some of these ventures have been very successful, some marginally successful and some have failed. Supported by funding from the Ag Marketing Resource Center at Iowa State University, we conducted in-depth interviews with farmer-owned businesses to determine the key factors that influenced the relative success or failure of these ventures. A better understanding of why some ventures succeeded while others failed provides valuable insight for the success of future farmer-owned businesses. This article focuses on the role of investor attitudes and expectations in business success.

Research Method

To identify factors having the greatest impact on the success or failure of farmer-owned business ventures, a cross-section of seven farmer-owned commodity processing businesses formed since 1990 in North Dakota, South Dakota and Minnesota were selected. Extensive interviews were conducted with individuals who played, or continue to play, an important role in the formation and operation of the business. This included leaders in the formation of the business, key members of the management team, selected board members, lenders, local leaders and others.

Research Results

A common theme in the genesis of farmer-owned business ventures was the frequent connection with a commodity group or grower association. Often key leaders of the venture were active in commodity or grower associations.

Improve farm prices – Typically the motivation for the venture was to improve commodity prices rather than generate a return from the business investment. In fact, the idea of forming a farmer-owned business often arose only after efforts to attract an established processor to the area had failed. The grower-member's preference for higher commodity prices rather than business dividends was quite marked and sometimes led to conflicts within the business. The failure of at least one venture was attributed, in part, to grower contracts that were arguably too generous.

High pay-out expectations – In cases where member investment returns were distributed through end-of-year value-added payments, farmer-investors sometimes had unrealistic expectations of the level of returns. Thus, the board of directors and management faced demands from the farmer-investors for early and substantial pay-outs that were sometimes in conflict with the organization's need to retain earnings to build reserves or pay down debt. Members using borrowed funds to buy their shares likely added to the pressure for substantial pay-outs. Realistic member expectations regarding the potential business profits are critical to the success of farmer-owned business.

Investment expectations – A successful equity drive is the first hurdle faced by all farmer-owned ventures. At least one individual from each business we interviewed emphasized the importance of having an "organizing board" comprised of well respected community and business leaders, as well as respected producer investors. The stature of this board was considered to be one of the most important factors in the success of the equity drive.

The recent success or failure of other farm-owned businesses also appeared to have a great deal of influence on producer attitudes and willingness to invest. Attitudes toward investment often appeared to be based more on emotion than on a project-specific feasibility analysis. Investment decisions must be made on sound business principles, not emotions.

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Multiple investment objectives – Investors often have multiple objectives or motivations. In addition to personal economic benefits from increased commodity prices or investment returns, many investors are motivated by a desire to promote local economic development or by pride of ownership. These investor motivations can make site selection and other decisions difficult. Several of the organizations interviewed reported that plant siting decisions, while always difficult, can be complicated by parochial influences.

An example was a community that was the runner-up location for what turned out to be a very successful farmer-owned business. Regardless, the leaders and farmer-investors from the community were eager to establish a processing operation in their community and set out to do so. The business failed within a few years. When the desire to locate a business in a specific community supersedes sound business decisions, the likelihood of success can be seriously compromised.

Another example of multiple investment objectives was resolved when investors unhappy about the site selection were offered a refund of their investment. The refunds resolved a dispute that threatened to derail the entire project and the remaining investors and board members were able to move forward as a united group. Multiple motivations can complicate the effort to launch a new venture. But an awareness of these alternative motivations can help to mitigate future conflicts.

Shared business vision – A shared vision of the business venture's goals and priorities by management and the board of directors is critical. It can have a profound effect on business viability. For example, management may see a need to reinvest to grow the business in order to insure long term viability whereas the board may be sensitive to members' desire for substantial pay-outs from the net proceeds. The vision for the business is something that should be discussed very early in the process and prior to recruiting the management team. Regardless of what the shared vision looks like, it is critical that management and the board of directors have a compatible vision of the future of the business.

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