

Assessing Agricultural Processing Investment Opportunities

When considering an investment in an agricultural processing business, focus your thoughts on the following eight areas. These are some of the major topics to investigate when considering a business investment. This should improve your odds of making a wise investment decision.

- A) Investigation and Planning** – Has the business concept been thoroughly investigated and adequately planned?
- B) Leadership** – Are the project leaders capable of creating a successful business?
- C) Economic/Business** – Will the business be profitable?
- D) Management** – Is management capable of successfully operating the business?
- E) Markets/Industry** – Will people/companies buy the product?
- F) Facility/Technology** – Will the process work?
- G) Financial** – Are there sufficient funds in place for start-up and operations?
- H) Conclusions** – What are the overall conclusions of this investment opportunity investigation?

Each of these topics is investigated in more depth below. This file provides you with a “checklist” of questions that are important in assessing each of the topics above. Answer each question yes (Y), no (N), maybe (M), don’t know (DK), not applicable (NA) or otherwise as directed.

This checklist can be used during or after an equity offering presentation to guide your investigation, to identify important questions to ask the project leaders and as a guide to assess the business plan or disclosure documents.

A) Investigation and Planning – Has the business concept been thoroughly investigated and adequately planned?

1. Has a third party marketing study been conducted? _____
2. Has a third party feasibility study been conducted? _____
3. Has a comprehensive business plan been prepared? _____
4. Has adequate independent due diligence been conducted? _____
5. Conclusions of this section _____

B) Leadership – Are the project leaders capable of creating a successful business?

1. Integrity/honesty

- Are they sincere and trustworthy? _____
- Are their values similar to yours? _____

2. Expertise

- Do they understand the process of investigating a business idea and creating a business? _____
- Do they have the array of skills needed for the project (e.g. marketing, financing, negotiation, etc.) _____
- Have they done this before? _____
- Are they regarded as leaders in the business community? _____

3. Commitment

- Are they committed to bringing the business to fruition? _____
- Have they invested their own money in the venture? _____

4. Advisory Team

- Have they assembled an advisory team? _____
- Is the advisory team well regarded in this field? _____
- Does it contain industry, business and marketing consultants, along with legal and accounting advisors? _____
- Are gaps in the leader's skills covered by those of advisory team members? _____

5. Conclusions of this section _____
_____**C) Economic/Business** – Will the business be profitable?**1. Business Model**

- Do they have a clearly defined business model? _____
- Does the model describe how the business will make money? _____

2. Budgets

- Are there budgets of per unit costs and revenues? _____
- Do these budgets use realistic assumptions and project adequate profit margins? _____

3. Business Strategy

- If the business produces a commodity, is it a low cost producer relative to its competitors? _____
 - If it produces a unique or differentiated product, can it realistically command a premium price? _____
 - Are risk mitigation programs in place to provide protection from unexpected occurrences? _____
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4. Conclusions of this section _____
_____**D) Management** – Is management capable of successfully operating the business?**1. If Management has Not been Hired**

- Will the leaders search for the most qualified candidate and pay the person the wage needed to attract him/her to this business? _____

2. If Management has been Hired

Do the managers

- have experience in the industry and know its key players? _____
- have experience starting and running a business? _____
- have a positive track record? _____
- have experience in the businesses' core functions (e.g., marketing, procurement, etc.)? _____

3. Conclusions of this section _____
_____**E) Markets/Industry** – Will people/companies buy the product?**1. Industry Analysis**

- Have the industry and markets been thoroughly analyzed relative to the opportunities for this business venture? _____
- What is the stage of the market life cycle (emerging, growth, mature, declining)? _____
- Is this business part of a clearly defined and functioning supply chain? _____

2. Output Market Access

- Are there contracts in place with buyers of the product? _____
- If not, is a solid marketing/sales team in place? _____
- If not, will the outputs be sold through a marketing firm? _____
- If so, does it have a positive track record and reputation? _____

3. Input Market Access

- Are there contracts in place with sellers of raw materials, ingredients and other inputs? _____
 - If not, will the inputs be purchased through another firm? _____
 - If so, does it have a positive track record and reputation? _____
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4. Competition

- Have potential competitors been identified? _____
- Can the business beat the competition? _____

5. Conclusions of this section _____
_____**F) Facility/Technology** – Will the process work?**1. Facility**

- Are there plans to build a new facility? _____
- If so, is the general contractor experienced, competent and sufficiently funded? _____
- Are performance contracts and assurances in place? _____
- Are all permits in place and regulations met? _____
- Are there plans to lease a facility or have the product toll processed? _____
- If so, is a contract in place with the proper assurances? _____

2. Technology

- Is the processing technology proven? _____
- Is the technology provider experienced and competent? _____
- Are performance contracts and assurances in place? _____
- Will the output meet market requirements? _____
- Is proprietary technology involved? _____
- If so, is it protected through a patent or as a trade secret? _____

3. Conclusions of this section _____
_____**G) Financial** – Are there sufficient funds in place for start-up and operations?**1. Capital Needs**

Is there sufficient capital to

- fund operations until the facility is up-and-running at full capacity and revenue is generated from sales? _____
 - cover business operations if unexpected problems arise that delay business start-up? _____
 - provide liquidity to meet operating needs after the facility is up-and-running? _____
 - cover an unexpected industry downturn? _____
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2. Equity

- Is there sufficient equity planned? _____
- Is the equity offering “minimum” adequate to capitalize the business? _____
- Can the current equity campaign raise this level of equity? _____
- Does the legal structure provide adequate liquidity for shares? _____
- Does the plan for distributing profits versus retaining profits meet your expectations? _____

3. Debt Financing

- Are lender(s) in place to provide sufficient debt financing? _____
- Are the lending terms reasonable? _____

4. Projections

- Do the financial projections appear reasonable? _____
- Do the price, conversion and other assumptions appear reasonable? _____
- Do the projections show an adequate debt repayment ability? _____
- Are profitability and cash flow projected under various price and production levels (sensitivity analysis)? _____

5. Conclusions of this section _____**H) Conclusions** – What are the overall conclusions of this investment opportunity investigation?

For more information on business development, visit the [Ag Decision Maker website](http://www.extension.iastate.edu/agdm/vdanalysis.html), www.extension.iastate.edu/agdm/vdanalysis.html.

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