

COMMUNITY FUTURES ALBERNI- CLAYOQUOT BUYS A CANDY STORE: A CASE STUDY

AS TOLD BY:

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DATE OF ACQUISITION: 2020

LOCATION: Port Alberni, BC



INTRODUCTION



ABOUT THE BUYER

Community Futures Alberni-Clayoquot (CFAC) provides services and program supports to entrepreneurs and owners of small and medium-sized businesses. Services include business financing, business plan consultation, planning and start-up assistance.

ABOUT THE SELLER

Coombs Country Candy is a Vancouver Island candy company specializing in making one-of-a-kind chocolates and sweet delicacies. The owner was seeking to retire after 45 years in the candy-making business.

MEDIATION SUPPORT

Venture Connect, a subsidiary of six Community Futures offices, is located in Port Alberni, British Columbia. Venture Connect supports business owners and buyers focusing on rural communities to ensure business retention during unprecedented demographic shifting and business transitions. Services include mediation, valuation, business planning, and due diligence, among others.



Photo: Coombs Country Candy Facebook page

“I think for many non-profits, the challenge will be evaluating what's a good purchase and what isn't. So, when this came along, it was a real fit. Lori knew it. And I knew it because we had discussed the things that weren't a fit, so I think for many non-profit directors, they will have to go through that process of understanding what's a good business for them and what isn't, and why.”

-Darrell Goertzen, Venture Connect

OVERVIEW

In November 2020, CFAC purchased Coombs-Country Candy, a candy-making business with eight full-time and eight part-time staff that has been operating in the Alberni Valley for 26 years.

CFAC's Executive Director first identified the opportunity in March 2020. Following eight months of discussions and negotiations between the buyer and seller, with mediation provided by Venture Connect, the business was purchased for \$270,000 plus inventory.

The building remains the seller's property and is leased to the new owner. From the outside, not much has changed. Coombs Country Candy has the same dedicated staff, location, quality products, and service. But new ownership will allow the business to grow and scale with the business expertise of Community Futures' staff. A percentage of profits will be re-invested in community initiatives and projects.

MOTIVATIONS

At its core, CFAC is an entrepreneurial organization. The organization already owns a business (Venture Connect) and delivers contracted services to public sector organizations. The purchase of a candy business was seen by senior management and the board as an opportunity to generate a new revenue stream to support the expansion of CFAC's work in the community.

The seller was seeking to transition ownership and retire. The seller wanted to preserve the legacy of their business and liked the idea of selling the business to a community organization.

“For many non-profits, one of the things we do at Venture Connect is to encourage people that are thinking of starting businesses to look at buying a business instead because you can get to your goals faster. And if there's already a track record, you can actually finance it. It's a far better approach than putting \$50,000 into a start-up, which then takes a long time to come around and drains the time of people in the organization far more than taking something over.”

-Darrell Goertzen, Venture Connect

SELECTION CRITERIA

“So I'm thinking, great. Somebody that's trustworthy, somebody that's been there a long time; she can do pretty much everything in there from soup to nuts, making the chocolates to the marketing. All of that was a very big checkmark for us as it meant that we would not have to go in and run the business on a daily basis.”

-Lori Camire, CFAC

While CFAC staff have business expertise, the organization sought a business that could operate independently. As such, a key consideration for identifying the right candidate was a business with existing skilled staff that wanted to stay on with the new owner and who could take over operations and management responsibilities. Coombs Country Candy already had a dedicated and capable staff that often managed the business when the owners were away.

“You don't want a business where it's driven on the back of the owner, and he or she's got a few people that really just do what they're told. So, something that's really stratified, where the owners are way up here, and everybody else's way down there, that doesn't work. You need skill throughout the company in a small business, and that's not easy to find.”

**-Darrell Goertzen,
Venture Connect**

OTHER CRITERIA THAT WERE IMPORTANT FOR CFAC INCLUDED:

- Potential for growth and scale: Coombs Country Candy was profitable, and CFAC saw an opportunity for online sales to expand the business
- Light manufacturing activities that allowed opportunities for people with barriers to employment
- A business where barriers to new market entries would be high
- Established and well-run business with a good reputation in the community.

ACQUISITION DETAILS

IDENTIFYING THE OPPORTUNITY

CFAC's Executive Director was familiar with the concept of business acquisition, and while not actively searching for a business, she was tuned into local business opportunities. So when Coombs Country Candy came on the market in March 2020, she saw the opportunity and presented it to the Board. Securing buy-in required ensuring that Board members understood the opportunity and how it aligned with CFAC's mission.



Photo: Coombs Country Candy Instagram page

“As the Executive Director of a business development agency, I had the idea of acquisition in my mind for a long time but never had a serious conversation with the Board; I really never thought it would happen and wasn’t in the hunt for a business. It wasn’t until the “ideal” business presented itself that I broached the idea with the Board.”

-Lori Camire, CFAC

PURCHASE PROCESS

After initial discussions to confirm the board's comfort with purchasing the business, CFAC prepared to make an offer. CFAC bylaws do not allow the organization to own a business directly, so it would be necessary to establish a holding company.

CFAC initiated discussions with their lending institution to explore the options for financing the purchase. However, the terms offered by the lender were too restrictive, as they required assets to secure a loan. Not willing to give up on the deal, CFAC successfully secured an alternative source of financing with more flexible terms from another Communities Futures office (Community Futures cannot lend to their own individual organizations, but they can lend to and borrow from other Community Futures offices).

Venture Connect provided a valuation of the business to support and justify the offer, performed due diligence and completed a business plan to demonstrate the potential for the business.

Venture Connect was instrumental in the success of the transaction by providing mediation. The Executive Director and Board Chair of CFAC also spent considerable time navigating the transaction details, including determining what was included in the sale and negotiating a lease agreement for the building. In August, lawyers were engaged by the sellers to review the letter of intent to purchase. This led to further discussions related to the terms of the deal.

That November, the ownership of Coombs Country Candy was officially transferred to CFAC.



Photo: Coombs Country Candy Facebook page

TRANSITIONING OWNERSHIP

As part of the transition process, all the business accounts for suppliers and utilities had to be transferred to the new owner. While this was relatively straightforward, there were a few instances where it was beneficial to maintain an ongoing relationship with the seller, who was willing to use its credit account with suppliers while CFAC was waiting for its business credit card to arrive.

Once it was appropriate to do so, CFAC met with the existing employees to communicate their intentions as the new owners and to establish a relationship of trust and respect that would ensure a smooth transition. CFAC staff worked with Coombs Country Candy's management staff to provide training so that the business could be independently managed in the near future. The seller also agreed to stay on and train apprentices until February 2021.

As the new owner, CFAC has introduced online sales and is exploring opportunities for enhancing the community benefits of the business, including hiring people facing barriers to employment and using the facility as an incubator for entrepreneurs.

KEY CHALLENGES

Financing: CFAC bylaws do not allow the organization to directly purchase a business, which meant that CFAC had to create a holding company to purchase Coombs Country Candy. Since the holding company is a new entity without a track record, CFAC's long-time lending institution was unwilling to provide them with an unsecured loan for the purchase. To overcome this challenge, CFAC worked with another Community Futures office to borrow money on terms that would give them the flexibility they needed to use their cash reserves for other projects and initiatives that advance the community, which could include investing in growing Coombs Country Candy.

“Financial institutions see that [the holding company] as a company with no history. We were offered financing but needed 100% of the loan secured by collateral or cash. Collateral, in this case, was valued at about \$60,000 leaving the remaining value of the loan backed by dollars.”

-Lori Camire, CFAC

Decision-making: Unlike a traditional business acquisition, where one or two buyers are typically involved in the decision-making, non-profit decision-making often involves many people who have different degrees of interest and understanding of business and the acquisition process and different risk tolerances.

KEY SUCCESS FACTORS

CAPACITY AND KNOWLEDGE

Community Futures is a unique not-for-profit entity as it has expertise in business management and provides advisory services to others. As such, there was a level of knowledge and risk tolerance among the board and staff that allowed the organization to understand the opportunity and act on it. However, even though Community Futures staff have business expertise, they still needed external advice and support.

“We found Darrell at Venture Connect invaluable. He’s experienced in business transitions, kept both parties motivated, answered all questions, and assisted with various negotiation points and moving forward.”

-Lori Camire, CFAC

PERSEVERANCE

The acquisition process was new to the organization and perseverance was key to pushing through the roadblocks they encountered along the way.

“We overcame that challenge by communication, information backed by facts and supporting documents, perseverance and respect.”

-Lori Camire, CFAC

COMMUNICATION WITH BUSINESS STAFF

When the time was appropriate, CFAC met with the staff of Coombs Country Candy to address any concerns with new ownership, build trust and let staff know that the owner was looking forward to working with them and growing the business.

LESSONS LEARNED

“The acquisition asked the board to play a very different role and we had to work through many questions. Why are we buying a business? Why can't you just let another entrepreneur buy the business? I think these sorts of questions would have been dealt with if it had been a strategy discussed well in advance.”

-Lori Camire, CFAC

- Organizations should develop a strategy for acquiring a business. It is important to know what kind of business your organization is looking to buy and why.
- Given the time-sensitive nature of business sales, it is important to identify personnel within the organization that will serve as spokespeople and be responsible for managing the negotiations.
- Be prepared to dedicate considerable time not only to put the deal together but also after the transaction is complete, depending on the skill set of staff taking on management responsibilities. CFAC is working with Coombs Country Candy staff to build capacity so that the business can be operated independently, thereby allowing CFAC staff to focus on their own priorities.

“They [non-profits] probably need to go a little further in the transition with some support than another business owner. So if I'm just a business person, and I'm buying another business, by the time I cleared all the hurdles, I don't need anyone else other than the previous owner to give me a bit of training and how we transition. The difference is that how you oversee a business is very different for nonprofits than overseeing their own organization. So, establishing what guidelines to govern the person who is actually going to be running the business, what reporting are you expecting? What priorities to give them? I think more advice past the takeover stage, at least the first three months, is critical.”

-Darrell Goertzen, Venture Connect



Photo: Coombs Country Candy Facebook page

