

M E M O R A N D U M

11 August 1983

TO: Dr. J. Boillat

FROM: Dr. H. Olders

RE: Study by Solidav on acquisition of Collective Revolution Inc.

As you requested, I have reviewed the above mentioned study, prepared by Mr. Gerald Weintraub. According to the covering letter by Mr. Weintraub, the documentation which I reviewed is a brief outline of a market study which was presented to Immigration and Employment Canada. The outline favors the acquisition of a company called Collective Revolution Inc., which grows and sells alfalfa sprouts to the Quebec market under the trade name "Luzernobec". After acquisition, the company would be operated in order to provide employment for patients of Douglas Hospital.

I will begin by stating my conclusions: although the overall idea is quite attractive, in my opinion there is insufficient information to permit a decision to be made about supporting or rejecting the proposal.

Before detailing my specific comments, I would like to summarize the plan described in the outline:

- 1) The Corporation of Douglas Hospital would provide funds (approximately \$60,000) to permit Solidav, a non-profit corporation formed to promote the integration of ex-psychiatric patients into the labor market, to acquire and to operate a company called Collective Revolution Inc., which grows alfalfa sprouts under the trade name Luzernobec.
- 2) Although the purchase price is presumably subject to negotiation, the figure of \$60,000 was provided by Maheu Noiseau, Chartered Accountants, and consists of two principal components:
 - a) the trademark, name of the company and goodwill, assessed at \$45,000, and
 - b) production, equipment and leasehold improvements, valued at \$12,500.

- 3) Once acquired, the present owners would continue to operate the firm, under contract, for a six month period, during which time Solidav would search for and hire a management team consisting of three individuals: a director general, a production manager, and a personnel manager. The six month overlap would provide for training of the new management team.
- 4) Non-skilled labor in the plant (primarily packers) would be partially replaced by Douglas Hospital clients, paid at the minimum wage. Government subsidies would be needed for the first three years of operation, until the venture becomes self-sufficient.
- 5) Because there is, at present, insufficient supply to meet the demand of the Quebec market for alfalfa sprouts, growth of the company is envisaged, primarily by the acquisition of automatic growing machinery to replace the current manual and largely home-made equipment.

Following are my comments, in no particular order:

- 1) The trademark, name of the company, and its goodwill, were evaluated by the Chartered Accountancy firm by using a somewhat arbitrary method, i.e. by calculating the commission that would need to be paid to a "promotional agent" if the same annual sales were to be generated over a three-year period. Whatever the method of calculation, the bottom line is the value that the present owners themselves would place on the company.
- 2) The goodwill and name are not necessarily associated only with the company as an entity in its own right; it is likely that customer loyalty is primarily to the current owners, rather than to Collective Revolution Inc. Are the present owners willing to agree not to engage in competition for a certain period of time?
- 3) Because there are only a very small number of alfalfa sprouts producers, finding a production manager with the requisite expertise, who is not a producer himself, might be very difficult.
- 4) Since the limits to expansion of the firm seem to be due to cash flow problems at present, it seems unlikely that such problems would disappear upon acquisition by Solidav. How much money would the Corporation need to provide, in addition to the purchase price, to allow for operating expenses and expansion, eg., purchase of new equipment?
- 5) The projected figures for the first three years of operation under Solidav ownership appear to be based on a linearly increasing production from new equipment, as well as a linearly decreasing production rate from the old equipment. This seems unrealistic, as incremental increases or decreases based on actual production capacities of equipment may be more appropriate.

- 6) The projected figures are also based on the possibility of doubling the market penetration, and no account has been taken of the possibility of competition either on market penetration or on price. If the current situation is such that one could project self-sufficiency after three years, even if using workers who may not be optimally productive, such as psychiatric ex-patients, it seems reasonable to assume that other producers will enter the market, thereby causing price as well as income to drop.
- 7) At some level of production, automatic packaging equipment will become more cost effective than manual labor. In order to stay competitive, the company would have to decrease the number of low-skill positions suitable for ex-patients.
- 8) The outline does not provide data on the price or the production capacity of automated growing equipment.

I believe that additional information needs to be provided to resolve the above points satisfactorily. However, I feel that such information would still fail to support the feasibility of outright purchase of Collective Revolution Inc. as envisaged by the outline. It might be fruitful to explore other ways of accomplishing the equivalent in creation of jobs for ex-patients; for example, that the present owners of Collective Revolution Inc. be approached to determine their interest in continuing as full or part owners, with Solidav becoming involved as possibly a partner, but in any case to provide cash for day-to-day operations or capital or loan guarantees for new equipment acquisition, in return for providing jobs for Douglas Hospital patients.

Yet another alternative would be to consider setting up a company to produce alfalfa sprouts de novo, perhaps on the hospital grounds, or located elsewhere, and to hire production expertise for the start up phase.

Thank you for the opportunity to review this outline. I look forward to discussing it with you, at your convenience.

Henry Olders, M.D.