When Fund Managers Play Board Games

Perspectives: October 31st, 2024

We recently came across a US$20mn microcap stock exchange listed company in the chocolate manufacturing industry, called the **Rocky Mountain Chocolate Factory** . Besides an interesting name and origin story, what also caught our attention was the newly appointed CEO is *also* the CEO of an investment firm that owns 18% of said chocolate company's shares.

Investment analysts and business leaders in the investment industry who have only ever worked with public [stock-exchange listed] equities can easily find themselves lacking many important business skills. The reality is that only people who have actually worked in industries with business models that include having **inventory** and **debtors** will have any real world understanding of it. An interesting fact about the investment industry business model is that there is *no* inventory and *no* debtors. On highly rated academic graduate and post-graduate courses that supposedly teaches analysts how to 'analyse businesses', the content on inventory and debtors appears largely non-existing or limited to a few routine accounting formulas.

As we met over nearly three decades with businesspeople operating companies with business models that include inventory and debtors, which is the case in most industries, we learnt that managing their inventory and debtors are top priorities, and indeed key risks. The real reason – inventory [products they have *not* sold yet] and debtors [money they are owed but have *not* received yet] need to be funded with the cash resources of the company. Everyone who owns a business knows that CASH is everything. Ever heard of the saying 'CASH IS KING'? On top of that, inventory is physical, has economic value, and therefore it can be damaged, aged, or stolen. It is so common there is even a special word for this – 'Shrinkage'. Debtors can also age badly, in the sense that they might pay later than agreed or hoped for, might be unable to pay in full, or even go out of business themselves. This is called 'Bad Debt Write-offs'.

We know that any decent businessperson and business operates with sophisticated and robust inventory and debtor management systems and procedures. They do this because they know these are *critical* elements of the operational cash flows of their companies. They know that if they ever lose track and control of their operational cash flows, they are basically dead in the water like a ship at sea without any form of power.

There are *many* other vitally important aspects of business models that many investment analysts may lack practical real business-world understanding and appreciation of. Governance; How a board functions; Manufacturing; Distribution; Marketing; Sales; Customer relationships; Public relations; Human resources; Succession planning; Product innovation; Customer service; Operations; Creditors; Stakeholder relationship management with shareholders, debtholders, directors, employees, employee unions, competitors, communities, regulatory bodies, and governments. The list goes on and on.

My point? Over and above the inherent conflict of interest, what credibility might the CEO of an investment firm, which I am in a position to know to be a fulltime occupation, offer by also taking up the fulltime CEO role of a small, struggling, loss-making, chocolate manufacturing company, with complex retail and franchise operations in the US, Panama, and the Philippines?

It would be a sketchy proposition at best to ever invest a cent of our customers' fund capital into a challenged business in any other industries that need people from the *investment* industry to go and run or even govern their show on a part-time or full-time basis.

Source: Google Finance

Our work continues...

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