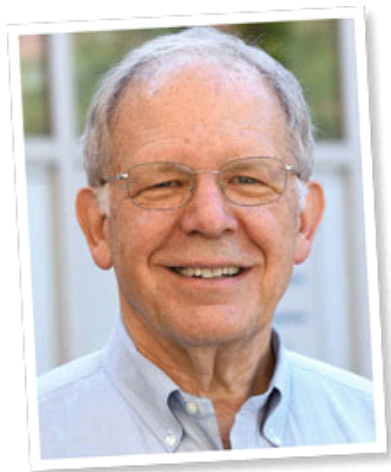


1/1/2022

A New Year's Resolution for Survival

Bill McCurry



Bill McCurry

If your New Year's resolution is to identify and mitigate the unique risks of the unknown year ahead, it could save your business.

Most in our industry had record-setting profits and cash flows in 2020 and 2021. The pandemic showered us with people who'd never been in our stores before. Established customers spent more. We sold out of product. We had piles of cash at the end of the season.

The cash buildup came from three major areas:

- Higher sales—because of existing customers and many new customers.
- Higher margins—because there weren't overstocks, markdowns or competitive pressures. If we had it in stock, we sold it.
- Inventory liquidations—most of us ended the seasons with abnormally low

inventory. Inventories had been converted into cash.

It's possible 2022 will be a third banner year. I asked two dozen North American retailers for their thoughts. Everyone said 2022 sales would be equal to or better than 2021. I hope they're correct. However, hope is not a strategy. There's danger in assuming the past will repeat in 2022.

Things that might derail these optimistic expectations over the next 120 days are:

- COVID flare-ups could restrain customer mobility or necessitate lockdowns again.
- Consumer spending depends on how consumers feel, not what is measured by Washington bureaucrats. Saying inflation is "transitory" won't change consumers feeling strained at the gas pump or grocery store, reducing their horticultural spending. Some in our industry believe we're "recession proof." That's possibly true when talking about the top 5% income group, but much of our recent growth came from customers who can't access savings to continue their discretionary spending.
- If inflation does occur, what do you guess your percentage increase of costs of goods will be? Multiply that percentage times your annual cost of goods. That tells you how much more cash you'll need to replace your new inventory. If you sold last year's inventory at last year's prices, you may not have generated the cash to rebuy this year's inventory.

- How significant are energy costs? Will this cost change be enough to require an increase in selling prices?
- What if there are continued product shortages and your suppliers say they'll give priority to companies that pay "check with order"? Can you write checks in advance for your new inventory?
- What "perfect storm" could cause your sales to plummet?

As a small businessperson, I advocate the enthusiasm and optimism that has driven small business growth. That doesn't mean we shouldn't make a New Year's resolution to seek "what if" scenarios from our accountants or CFOs.

Do you ask your accountant to help you forecast and project the future? Make an appointment now to review the potentials outlined above. Share what you expect from your sales and inventory levels, along with your margin/profit expectations for 2022.

Too many small businesses only see accountants for tax work. They don't authorize the accountant to review their cash flow forecasts. There are too many variables in 2022 not to invest in outside perspective. The question for your advisor is simply: "If any or all these negative potentials happens, will my company have the resources to survive? If I end the summer with no cash, but inventory up to my rafters, can I survive to my next selling season?"

Many garden centers invested or spent the cash they generated. Will you have what's needed if things don't turn out as optimistically as you hope? If it looks close maybe you decide not to load in as much inventory, thereby reducing your risk. That also will likely limit your upside while ensuring your survival. Each company must make their own decision on how much to risk against their potential payback. What's critical is that you ask these tough questions while you still have time to adjust your plans for 2022.

Happy New Year! **GP**

Bill would love to hear from you with questions, comments or ideas for future columns. Please contact him at wmccurry@mccurryassoc.com or (609) 688-1169.