

GROWERTALKS

Growers Talk Business

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How Do You Figure?

Art Parkerson



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In the nursery industry, everyone I've ever revered has given me the same advice: "The plant business is really the PEOPLE business."

Sure it is. But it's still a BUSINESS. The bottom line is the bottom line and every line is a number. That's what a business truly is: numbers. It's not people or products. Not customers or vendors. Not mission statements or competitive advantage.

Of course, it's all those things and more. That's obvious. But all those things are ultimately numbers. We just don't often know what those numbers are exactly.

You don't have to be all that bright to succeed in business. In fact, cleverness can be a real disadvantage. Plenty of brilliant people who acted like they knew the numbers better than anyone else have gone bankrupt. Having a

"feel" for the numbers is probably better than "knowing" the numbers.

How do the numbers work? There's really three numbers that drive every business: margin, volume and velocity. Margin is the difference between what you pay for something and what you sell it for. There's various ways to calculate this; don't get hung up on that. There's a dog chasing you and it's name is Margin. (Actually, for this dog analogy, I guess Margin is really the space between you and the dog.) Is it a Doberman or a German Shepherd? Who cares what you call it or how you calculate it—just don't stop running in the right direction.

For growers, it's almost impossible to know your margin with certainty, so don't feel bad if you feel like you're guessing. Most of us are. The important thing is to know what affects the margin. Don't let the dog sneak up on you because it will bite you in the you-know-what.

Volume is how much you sell. Multiply margin by the volume and that's what you make, right? That's the bottom line.

Well, we're nearly there. The other thing to figure is velocity. It's the ace up your sleeve. It's like a super power for products and for cash. How quickly does the product turn? How fast do you transform your expenses into income? Nestled neatly alongside this question of velocity is the idea of cash flow, which is a pretty important number. But cash is not a lever that you pull, it's the result of the other levers you've pulled—namely margin, volume and velocity.

If you have a new idea for your business (like a product line or a new piece of equipment) or if something changes

(like input costs, a labor shortage or a large, unexpected order from a new customer) you need to know what it's likely to do to margin, volume and velocity.

Grasping these levers is called acumen. You don't have to be an intellectual to have acumen. Plenty of ordinary people understand the mechanics of the core numbers without needing to explain them. How do you know if someone has this acumen? How do you know if you have it?

At this moment in history, the surest sign that someone has acumen is that they're raising prices. Here's another sign: they can do the math.

Recently, someone asked me how much I'd raised prices. I told them, "Last year, we raised prices in August by 3%, then 10% in December. Then, in April of this year, we raised them again by 5%. So that's like 19% in about nine months!"

They replied, "How do you figure that? $3 + 10 + 5$ is 18, not 19!"

I said, "Are you serious?"

How do you figure that?! There are years and seasons (maybe even decades) when the numbers seem to take care of themselves. Your business is running along fine! Well, this is not one of those times. Don't let the mountain of cash you're sitting on fool you. Now is the time to really watch the numbers.

The answer probably isn't to grow more, to bump up the volume. I don't know your numbers, but I'm willing to bet "more volume" is the wrong move for you. What am I saying? You can't get the containers anyway. And even if you can get the containers (not to mention the media and the liners), you can't get the labor. And even if you can get the labor, you can't get the trucks to deliver it all.

So how do you do less and make more? Your guess is as good as mine, but I think it has something to do with margin and velocity.

And people! Don't forget: the plant business is the PEOPLE business. My personal heroes of the green industry weren't wrong about that. It's good advice. What they were really saying was, "The right people in the right places doing the right things make the numbers come out right." Numbers are the bottom line, but they don't get there by themselves. **GT**

Art Parkerson lives and works at Lancaster Farms, a wholesale nursery in Suffolk, Virginia. To say hello, write to art@lancasterfarms.com.