Moves to make while the economy is still good

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MARKET FLUCTUATIONS AND SHIFTING consumer trends can create economic complications for businesses across industries. However, even though an economic downturn may be looming, the nursery industry's current strength provides a sturdy foundation for making informed business decisions that could position companies for stability and growth, regardless of outside influences.

Following are three steps your nursery business can take to evaluate and bolster its strengths while the economy is still stable.

Develop a people plan

When determining future business goals, it's important to identify leadership gaps and decide how best to fill those needs. This can be achieved through a few steps.

1. **Build your leadership team.** Begin building a strong nursery-leadership team by taking the following measures:
   - Fill missing roles.
   - Invest in high performers and make them future positions.
   - Identify the most important elements of each position.
   - Determine necessary title and compensation changes.
2. **Plan for succession.** Once established, your leadership team is responsible for determining potential successors. Specifically, leadership should address CEO and other top-executive succession planning, considering internal and external candidates.
3. **Management succession.** While leadership succession planning often gets more airtime than management succession, it's difficult to implement ownership and wealth transitions without an effective management succession plan.
4. **Provide employee resources.** Leadership should be able to provide insight into development programs available to employees. These programs are critical for preparing a business for succession.

When effectively made, your people-development plan should yield a significant return on investment and be a net positive to your business' bottom line.

Invest in IT solutions

Many growth-minded nurseries invest in information technology (IT) solutions, enterprise resource planning (ERP) systems, and other technologies to enhance business efficiencies. However, there are steps your company should take before investing in new software.

1. **Analyze your software.** Increasing the effectiveness of your technology environment requires an understanding of current operations and a plan for implementing improvements. IT updates can be expensive, so it's important to allocate your investments to systems with the most need. Before investing in new technology, your company can perform an IT assessment. An assessment can reveal how systems, infrastructure, practices, and procedures can better meet your business' needs. It can also evaluate operations and pinpoint priorities.
2. **Advance your technology.** An IT assessment might reveal that your ERP system isn't providing the support your company requires. For example, it might be time to upgrade your system if it's falling behind in supporting business applications or your provider has notified you that the system's being discontinued. As your company grows, it's important your IT system can sustain its needs — supporting inventory accounting, new lines of business, and point-of-sale considerations. Additionally, if your system heavily relies on manual processes, it could benefit from automation and integration. Regardless of your decision, any IT system requires ongoing assessment.
3. **Develop a plan.** To improve your software transition, leadership can review its strategic and tactical IT plans and develop an implementation strategy. This plan should include a budget and timeline, key transition personnel, a user training approach, and an integration strategy.

Examine your finances

Monetary stability is central to your company's success. However, many business owners overlook the balance sheet and statement of cash flows when reviewing finances, instead focusing on income statements or profit-and-loss statements. For all their virtues, however, profit-and-loss statements shouldn't eclipse the balance sheet or statement of cash flows.

1. **Understand your balance sheet.** To better understand your company's balance sheet, you need to know the differences between the cash-basis and accrual methods of accounting.
   - **Cash-basis accounting.** Cash-basis accounting ignores the accounting constructs of inventory, accounts receivable, prepaid expenses, accounts payable, and more. Failing to account for these business areas can prevent management from having a comprehensive understanding of a company's finances. This can lead to inaccurate key performance indicator (KPI) results, mistakes, and confusion down the line.
   - **Accrual-method accounting.** Accrual-method accounting

requires balance-sheet recognition for assets and liabilities, such as accounts receivable, inventory, and accounts payable. The accrual method provides businesses with accounting information that's helpful when making comprehensive short- and long-term decisions. For example, an accrual balance sheet is necessary to accurately determine net working-capital position, debt-to-equity ratios, quick ratios, inventory turnover, and investment in unharvested crops.

2. **Review investments.** Being familiar with investments listed on your balance sheet can promote educated financial decisions and help prevent financial consequences in the event of a recession. Consider these key areas when reviewing company finances:

- **Capitalization.** Review how your business funds investments, such as debt financing versus retained earnings, and determine if you have the capital to weather a financial downturn.
- **Debt management.** Identify proactive steps for managing balance-sheet debt. Be aware of financial covenants and other significant terms.
- **Refinancing.** Measure the benefits of refinancing while your business fundamentals are strong and the potential consequences of refinancing in a future downturn.
- **Short-term credit.** Consider the consequences of using short-term credit lines to purchase long-lived assets.
- **Long-lived assets.** Determine if long-lived assets are appropriately financed with long-term debt and free up operating cash flow.
- **Excess capital.** Consider the consequences of overcapitalizing in your business and whether your company could benefit from distributing excess capital as an asset-protection measure.

Next steps

While you don't need to be an expert in finance management, it's important to prevent your financial affairs from undermining your business. To help with this process, assemble a leadership team and consult other advisors for additional insight.

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