

FINANCIAL INFORMATION,
 EDUCATION AND CONTROL
 FOR THE RETAIL FLORIST

Floral[®] Finance

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APRIL 2017
 VOLUME 36, ISSUE 4



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QUICKTAKES

*Ideas You Can Put
to Work Immediately*

1 Quick Survey

Ask your next five customers what they like best about the shop. Then ask them what they think could be improved. You'll get a quick feel for your shop's reputation.

On the positive side, you will gain a better understanding of your shop's strengths.

Most customers are uncomfortable sharing criticisms. However, when someone is willing to point out a flaw, listen carefully and consider what you can do to improve.

2 Marketing Partners

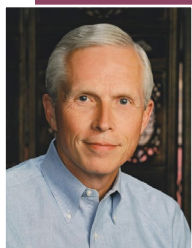
What other local businesses could refer good customers to you? Reciprocally, what businesses could benefit from referrals you might make? A caterer? A wedding consultant? A health club? Form a marketing alliance with at least one good partner before the week is over.

3 Build Trust

How do you gain the trust of others? The first step is to be consistent. Make sure that what you say is what you do. The more your words and actions line up, the more people will know that you can be trusted.

Next, admit your mistakes. When you have made an error, take responsibility and move on.

COUNT YOUR BLESSINGS



Whether you reside in Canada or the United States, have you stopped lately to think about how blessed you are to live where you do?

Last fall, the United States went through a tumultuous time trying to elect our next president. Yet even with the non-stop media coverage, campaign rhetoric and tension, most people were fairly calm and not terribly concerned about the transition of power.

In many countries, such elections would bring guns into the streets. Force would be used to wrest power.

North America, on the other hand, has enjoyed a multi-century "rule of law." That is the foundation of our daily lives. Even when a conflict goes into the courts, the issue still is decided by the rule of law.

Through good times and bad, our societal fabric allows personal freedom that is the envy of most of the world. And that freedom has led to opportunity and prosperity.

So, as you go about your daily activities in the shop, don't focus on the struggles of the day. Instead, think how blessed you are by the opportunity and circumstances that allow you to have the business you do.

Be thankful you live in a free society that operates under the rule of law. A society that respects both the will of the majority and the rights of the minority.

As imperfect as our society is on occasion, we are blessed to live here and help make it even better.

Paul Goodman
Editor

*Paul Goodman can be reached
at plgoodman@aol.com.*

Sales Incentives



Achieving Your Goals

You want to increase your sales. What's the best way to do it?

You could increase advertising. However, with advertising you spend money first and then hope to see results. How would you like to get the results first and then pay later?

With an incentive program, you can do just that. Here's how to set up one that really works.



GROUNDWORK

One approach to an incentive program would be to give the entire sales staff a bonus if overall sales increase. Maybe a percentage of the increase. However, that approach has fundamental problems.

How motivated would you be if you worked hard, only to see fellow workers who did not apply themselves share equally in the bonus? Also, because you were the only one working hard, total sales wouldn't go up much. As a result, your bonus would be pretty small.

Three elements are critical to an effective incentive program. As we look at each one, think how you would respond in your shop.

INCENTIVE RULE #1: The individual must control the outcome.

Incentives work best when the individual can control the outcome. In other words, you need to set a

bonus on the increase that each individual brings to the table.

How Do You Reward?

Do you reward an increase in the salesperson's average order size? Or only certain types of sales? Once again, put yourself into the picture. How would a reward for an increase in your personal average order size work?

First, you'd have to know what your current average order size is. Then, you'd have to track changes in that average over time.

From day to day, that would be very difficult. You often won't know if the average is going up or down. And until the end of the incentive period, the number might not really matter.

This would all be very complicated. And that's the problem.

People respond to goals that are simple to understand and easy to measure.

INCENTIVE RULE #2: The program must be simple. The individual must know immediately how he or she is doing.

The best approach is to give immediate rewards for specific achievements. The instant the employee hits the goal, the bonus is earned.

And that brings up the next logical question:

When Should the Bonus Be Paid?

The sooner, the better. The faster you reward performance, the faster you establish the value of that performance and incentivize the individual to continue on the same path.

It's called a "short feedback loop."

INCENTIVE RULE #3: Rewards must be paid quickly and frequently.

You can't give a reward after every sale. However, you should do so frequently.

Once a week is usually a good time frame. Short enough to keep enthusiasm high, yet long enough so the rewards can be significant.

Make It Noticeable

Suppose you earned a \$20 incentive bonus and that bonus was added to your next paycheck. How motivating would that be?

Not very.

In fact, you might not even notice the extra \$20, especially if you had worked a few less hours during that pay period.

Cash in hand is the better way to go. Bonuses should be paid in cash each week and shouldn't be a secret. As participants head home that night, they can be planning how they will spend their money.

And don't worry about the IRS. Simply add the bonus to the employee's next paycheck and at the same time enter an "advance" for money received. The taxes will be calculated correctly for the employee's W2.

THE DETAILS

To plan an incentive program that supports your sales goals, you will need to gather some data.

Remember that you don't want to be paying rewards for sales that would

come into your shop anyway. You want to reward employees who upsell or make completely new sales you otherwise would not have gotten.

You need to set a bonus on the INCREASE that each individual brings to the table.

First, eliminate all sales that are \$30 and under. This will take out single-stem sales and most small bud vases and arrangements. Also, eliminate sympathy sales. They are already large orders.

What you are left with are the daily arrangement sales you want to increase.

Once you know the average order size for those sales, set the incentive targets high enough so the shop will really benefit from the program.

Suppose, for example, that your average order is between \$65 and \$85. You might offer a series of incentives for orders \$99 or higher. Give \$1 for

the \$99 sale. Increase the bonus as the sales amount rises: \$2 for \$119, \$3 for \$149, etc.

If you want, you also can set incentives for sympathy sales. Just make sure you use different amounts for the different types of orders. Casket sprays would be one type and standing sprays another. Calculate your average order size for each, and then set the goal higher and the incentive larger.

You can also reward sales of special arrangements at holiday periods.

With these rules in mind, you can easily apply incentives that will boost the products you want to move and sales you want to grow.

Start with a fairly short-term incentive program—maybe four weeks. Use this first period to evaluate how the program is working and whether you have selected the right arrangement sizes and the right rewards. If you see any issues, make adjustments and extend the program for another four weeks. And then another.

As the program continues to succeed, your sales averages will climb, which means the thresholds you reward also will have to increase. 🌸



Won't Some Employees Be Hurt?

If you decide to reward performance, you run the risk of making some salespeople uncomfortable. But that's life. We reward performance everywhere and, in most instances, cheer it on. That brings out the best performance in most people.

Once your sales incentives begin to bring good results, you can reward performance in other areas of the business. Design incentive programs are a good place to start. See the next article on page 4.



Design Room Incentives

PAYING FOR PERFORMANCE

Before you can design an effective incentive plan, you must know your goal. In the article on page 2, that was easy. The goal was increasing sales. So, that is what you focused on rewarding.

Creating an incentive plan for the design room is a bit more complicated. To make money running a retail flower shop, you must carefully control cost of goods sold (COGS) AND payroll.

The design room is the focal point of COGS control. It also typically accounts for the largest part of the shop's payroll. So, a design room incentive compensation plan must take both into account.

they miss the target. Just be sure that you don't implement that part of the plan until everyone sees the goal is achievable.

Note: If you overbought (more flowers than the shop could sell), that wouldn't be the designers' fault but it would impact their bonuses. To prevent this, set and enforce proper controls on fresh product buying. Standing orders should not exceed 80% of anticipated weekly fresh product sales.

CONTROLLING COGS

Let's start with COGS.

Flowers can be lost in several different ways. For example, a florist might have poor care and handling procedures, buy more flowers than the shop needs or fail to sell the oldest product first.

However, for most florists, stuffing is the biggest COGS problem. The designers put more flowers in arrangements than the price point warrants.

There is only one way to stop stuffing: count and charge for every item in every arrangement.

With custom work, the designer must follow three steps to properly control COGS.

you sell \$2,000 of arrangements, the cost of the flowers and greens should not exceed \$500.)

Therefore, an effective COGS control incentive program will reward the designer for hitting that target.

It's your job to staff lean enough to ensure that the designers can reap the benefits of a productivity incentive program.

Monitoring COGS control for each designer would be too cumbersome. However, you can easily track fresh sales against fresh product purchased by week or by month.

In making those calculations, take out wedding and event sales and purchases. Normally, buying for these large jobs is done separately.

The COGS incentive plan is simple. Give bonuses to designers if the shop hits the 25% COGS target. Depending on your volume, bonuses might be between \$50 and \$100 per designer per month. As long as your COGS is on target, that bonus will be money well spent.

If you want both a carrot and a stick, you could impose a small penalty when

How do you control payroll? By keeping productivity high.

If you schedule too many designers on a given day, no one can be very productive. It's your job to staff lean enough to ensure that the designers can reap the benefits of a productivity incentive program.

To develop an effective and fair design productivity incentive plan, you must know your shop's design output and the number of design hours that level of production would normally require.

Take a typical four-week, non-holiday period. Track your fresh product sales for each day of the week. Add all the Mondays together, divide by four and you'll have the average amount of fresh sales on a typical Monday. Then, do the same for all the other days of the week.

As with the COGS incentive plan, don't include wedding or event sales in these calculations. They will distort your averages.

The next task is to determine how many design hours you need.

A good target for design payroll (including payroll taxes and benefits) is 10% of the retail price of the arrangements produced. If your payroll taxes and benefits are

COGS CONTROL INCENTIVES

Fresh product COGS should be 25% of the arrangement's retail price. (If

between 15% and 20% of pay, you will be able to pay 8.5% of production in wages.

Example: If a designer puts out \$1,200 of designs in an eight-hour day, you could pay her \$102 for the day (\$12.75 per hour) and hit your target. If she produced \$1,500, you could pay \$127.50 for the day (\$15.94 per hour).

PRODUCTION PAY CONTROL INCENTIVES

The simplest way to reward design productivity—and, therefore, control payroll—would be to pay wages equal to 8.5% of the designs produced.

An alternative would be to set a minimum hourly wage and then pay either that hourly wage or 8.5% of design production, whichever is greater. This would give the designers the assurance that even on a slow day, they would make a reasonable amount.

INCENTIVE IMPLEMENTATION

Not every shop needs to incentivize both COGS control and design productivity.

Some florists have no problem controlling COGS. The designers already count everything. And the buyers don't purchase more product than the shop can use. However, the shop's design payroll is higher than it should be. Productivity is a problem. If so, that's where the incentive program should focus.

Other shops have no problem turning out the product. Productivity is high. Unfortunately, their COGS is out of control. In that case, stuffing can be eliminated through a COGS control incentive program.

PREPARATION

Before you implement an incentive program, do a dry run or two. Gather some data. See how the planned incentive program will impact your shop's bottom line and your employ-



ees' compensation. You don't want to head out into the darkness without a flashlight.

If your current COGS figures continue, will you pay out bonuses immediately? Or will the designers have to get more serious about a counting control system before bonuses kick in?

And what will design compensation look like at various levels of production? Make sure that both the shop and the employees will benefit as productivity increases.

'YOU'RE CHANGING MY PAY!'

A COGS incentive system is fairly easy to implement. Most designers will cooperate.

However, that is not the case with a production pay incentive. The designers most likely will have some fear and trepidation.

To help smooth implementation, start by gathering production statistics on all of your designers. Figure out exactly what would happen to each of them with your proposed system.

Who will be the winners and who will be the losers? If you are

overstaffed, you may have to thin the ranks so the system can actually work. You must have enough work so that each designer will have an incentive to perform.

Then, step back and determine if your plan is feasible. The smaller the shop, the harder it will be to implement an incentive program. Designers may be doing a lot of other things besides designing. As you go forward, you'll have to figure out how to compensate them for that other work.

Once you are ready to go, gather all of your designers together. Present the system. Answer their questions.

But don't stop there.

Also take the time to meet with each designer individually. Never change an employee's pay without a face-to-face meeting. Explain what the compensation will be if productivity stays the same and how much more can be earned if output increases.

You may want to phase in the system to give the designers time to adjust. Guarantee the team the same pay for a period of time. Offer to pay the higher of their normal pay or the new incentive compensation.

THE DISGRUNTLED DESIGNER

Designers who have consistently produced at a low level may not be happy with the new plan. These individuals will respond in one of three ways:

1. Leave the shop;
2. Step up production;
3. Accept lower pay.

Be prepared to let underperformers go, especially those who have a bad attitude. You can't take the chance that their bad attitudes will spread to the rest of the staff.

...

Yes, it will take courage to shake things up with a design room incentive program. But once the plan is in place, it will quickly become the new normal. Most designers will rise to the occasion. Some will get serious bonuses.

Don't hesitate to give out a big paycheck to a superstar. The more the other designers see what is possible, the more likely they are to up their game, too. 🍀

The Ideal System

Even if your designers are already hitting the 25% COGS target, you may want to reward that achievement with a bonus.

Similarly, if your production is high, it's a good idea to reward the designers for their productivity. The designers who produce more get bigger bonuses.

Rewarding performance will keep the desired culture strong. And any new employees will get the idea very quickly.

CONTROLLING CONTRIBUTIONS

PLAN, DON'T REACT

Each year, you get many requests to donate to worthy causes. It seems everyone wants centerpieces or other flowers at their events.

WHY GIVE?

There's no doubt you will be asked for donations. The real question is why should you give anything away?

There are many reasons.

You may want to support the community that has been so good to you. Or maybe you're just a soft touch.

From a business standpoint, however, you give because it provides some sort of return. Donations can help you build solid relationships with important customers. Donations also can provide good exposure/advertising. Regardless, the bottom line is that donations can be an entrée to more business. More orders.

Most business owners will say that a certain amount of generosity is worth it.

SET & ABIDE BY YOUR GOAL

Once you've defined your reason(s) for giving, it is easy to judge whether a particular request will produce the results you expect.

Most florists expect a contribution to build a stronger relationship with customers and/or provide exposure for the shop.

Establishing some rules for your donations will help keep you on track. The first rule? Give only when the request comes from a customer. The only exception would be when you clearly see a significant advertising benefit.

Second, make sure you are satisfied with the way your shop will be recognized. You'll probably want (and deserve) more than a mention on the bottom of the next-to-the-last page of the program.



SET A BUDGET

Set an annual contributions budget just as you do for every other expense. The total amount you are willing to give, as well as how you want to spread that giving over the course of the year.

If you decide to donate \$4,000 worth of goods and services, will you limit the contributions in any one quarter to \$1,000? That approach will ensure exposure throughout the year.

Contributions should be considered a part of your advertising expenditures. So, if your total advertising budget is 4% of sales, you might want to allocate 0.5% to contributions.

When valuing your contributions, use the flowers' retail prices. (The article on page 7 explains the correct accounting for contributions.)

DONATION APPLICATION FORM

To control and assess contribution requests, have each requesting party complete a contribution request form.

This form should include all of the information you need to evaluate the request. Name, address and phone number of the individual making the request. Description of the event or need, including date, place and time. Number of guests/attendees expected. Description of the product requested. Method by which the donation will be acknowledged.

Don't forget to include a place to indicate whether the individual is a customer and, if so, for how long.

A contribution request form shows that you take requests seriously. It also demonstrates that you have a system for making donations.

When a form is turned in, tell the individual that you or your staff will review the request and respond by a certain date. You might state

that you have a budget for contributions and that the request will have to fit within your budget guidelines. You could also mention that you must check your event calendar to make sure there are no conflicts with other event obligations.

By following this process, you won't have to answer yes or no on the spot. You can consider each request carefully. You also have provided advance notice of several points on which you can decline the request.

FOLLOW THROUGH

When you do make a donation, follow up to make sure it was worth it.

How many people were exposed to your gift? How well was your shop actually recognized? Write down the details, including whether you would make the same donation again next year.

REMEMBER, IT'S A GIFT

It's easy to feel guilty about not granting every request you receive.

Don't.

A gift is just that—a gift. You should feel proud and satisfied when you can make a donation. You should not feel obligated to do so or feel guilty when you don't.

Contributions are a part of business. They can be good for both the giver and the recipient. All it takes is a little planning and preparation. 🌸

ACCOUNTING FOR CONTRIBUTIONS

Usually when a retail florist is asked to make a contribution, the requestor wants flowers.

A centerpiece. Something for the speaker's platform. Or maybe a floral decoration for a registration desk.

The simplest approach is to go to the cooler and pull out an arrangement. That's it. You don't ring it up. You don't record it.

After all, you've already paid for the flowers, supplies and labor, so the costs will be expensed properly. Why do anything else?

Two reasons.

First, by giving away arrangements without ringing up a sale, your cost of goods sold (COGS) will appear higher as a percentage of sales than it actually is. Second, you will have no record of what you gave away.

Both of these problems can be solved with proper accounting.

RING UP GIFTS

What? It's not a sale, you say, because you are not getting paid.

That's true. However, for your COGS to be correct, the transaction needs to be rung up as if it were a sale. It's as if you wrote a check to the organization and they turned around and bought an arrangement.

Your cash register will want to know how this "sale" is being paid for. Ring it up as a charge. And then use your receivables system to manage the accounting.

To be specific, set up a house account called "contributions" or "advertising." Charge the donations as non-taxable sales to that account.

At the end of each month, your bookkeeper or accountant should write off the balance in this house account to the contributions or advertising expense.

Your COGS will be correct, and you will have a running total of how much you have given away.

From an accounting standpoint, you put in the revenue as a sale and offset that with the expense entry.

THE MOST COMMON ERROR

Many florists give arrangements away without following the procedures above. They do not ring it up. Instead, they keep a record of their charitable donations.

By giving away arrangements without ringing up a sale, your cost of goods sold (COGS) will appear higher as a percentage of sales than it actually is.

Then they will try to claim the retail value of those contributions on their tax returns.

The IRS doesn't look kindly on that procedure. It's like taking credit twice for the gift. The shop already deducted the cost of the products and supplies at the time of purchase. Labor costs were deducted when employees received their paychecks.

To write off the retail value of the item as a contribution would be to get credit a second time.

ANOTHER WAY

If your contributions are relatively small compared to your total sales, you might choose to not ring up the arrangements, as recommended previously.

For tax purposes, you still will be fine. The cost of the donated products and labor were deducted when you paid for them.

The disadvantage of this method is a minor distortion of your COGS. You can make up for that by simply keeping a separate log of all your contributions.

The first method (treating the contribution as a sale) will provide greater control and give you more accurate information. The second is "good enough" for tax purposes and financial control.

Either approach is acceptable. Just don't double count for your contributions. 🌸

FAMOUS FINANCIAL WORDS

"It is always easier to fight for one's principles than to live up to them."—Alfred Adler

"If at first you don't succeed, you're running about average."—M.H. Alderson

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3737 NW 34TH ST.
OKLAHOMA CITY, OK 73112

INQUIRIES & ANSWERS LETTERS

HOLIDAY PAY

"Given the hectic nature of holidays and the inevitable overtime hours, shouldn't my payroll be slightly higher as a percentage of sales during these times?"

Absolutely not.

Holidays are hectic. You are handling many more sales. However, you also should be operating much more efficiently as a result of heavy reliance on production design-ing techniques. As a result, your design wages as a percentage of design sales should go down, not up.



An increased payroll per-centage during a holiday is an indication of poor man-agement. Most likely, you are throwing more people at problems instead of think-ing strategically about how to address the fundamental cause. A well-managed shop will have minimal overtime during a holiday period.

CASH FLOW

"How can my income statement say I made money, when I don't have any cash to show for it?"

Look at your balance sheet.

You are spending money on things that don't show up directly on your income statement.

Example: You make a \$5,000 profit in February, but you buy a new van and put \$3,000 down. That \$3,000 doesn't appear on your income statement. Similarly, you might use your cash to pay down outstanding payables or a loan.

Cash can go many different places. However, over a period of several years, your cash will match your earnings, because all of those items on the balance sheet should eventually make their way through the income statement or be paid off.

NORMS

ARRANGEMENT SALES



This is the percentage of a typical retail florist's sales that comes from arrange-ments.

In other words, about two-thirds of all the sales dollars you receive are for arrangement sales. That's a big number. In some shops, arrangement sales are even greater than this.

Most of your remaining sales also are related to flowers or floral services: silk/ dried, loose flowers, green plants, bloom-ing plants, service charges, wire-out commissions and delivery.

Only a small portion of your total sales—primarily gifts—are not floral specific. Remember, you really are in the flower business.

FLORAL FINANCE is published 12 times a year by Teleflora LLC

Annual subscription rate is \$89.95 domestic and \$129.00 (Canadian) in Canada.

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