YOU & YOUR CORPORATION
How's the Relationship Going? page 4

FINANCIAL INFORMATION, EDUCATION & CONTROL

41 YEARS

Floral® Finance

teleflora®

APRIL 2022
VOLUME 41, ISSUE 4

INSIDE THIS ISSUE

QuickTakes

Ideas You Can Put to Work Immediately

1 Personalized Compliments

Praise employees on their talents and accomplishments. And when you do, be specific. It will mean more to the recipient.

Use the name of the person to whom you are speaking: "Jayne, I really like the way you make customers feel so at ease."

2 Surprise Discounts

Everyone likes a nice surprise. And an unexpected discount is one of the best.

Surprise longtime walk-in customers with a small price break before they pay. Tell them how much you appreciate their business.

For house accounts, simply include a line item on invoices, noting the discount. To make sure customers see the discount, enclose a thank-you note.

3 Incentive Cautions

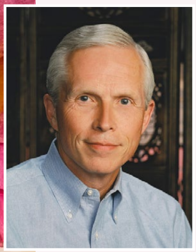
Incentives can boost employee morale and productivity—if you do it right.

Steer clear of a large prize that only one employee can win. Some employees will assume they can't win. Their performance may actually suffer—the exact opposite of your goal. Similarly, those who try hard but don't win may feel unappreciated.

Instead of one large prize, offer small rewards (cash, prizes, gift certificates/cards) that can be won by all employees who qualify.

FROM THE PUBLISHERS
OF FLORAL FINANCE®

COLLECTING ACCOUNTS



Many florists extend credit in the form of house accounts to almost anyone. We covered good practices for house accounts in the last two issues of *Floral Finance.* Here's a quick recap on what we learned.

Good credit policies will reduce your risk. Here are nine tips to reduce bad debt and speed up collections:

1. **Invoice each order.** Waiting until the end of the month to send a statement slows down the process.
2. **Send invoices immediately.** Don't wait. Invoice daily if you can. The quicker you bill, the quicker the customer will respond.
3. **Consider a rebilling charge for delinquencies.** Include a notice that explains your policy on all invoices.
4. **Resolve complaints at once.** Don't give the customer an excuse to delay payment.
5. **Age all accounts receivable.** You have to know exactly who the delinquent accounts are and how late their payments are.
6. **Use the phone.** Incorporate personal calls into your reminders.
7. **Stop issuing credit to delinquent customers.** You can decide when your "no more credit" rule kicks in (perhaps 60 or 90 days).
8. **Review your credit policies.** Do you need to restrict the availability of house accounts?
9. **Promote the use of bank cards.** Credit card payments can be just as convenient for customers. And credit cards reduce your risk.

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On the cover: Teleflora's *Purple Swirls*

Do Retail Florists Make Money?

A Path to Profits

How much profit can you reasonably expect to earn?

How much bigger does your shop need to be to earn greater financial rewards?

For many retail florists, the results are not encouraging. They take out a decent salary but don't show much profit on the bottom line.

WINNERS & LOSERS

On average, retail florists who pay the owner(s) a reasonable salary make less than 5% net profit.

However, that average hides the wildly varying results at individual shops. Some florists net substantially more than 5%; others, substantially less.

Floral Finance Business Services' consulting practice bears this out. We meet a fair number of shops that are losing money. We also have seen shops bringing more than 15% to the bottom line.

What factors separate successful shops from the not-so-successful ones?

A DATABASE

Some 35 years ago, *Floral Finance* started a bookkeeping service for florists. The idea was simple: Prepare monthly financial statements that would give owners and managers good financial information—and help them earn more profits.

As a by-product, *Floral Finance* slowly developed a pool of industry-specific statistical information. The database provided hard facts that answered many common financial questions and guided retail florists toward greater profitability.

Although *Floral Finance* no longer offers bookkeeping services, the database continues to supply helpful insights.

GETTING GOOD DATA

Comparing data for different shops can be tricky.

First, it isn't fair to compare one florist's January results with another's February figures. A meaningful

comparison will focus on the same time period for both shops.

Second, the accounting for each shop needs to be done in the same manner. That means similar general ledger codes and wire-order accounting procedures.

Third, you need a reasonably long time frame. Looking at data over time provides a better picture of overall profitability.

Fourth, the owners'/managers' compensation must be handled the same way in all shops. Do their payroll figures include a reasonable salary for the owner/manager? If not, net profit should be significantly higher.

The *Floral Finance* database met all four of these requirements.

INTERESTING ANSWERS

So, what did the data show?

Shops that paid their owners/managers salaries produced an average net profit of 4.6% of sales.

When the owners/managers were not on the payroll, net profit averaged 7.4%. However, if you subtracted a reasonable owners'/managers' salary, profit was below that of shops with their owners/managers on the payroll.

The data also showed that the most profitable shops are single-shop operations, not multiple-location businesses.

Why would that be? It's more difficult to manage multiple locations. That business model requires extra managers. And there are always inefficiencies with multiple locations.

Large multiple-location florists will normally bring more dollars to the bottom line because of their size. But their net profit percentage usually is lower than that of single-location shops.

THE BIG QUESTION

On average, the businesses with the highest profit as a percentage of sales were medium-sized, single-location shops. Why? We don't know for sure. However, staff size and management pay probably have something to do with it.

A well-managed $500,000 shop requires only about four full-time-equivalent employees (FTEs). (Two half-time employees make up one FTE.)

Sociologists who study this kind of data say that one person can effectively manage 7 to 10 employees. So, the $500,000 shop should not require a second layer of management beyond the owner. Since the business isn't paying out another big management salary, that means a stronger bottom line.

Bigger businesses are more complicated to run. They need one or more additional managers. That adds to overhead costs—and can lower profitability.

'IMPOSSIBLE!'

Some florists will say it is impossible to run a $400,000 shop with only one owner/manager, much less a $500,000 shop.

That's true in some respects. No owner can be on the job all the time. Everyone needs a little time off. And during busy holiday seasons, the shop may call in more part-time and temporary workers.

However, these facts don't necessarily suggest another manager is needed. The owner can appoint an individual to be in charge when he/she is out of the shop or when holiday workloads increase.

Bigger shops aren't quite so lucky. They require more management help all the time. As a result, overhead increases and profitability levels are harder to maintain.

THE BEST PAYROLL CHOICE

Shops that put the owner/manager on the payroll are generally better managed and make more money than those that do not.

Why? Psychologically, putting the owner/manager on the payroll makes a big difference.

The owner's salary is an expense that lowers the shop's net profit. The owner sees a smaller bottom line and tightens the business's financial and operational controls.

The owner who isn't on the payroll has just the opposite perception. He/she sees what appears to be a reasonable profit. There's no sense of urgency. The illusion of profits reduces the pressure to manage effectively.

If you want to boost your shop's profitability, put yourself on the payroll. When you do, your true cost of doing business will be reflected on the bottom line. And you will be forced to deal directly with key management issues.

YOU & YOUR CORPORATION
HOW'S THE RELATIONSHIP GOING?

Dr. Frankenstein wasn't the first person to create a creature that looked like a human but was a bit different.

Long before Frankenstein's fateful laboratory experiment, the business world had developed its own "nonhuman" entity. One of particular value for business owners. One that can perform many of the functions normally done by humans but with added protections.

What is this business creation? The corporation.

A corporation can employ people, make deals and pay taxes—all the things owners do when they operate as a sole proprietor or in a partnership.

A corporation also shoulders many risks of doing business. And it positions the company's finances for tax advantages.

REVIEW

If you incorporated long ago, you may wonder if any organizational changes could make a good situation even better.

Perhaps you're considering opening a new shop. How should you set up the business?

Maybe your shop is a partnership or sole proprietorship. Would reorganizing as a corporation be smart?

Whatever your current situation, this article will help you decide the best organizational form for your business.

PROTECTION

For many business owners, protection from liability is the biggest advantage of incorporating.

THIS ARTICLE WILL HELP YOU DECIDE THE BEST ORGANIZATIONAL FORM FOR YOUR BUSINESS.

A corporation is a separate legal entity—different than the individuals who own the company. If someone wants to sue the business, they must sue the corporation first.

Let's look at an extreme example to see what this means in practice.

Assume that you have a $500,000 personal savings account. You received the money as an inheritance when your parents passed away. It represents a big part of your retirement plan.

Next, suppose someone slips and falls in your shop. He is disappointed with the settlement offer from your insurance agency, so he decides to sue. If your business is not incorporated, he will sue you personally.

If the court awards a $500,000 judgment, you will be personally responsible. The court can go after your personal assets—even those that have nothing to do with the business. That includes—you guessed it—your personal savings account.

This might not seem fair, but the law makes no distinction between the owner and the business—whether it is run as a sole proprietorship or partnership.

On the other hand, if you were incorporated, the injured party could only sue the business. If the corporation couldn't pay the judgment, you could bankrupt the corporation and start the business over. Your personal savings would be safe.

This is called "limited liability." Shareholders are generally not held responsible for the corporation's liabilities. You are one step removed in the event of a legal action.

The owner also isn't responsible for any corporate debts. Even if the corporation goes bankrupt, your personal assets are protected unless you personally guaranteed any corporate obligations.

Are there exceptions? Yes. For example, an owner could be sued personally if fraud is involved. But the corporate setup provides significant protection from most lawsuits.

OTHER BENEFITS

Although limited liability is the granddaddy of corporate benefits, there are two other potential benefits as well.

Insurance. A corporation often can obtain insurance that a sole proprietorship or partnership won't qualify for. An employee group life insurance policy is one good example. As the business owner, you can be part of the group.

Taxes. Although the tax laws are changing, corporations traditionally have been entitled to more medical insurance deductions than individuals.

CORPORATE CHORES

The benefits of incorporating do not come without a price.

Incorporating brings an element of complexity to your business.

First, there is more paperwork. You will have to file articles of incorporation with the state and keep good records for various governmental organizations. You likely will need an accountant to prepare your corporate tax return.

Second, the corporation will need separate bank accounts, regular corporate meetings and minutes for those meetings.

Third, you will have to pay more taxes—a greater number of taxes, that is. A corporate franchise tax is one example. Fortunately, these extra taxes are usually minimal.

Fourth, you will have to keep separate financial records for your business. No more commingling your personal money with shop funds. Loans and other transactions between yourself and the company will have to be more carefully documented.

Fifth, the salary you pay yourself will be open to IRS scrutiny. Payroll is a deductible business expense. Dividends are not. So, the taxing authorities will look to see if the owner's wages are reasonable.

SHAREHOLDERS ARE GENERALLY NOT HELD RESPONSIBLE FOR THE CORPORATION'S LIABILITIES.

Owner wages that are artificially low, when compared to the size of the business, are subject to attack. Although you can reduce employment taxes by passing some income to yourself as profit rather than wages, you can't be overly aggressive. State and federal taxing authorities will be watching to make sure you don't claim an artificially small salary and a high net profit.

SHOULD I INCORPORATE?

This is a good question if your shop is currently structured as a partnership or sole proprietorship. The liability issue is so large that the answer is almost always "yes." Limited liability, in itself, is often the only motivation some small business owners need.

And if you already are incorporated, make sure you are receiving all the benefits to which you're entitled.

S, LLC or C?

When you incorporate, you have three options:

- **an "S" corporation** (S stands for Subchapter S in the IRS code);
- **an "LLC" corporation** (limited liability company);
- **a "C" corporation** (sometimes called a "regular corporation").

All of these can protect you and your personal assets from liability. The difference is how the IRS taxes the business.

Opting for an S corporation or LLC allows you to gain the benefits of incorporating while retaining the tax treatment of a partnership or sole proprietorship. The income of an S corporation or LLC is treated as ordinary income to the shareholders. They report it on their individual tax returns.

An S corporation or LLC is helpful if you expect the shop to lose money (as in the case of a start-up venture). All losses flow through to your personal tax return. You will get a bigger tax deduction when you take a business loss on your personal tax return.

C corporations are separate tax-paying entities. The business files its own return and pays taxes at the corporate level.

If the corporation still has earnings after paying the owner's salary, C corps have a potential problem. Earnings that are paid out as dividends are taxed twice—first at the corporate level, and second on the owner's personal return. Depending on your tax bracket, the government may get the lion's share of any profits—often well over 50%.

If you plan to leave extra earnings in the business, a C corporation works just fine. There is no double taxation, and the corporation's tax rate may be lower than the owner's personal rate.

So, one of the factors in determining how you may want to incorporate is whether you are going to leave earnings in the business or pay them out.

You'll Need Help.

Although many books offer to help you "Inc." yourself, don't be fooled into doing it all on your own. One wrong move and you'll lose the benefits you are seeking. Keeping a corporation in compliance with all governing laws and regulations is no job for amateurs.

Find a competent attorney or accountant to prepare and manage the paperwork. To name just a few: articles of incorporation, franchise tax forms and annual corporate minutes.

The accountant also can calculate your taxes in the way that will best minimize your tax liability.

Savings Strategies

Personal savings habits peaked in 2020 but have begun trending back down to pre-pandemic levels again as we move into 2022. Prior to the pandemic, the average person had been drawing down on their savings rather than building them up.

Overall, younger adults tend to live beyond their means, with excessive borrowing and spending. As people get older, they are more likely to pay off debts and save as much as they can for retirement.

LIVING RIGHT

Saving requires that you live below your income. You must spend less than you make.

Meeting this goal requires a conscious effort not to increase spending as your income grows—a decision to save and the determination to do so—even if that means changing your way of life.

SAVING IMPROVES LIFE

Savers actually increase the quantity and quality of their lifestyle.

Quantity because they spend their money on goods and services rather than interest payments.

Quality because savers are more financially secure. They don't have to worry as much about the financial pressures that debt brings.

PREPAY YOUR MORTGAGE

One of the best ways to build your nest egg is to pay off your home mortgage early. Adding an extra $200 or $300 to each monthly payment will greatly reduce the amount of total interest over the life of the loan.

Although a 30-year mortgage gives you the assurance of a low monthly payment, it's wise to make payments as if you are on a 15-year mortgage. You'll save thousands of dollars.

Savers actually increase the quantity and quality of their lifestyle.

A PAYCHECK STRATEGY

Also, set aside a certain amount from each paycheck. Pay your savings account just like you would any other bill. Make monthly savings a part of your budget, not an afterthought.

How much should you save?

Initially, shoot for enough savings to cover your needs for three months if you lost your income. Once you have reached that goal, make it six months.

That's just the beginning.

Next, work toward accumulating a substantial lump sum—$100,000 or more. It may take years to reach that goal. However, once you get there, retirement planning will be much more manageable. That $100,000 will earn interest each year, which means additional savings without any extra effort on your part.

Of course, there will be taxes on the interest income. However, determined savers will pay those taxes out of their income and let the savings continue to grow.

IT'S UN-AMERICAN

We're a consumer society. One that relies on easy credit. Why should we worry about saving money?

You can only continue to borrow and spend as long as you have an income. If you don't begin saving now, you most likely will have financial problems later in life. At some point, your income will drop—if not before age 65 or 70, then surely thereafter.

The generation of Americans who lived through the Great Depression knew more about money management than many of today's professional money managers.

Don't spend more than you earn. Borrow as little as possible. Save as much as you can.

Gift Card Accounting *Do It Right*

If you don't offer gift cards, you might want to start.

Gift card sales bring immediate cash into the shop. Even better, you might get to hang onto that cash for weeks or months before the card is used.

And a certain number of cards will never be redeemed.

But what about the recordkeeping? Isn't there a lot of paperwork? Are gift cards really worth the trouble?

ACCOUNTING STEPS

Gift cards are prepayments, much like deposits on weddings. However, unlike wedding deposits, you don't know when the card will be redeemed or what products the purchaser will want.

Because there are so many unknowns, gift cards can't be handled through your receivables system. You'll have to set up an account called gift cards under current liabilities on your balance sheet. You'll also want a sales category called gift cards in your point-of-sale (POS) system.

When you sell a gift card, the sale will be credited to the gift cards liability account. Then, the amount just sits there until the card is redeemed.

When a customer redeems a gift card, ring up the purchase and indicate gift cards as the payment type.

Your POS then will debit the payment to the gift cards liability account. Simple.

SALES TAXES

A gift card sale is a non-taxable transaction. Why? Because nothing has been purchased yet.

When a card is redeemed, treat the card like cash. Ring up the sale, add the sales tax and take the card as payment.

If there's money left over, give the customer change. If the product costs more than the face amount of the card, get extra cash from the customer.

CONTROL & RECORDS

POS systems set up to handle gift cards simplify the accounting and automatically keep correct records.

However, if you use old-fashioned gift certificates (rather than gift cards), you'll need to do more of the work yourself. To protect yourself, follow these steps:

- Only allow the owner or manager to sign the certificate. When a certificate is redeemed, the owner or manager's signature will offer the necessary proof that it's not a forgery.
- Record gift certificate sales in a special logbook. For each sale, enter the date purchased, who bought it, the face amount and the certificate number. (Be sure to number all the certificates sequentially.) If you know who the recipient is, write that down too.
- When the certificate is redeemed, enter the date of redemption in the log.

These steps will ensure a complete and accurate record of all your gift certificate activity.

Using Gift Cards for Promotions

If you give out small $5 or $10 gift cards for a promotion, there's no need to log these into your normal gift card system. Many will never be redeemed. Whenever a customer does use one of these cards, simply enter the gift card amount as a sales discount.

FAMOUS FINANCIAL WORDS

"In the future you're going to get computers as prizes in breakfast cereals. You'll throw them out because your house will be littered with them."
—Robert Lucky

"Business, more than any other occupation, is a continual dealing with the future. It is a continual calculation, an instinctive exercise in foresight."
—Henry R. Luce

"It is extraordinary to what an expense of time and money people will go to get something for nothing."
—Robert Lynd

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INQUIRIES & ANSWERS

Letters

ORDER ACCURACY

"Occasionally, we have problems getting wire orders delivered as requested. Any suggestions?"

Sure.

Remember the last time you ordered a product from a merchant? The last time I did, I was impressed with how carefully the salesperson repeated the order back to me. I had no doubt that the order was taken accurately.

Your shop should follow the same practice. When you take an outgoing wire order, repeat everything back to the customer. Spell out all names and addresses. Restate any special delivery instructions.

Similarly, if you phone the order to the delivering florist, ask them to repeat everything back to you, including the card message.

If you are the receiving florist and it's a phone order, tell the sender you want to repeat the order to make sure you have everything written down correctly.

TRAINING NEW-HIRES

"Is there a 'best' way to train new employees?"

You don't have to set up an elaborate program.

Small businesses don't have personnel departments and professional trainers. In fact, most small business owners put new employees to work immediately. Consequently, training can get shortchanged.

However, poor training will come back to haunt you.

The ideal way for a small business to train a new employee? Have your best employee in that area do the training. This may seem like a waste of your most highly paid talent. Why not have lower-level people teach the basics?

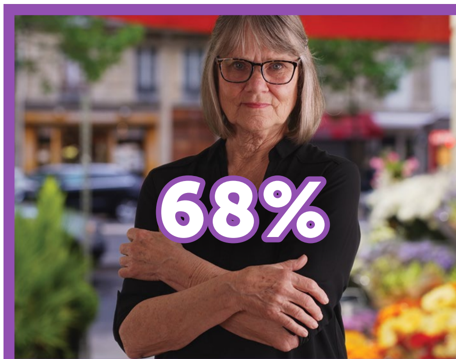
Ask yourself what kind of workers you want your new-hires to become. A new-hire will learn what the trainer teaches. This goes for attitude as well as skills.

- If you want to teach efficiency, have your most efficient person train.
- If you want proper control of arrangement cost of goods sold (COGS), have the training done by someone who controls COGS and knows why it's important.

If new employees are trained by a complainer, they will learn that, too. So, make sure your trainer has both the skills and the attitudes you want to promote.

NORMS

LOST SALES



Why do customers quit buying your products?

- **68%** quit because of an attitude of indifference by some employee.
- **14%** leave because they don't like the product.
- **14%** just select another seller for the same product.
- **3%** stop buying because they move away.
- **1%** quit because they die.

It's not the products you offer. It's how you value the customer. Every employee should be taught the importance of genuine customer care and concern

Source: Nancy Friedman, The Telephone Doctor, St. Louis, MO

FLORAL FINANCE is published 12 times a year by Teleflora LLC

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

Please address your inquiries to the Editors of Floral Finance®, *Teleflora LLC, 3737 NW 34th St., Oklahoma City, OK 73112.*