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FINANCIAL INFORMATION,  
EDUCATION AND CONTROL  
FOR THE RETAIL FLORIST

# Floral Finance®

teleflora®

AUGUST 2017

VOLUME 36, ISSUE 8



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## QUICKTAKES

**Ideas You Can Put  
to Work Immediately**

### 1 More to Life Than Money

Money can buy a bed but not sleep. It can buy an education but not wisdom.

Money is important, but keep it in perspective. Businesses that focus only on serving their customers are often more profitable than those that concentrate solely on the bottom line.

### 2 Experience Rules

Never promote someone into a position that requires managing functions in which they don't have experience. That includes you.

It's hard to manage effectively if you don't understand the basics of what you are managing. There is no substitute for experience.

### 3 Networking

Did you know that the average American is only three to six relationships away from any other American? In other words, you know someone who knows someone who knows ... someone you want to meet. You get the idea. And that gap is closing with social media.

Networking builds opportunities and can fuel your business' growth. Never stop meeting new people. Ask your customers for referrals. Be involved in activities where you encounter others in the community.

## GET SPECIFIC



How can you best communicate to your staff what needs to be accomplished in your shop?

If cost of goods sold (COGS) is too high, you could say, "We've got to lower our COGS, without compromising quality. See what you can do."

This approach states a very specific problem but offers only a very general target.

Try to be more precise. Say, "By my calculations, we are 12% over budget on arrangement COGS. Let's come up with a plan to bring this down."

The second approach gives a specific goal. You've offered your support. Your designers know exactly what they need to accomplish. Now they can put together a specific plan on how to get there.

Communication is just as important on the sales side.

Consider this comment to a sales staff person: "We've got to increase our add-on sales. I think we can sell more plush animals, balloons and coffee mugs."

This manager has suggested specific products but hasn't given any targets.

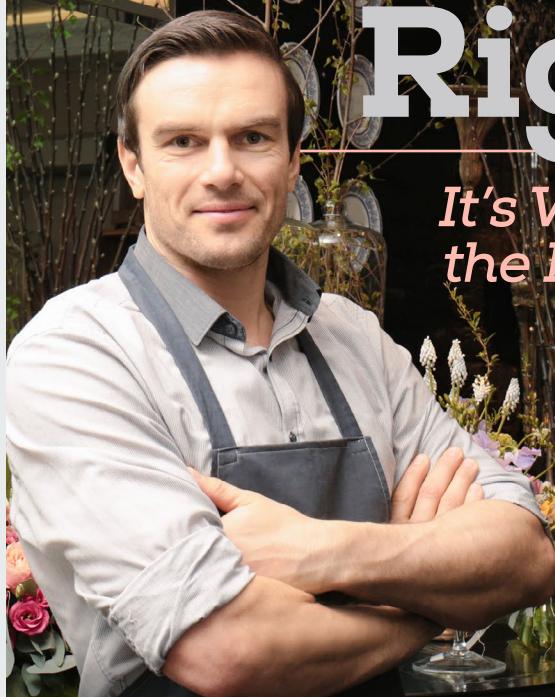
Try the following approach instead: "Our average sale in 2016 was \$57.56. My goal is to boost that to \$63.00 in 2017. One of the best ways to increase average order size is through add-on sales. Let's talk about where we can find some add-on opportunities."

By getting the staff to become part of the solution, your goal becomes their goal. Specific targets will help them understand what you really want.

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# Buying Right

*It's Worth  
the Effort*



When retail florists think about making a profit, they usually focus on controlling cost of goods sold (COGS) and payroll. Great ideas. To run a profitable operation, you must control both of these variables.

However, there's another important step you can take: Learning how to shop smart and save on purchases of flowers, foliage and supplies also will help beef up your bottom line.

### PROFIT PRODUCER

Florists who manage their businesses properly and pay themselves a decent salary should earn a pre-tax profit of 10% of sales.

Increasing this—or bringing a below-par profit up to the 10% mark—often hinges on the shop's buying practices. Even a little bit of cost cutting can increase profit dramatically.

Take a look at the "Impact of Buying Right" table. A 10% savings on flowers and foliage will boost profit by 16%. And a 25% savings will improve profit by a whopping 40%.

Granted, saving money on flowers isn't as easy as it might seem. If it were, everyone would be doing it. However, with a little effort you

can quickly master several penny-pinching tricks.

### IMPACT OF BUYING RIGHT

% SAVED	NEW NET PROFIT	INCREASE IN PROFIT
0%	10.0%	0%
5	10.8	8
10	11.6	16
15	12.4	24
20	13.2	32
25	14.0	40

\*Assumes two-thirds of the shop's sales are arrangements and a 33% arrangement COGS, comprised of 5% for the container, 4% for supplies and 24% for flowers and foliage. With other operating expenses at a normal level, this formula should produce a 10% before-tax profit.



## KNOW YOUR GRADES

Flowers are graded by stem length, number of blooms and the quality of those blooms. A longer stem and more or better blooms usually bring a higher price.

You typically can save money by buying a lower grade rather than a premium grade. The only difference might be stems that are an inch or two shorter.

The longer stem might be something you didn't need anyway. After all, how often do you cut several inches off of a stem before putting it in an arrangement?

Divide your work into uses that require a longer stem length or extra blooms and those that do not. Then, purchase lower- or higher-grade flowers as appropriate.

## KNOW YOUR GROWERS

Get to know your growers.

As you compare one grower to another, remember that grading standards vary. With a little experience, you will soon be able to identify which suppliers have "lower grade" flowers that meet your needs just fine.

If you buy all your flowers from a local wholesaler, you probably will not see all the grades offered by the various growers. However, you can ask the wholesaler about the availability of different grades and arrange to purchase the grades you want.

## GET THE LATEST INFORMATION

Most growers will gladly email a current price list for the grades they handle. Many post their prices online. Upon request, many will even add

you to their list for regular updates and sale notices.

When comparing prices, make sure you know all related and indirect costs. Florists often are surprised when they first buy direct. They anticipate saving a lot of money by "cutting out the middleman." However, the expected savings may shrink or disappear as other charges are factored in.

Extra charges for the freight, boxing, cooling and sleeves can easily add \$30 per box to your cost.

## WATCH FOR SPECIALS

If your shop sells a lot of fresh product through specials, work with your wholesalers to make the specials super profitable.

Wholesalers and growers who are overstocked on certain products usually will sell the excess at bargain basement prices.

If they know you like to use overstocked products in specials, they will be more than happy to keep you informed.

You help them. They help you. It's a perfect partnership.

## HARD GOODS

Purchasing hard goods is easier than buying flowers and foliage. Primarily because you don't have to deal with grading issues.

Once you know what you want, shop around. Compare the quality and features of similar products from different manufacturers. Then, look for the best price.

The best way to get discounts on hard goods? Buy in quantity. Just make sure the deal is really worth it and that you can manage the extra quantity.

To effectively buy hard goods in bulk, you need three things:

1. Enough cash to fund the purchase;
2. A place to store the inventory;
3. A definite use for the product.

Without all three, you'll be throwing your money away. No matter how attractive the price.

Just as wholesalers and growers run specials to move overstocked flowers, manufacturers will make deals to unload excess hard goods or discontinued lines.

These deals are often yours for the asking. Suppliers empty out needed warehouse space. You get a nice discount. Everybody ends up happy.



**When comparing prices, make sure you know all related and indirect costs.**

## DON'T SQUEEZE

Working professionally with suppliers (whether for flowers and foliage or for hard goods) requires that you follow some basic rules of business etiquette.

Don't play one wholesaler or grower against another. It's the oldest game in the book. You get one grower's best price and then call another and ask them to better that price. When you get the second supplier's price, you might even go back to the original grower and try to haggle a little more.

If you use this tactic, it won't be long before the growers catch on and stop cooperating. They don't want to be squeezed any more than you do.

Ask growers, wholesalers and brokers for their best prices. Then, make your choice to either buy from them or not.

## WORTH THE EFFORT

Smart shopping can greatly increase your profitability. But landing the best deals takes hard work and perseverance.

However, when your extra efforts pay off in a healthier bottom line, you will have no doubt. Buying right is definitely worth the effort. ☺

# Heading in the Right Direction

## LEMONS INTO LEMONADE



This month's profiled shop is in a Western city with a population of 100,000. The shop faces heavy competition from other traditional retail florists, as well as several non-traditional outlets.

With Year 2 sales of \$212,380, the shop is slightly smaller than average. Its recent success, however, proves an important point: Small flower shops can be profitable even in the face of less-than-ideal circumstances.

The business' sales decreased by about 7.5% in Year 2 compared with Year 1. The main reason was that parking lot repairs kept customers away from the front door for several months.

However, even with the drop in revenue, profits rose from \$19,106 in Year 1 to \$24,485 in Year 2. Now, that's turning lemons into lemonade!

### THE GOAL

Some shops put the owner/manager on the payroll. Others don't. When the owner/manager is being paid a fair salary, the shop should be able to return a before-tax profit of approximately 10% of total sales.

This shop does not pay the owner/manager a salary. So under the above scenario, a shop this size should put 20% of sales on the bottom line.

The Year 1 profit of \$19,106 was just 8.3% of total sales—well below the shop's \$46,000 target (20% of sales).

This meant significant improvements were needed.

### COGS CONTROL

Much of the shop's increased Year 2 profitability can be attributed to new cost of goods sold (COGS) controls.

For example, while arrangement sales increased from \$116,056 to \$119,806, arrangement COGS

(including flowers, greens, containers and supplies) dropped from \$44,055 to \$39,057. A remarkable decrease—from 38.0% of arrangement sales to 32.6%.

Without close attention to this critical area, the shop's Year 2 profitability would have gone in the other direction.

### PAYROLL DOWN

At first glance, the Year 2 payroll appears to be almost static. In Year 1, payroll was 25.1% of sales. In Year 2, it was 24.6%. However, actual payroll expense dropped from \$57,673 to \$52,065. That's an impressive 9.7% decrease.

Again, without the decline in payroll, the Year 2 profitability picture would not have been quite so positive.

### IT ALL ADDS UP

Increasing profitability depends on a combination of factors. The owner/manager must focus on the entire operation.

For this shop, COGS control saved \$10,946. Payroll reductions saved another \$5,608. And attention to other expenses added \$5,982 more in profit.

Altogether, these items more than made up for the decrease in sales. Profits were up—even though sales were down.

### EVEN BETTER

While the shop's management did a solid job in Year 2, profits still haven't hit the magic 20% goal. A little work in some other important areas should boost profitability to its proper level.

At 32.6% of sales, arrangement COGS is acceptable—but just barely. The owner should try to nudge it down another 2% to 3%.

### More on Payroll

Total payroll expense—including salaries, payroll taxes and benefits—should not exceed 20% of sales. This shop's payroll was 24.5% in Year 2 (and 25.1% in Year 1).

Why so high?

The business stays open from 8:00 a.m. to 8:00 p.m. Probably too many hours for a shop this size. A two-week review of hourly sales will show when the shop's sales do not justify keeping the doors open.

**When the owner/manager is being paid a fair salary, the shop should be able to return a before-tax profit of approximately 10% of total sales.**

A daily staffing analysis for non-holiday periods also might be useful. A shop this size needs less than eight design hours per day. The owner should analyze each day's sales to see how many design hours the shop can afford.

### Other Expenses

Advertising expenditures (5.8% of sales in Year 2) also are a little high. For a low-growth shop such as this one, 3% to 4% would be more in line with industry norms.

## SHOP PROFILE 12-MONTH STATEMENT

	Year 1		Year 2		Change	
PRODUCT SALES	Dollars	Percent	Dollars	Percent	Dollars	Percent
Silk/Dried	\$ 4,340.54	1.9%	\$ 4,909.53	2.3%	\$ 568.99	13.1%
Loose Flowers	38,867.05	16.9	32,014.73	15.1	-6,852.32	-17.6
Arrangements	116,056.55	50.6	119,806.44	56.4	3,749.89	3.2
Green Plants	13,400.33	5.8	11,225.03	5.3	-2,175.30	-16.2
Blooming Plants	9,692.49	4.2	8,733.85	4.1	-958.64	-9.9
Balloons	7,070.31	3.1	5,886.54	2.8	-1,183.77	-16.7
Gifts	16,940.62	7.4	13,861.73	6.5	-3,078.89	-18.2
Returns	-322.47	0.1	-153.70	-0.1	168.77	-52.3
<b>Total Product Sales</b>	<b>\$ 206,045.42</b>	<b>89.8%</b>	<b>\$ 196,284.15</b>	<b>92.4%</b>	<b>\$ -9,761.27</b>	<b>-4.7%</b>
<b>NON-PRODUCT SALES</b>						
Service Charge	\$ 6,636.96	2.9%	\$ 5,912.56	2.8%	\$ -724.40	-10.9%
Wires-out Commission	9,693.38	4.2	9,093.83	4.3	-599.55	-6.2
Wires-in Commission	-9,386.46	-4.1	-8,641.11	-4.1	745.35	-7.9
Rebates	102.70	0.0	107.04	0.1	4.34	NA
<b>Wires Total</b>	<b>\$ 7,046.58</b>	<b>3.1%</b>	<b>\$ 6,472.32</b>	<b>3.0%</b>	<b>\$ -574.26</b>	<b>-8.1%</b>
Delivery	\$ 11,649.20	5.1	\$ 10,641.25	5.0	\$ -1,007.95	-8.7%
Miscellaneous	4,798.02	2.1	-1,017.60	-0.5	-5,815.62	-121.2
<b>Total Non-Product Sales</b>	<b>\$ 23,493.80</b>	<b>10.2%</b>	<b>\$ 16,095.97</b>	<b>7.6%</b>	<b>\$ -7,397.83</b>	<b>-31.5%</b>
<b>TOTAL SALES</b>	<b>\$ 229,539.22</b>	<b>100.0%</b>	<b>\$ 212,380.12</b>	<b>100.0%</b>	<b>\$ -17,159.10</b>	<b>-7.5%</b>
<b>COST OF GOODS SOLD*</b>						
Silk/Dried	\$ 1,562.62	36.0%	\$ 1,767.45	36.0%	\$ 204.83	13.1%
Loose Flowers	11,283.48	29.0	9,306.92	29.1	-1,976.56	-17.5
Arrangements	44,055.90	38.0	39,057.63	32.6	-4,998.27	-11.3
Green Plants	4,312.15	32.2	3,545.61	31.6	-766.54	-17.8
Blooming Plants	5,224.29	53.9	4,488.93	51.4	-735.36	-14.1
Balloons	2,545.32	36.0	2,119.16	36.0	-426.16	-16.7
Gifts	8,663.07	51.1	6,974.04	50.3	-1,689.03	-19.5
Discounts	2,801.33	1.2	2,241.45	1.1	-559.88	-20.0
<b>Total Cost of Goods Sold</b>	<b>\$ 80,448.16</b>	<b>35.0%</b>	<b>\$ 69,501.19</b>	<b>32.7%</b>	<b>\$ -10,946.97</b>	<b>-13.6%</b>
<b>GROSS PROFIT</b>	<b>\$ 149,091.06</b>	<b>65.0%</b>	<b>\$ 142,878.93</b>	<b>67.3%</b>	<b>\$ -6,212.13</b>	<b>-4.2%</b>
<b>EXPENSES</b>						
Advertising	\$ 12,654.63	5.5%	\$ 12,243.68	5.8%	\$ -410.95	-3.2%
Facilities	20,955.55	9.1	20,425.86	9.6	-529.69	-2.5
Telephone/Dove	5,482.07	2.4	5,428.40	2.6	-53.67	-1.0
Payroll	57,673.58	25.1	52,065.20	24.5	-5,608.38	-9.7
Interest	2,006.22	0.9	1,617.53	0.8	-388.69	-19.4
Vehicle Expense	9,176.53	4.0	8,500.94	4.0	-675.59	-7.4
Wire-Service Expense	2,708.85	1.2	2,232.43	1.1	-476.42	-17.6
All Other Expenses	19,326.91	8.4	15,879.00	7.5	-3,447.91	-17.8
<b>Total Expenses</b>	<b>\$ 129,984.34</b>	<b>56.6%</b>	<b>\$ 118,393.04</b>	<b>55.7%</b>	<b>\$ -11,591.30</b>	<b>-8.9%</b>
<b>NET PROFIT</b>	<b>\$ 19,106.72</b>	<b>8.3%</b>	<b>\$ 24,485.89</b>	<b>11.5%</b>	<b>\$ 5,379.17</b>	<b>28.2%</b>
<b>ADJUSTED NET PROFIT **</b>	<b>\$ 21,112.94</b>	<b>9.2%</b>	<b>\$ 26,103.42</b>	<b>12.3%</b>	<b>\$ 4,990.48</b>	<b>23.6%</b>

\* Each COGS percentage is figured on the actual sales of that particular product—not on total sales. If you use total sales to calculate a COGS percentage, it is misleading and will indicate that the COGS percentage is much lower than it actually is.

\*\* Adjusted net profit has interest expense added back.

Over half of the advertising dollars were spent on a large yellow pages ad. That's way too big of an investment in a medium that has largely been replaced by the internet.

The shop also uses two wire services. A second wire service makes sense only if it brings in more wire-order sales than the service costs. That's not the case here. This shop

could add as much as \$1,000 to its bottom line by eliminating the extra wire service.

Once the payroll, advertising and wire-service charges are in place, the shop will only need an additional \$1,200 in savings to bring net profit up to 20% of sales.

Cutting vehicle expenses might be the answer. The \$8,500 the shop is

currently spending on vehicles is too high for a shop this size.

Even small retail florists can be profitable. *Floral Finance* shop profiles show this over and over again. Good motivation, solid management and tight financial control can make it happen. 

# Your Image

## Dressed for Success

Our shop's image is a function of many components. Some, such as your name and logo, are highly visible. Others, like your personality and that of your employees, are not.

The clothing employees wear is most certainly visible every day. And that clothing is a big part of your shop's image.

Employee uniforms are definitely one option to consider. There are many different types. Some, such as matching aprons or shirts, are quite simple but still send a professional message.

### BENEFITS

Coordinating your employees' attire in the shop can bring many benefits. Here are the major ones.

**Simplicity.** Uniforms simplify clothing decisions. You and your employees don't have to wonder (or even think) about what to wear each day.

**Morale.** Uniforms can improve employee attitudes. Wearing a shirt emblazoned with your shop's name and logo will instill a feeling of pride. Your employees will feel like the floral professionals they are.

**Identity.** The right clothing will help customers identify employees. Making clear who is an employee and who is a customer is a tremendous advantage. Customers can quickly determine who can answer their questions or provide service.

**Image.** Uniforms allow you to select a "look" for your employees. Whether that look is casual or formal,

**Simplicity**

**Morale**

**Identity**

**Image**

**Cost Savings**



everyone's appearance will be consistent.

**Cost Savings.** Uniforms save money. Employees' clothing budgets will shrink because they won't have to buy as many wardrobe items.

### ONE SIZE FITS ALL?

Larger shops might choose to have uniform shirts and slacks for everyone. Some may even adopt different colored shirts for employees in each part of the store.

For example, suppose a shop has a floral and gift business inside and a greenhouse and nursery out back. The nursery employees might be given green shirts and the floral workers blue ones. Customers in each area will be able to quickly find the person they need.

Smaller shops (and that's most of the retail florists in North America) may not want, need or be able to afford full uniforms. However,

a simple shop apron, polo or T-shirt can still add a nice touch.

### BEST FOOT FORWARD

Whether your shop is large or small, requiring uniforms in one service area—delivery—is always a good idea.

Your delivery person is often the only employee your customers see. His or her appearance will impact how customers feel about your shop and the work you do.

Attire that bears your name and logo will provide a good first impression.

Consider short-sleeved shirts for the summer and long sleeves and jackets for the fall and winter.

The cost of embroidering logos on clothing has dropped in recent years. Computer-controlled sewing machines mean both reasonable costs and quicker turnaround.

If you order as few as a dozen shirts with your name or logo, you might be surprised at how affordable the shirts can be. Google "custom shirts" and you can quickly find many suppliers.

### CHEAP FRILLS

Think of uniforms as advertising—and inexpensive advertising at that. Every uniformed employee can send a positive message about your shop and its commitment to professionalism.

And, given the expense of newspaper and internet advertising, shop clothing is a real bargain.

Consider building uniforms into your shop's advertising budget. You'll find the benefits are well worth the expense. ☺

# SKIMMING: DON'T DO IT!

**M**ake a sale, pocket the cash and avoid paying taxes. It's a temptation with cash-based businesses. As with any temptation, however, the outcome is not nearly as pleasant as anticipated.

At a minimum, your integrity will suffer. You also could end up with the IRS chasing you. The resulting exposure, fines and penalties could cost you your reputation—and even your business.

## WORTH IT?

What percentage of your income currently goes toward income taxes? Fifteen percent? Twenty percent?

Is pocketing those relatively few dollars worth committing fraud?

Before you "forget" to ring a sale, look at what it will cost you.

## INTEGRITY

What's your integrity worth? Integrity is a priceless asset. You should guard it like the precious gem it is.

Skimming can quickly destroy the good name and good character you've worked so hard to earn. Get caught, and you'll face serious penalties and years of closer IRS scrutiny than you might otherwise have experienced.

And if you don't get caught? You won't be living a life of pride and honor. You'll be living a lie. You'll also probably spend a lot of time looking over your shoulder and experiencing the lingering sense of guilt and worry that comes from having broken the rules.

## FINANCIAL RECORDS

Skimming distorts your shop's financial information.

The product costs will appear in your cost of goods sold (COGS). The sale, however, won't show up in your arrangement sales.

The result? Distorted COGS. And that's a real threat to your business. Controlling COGS is one of the biggest keys to profitability.

There's no question that the average florist will make more money by getting accurate financial information, controlling COGS and paying taxes than he or she ever will by skimming.

## SHOP VALUE

When it is time to sell your shop, a buyer won't pay for sales that are not documented on your shop's financial statements and tax returns.

**Skimming also  
will make your  
shop appear less  
profitable than it  
really is.**

Even if you let the buyers in on your secret, don't count on their understanding and support. An admission of skimming will damage your overall credibility. You will be telling the prospective buyer that you're dishonest. He or she naturally will wonder what else you are lying about and quite possibly stop the sale before more lies unravel.

That's not all. Skimming also will make your shop appear less profitable than it really is. Businesses with lower profits are worth less than shops with

the same sales volume and higher profits.

When it comes to establishing a selling price for your business, profitability counts. And skimming takes profit—dollar for dollar—right off the bottom line.

## EMPLOYEE THEFT

Employees model the behaviors—good and bad—that you exhibit. Don't kid yourself. You won't hide what you're doing for long.

Perceptive employees will catch on to unrung sales and money slipped into your pocket. If employees see you skimming, some may feel justified in following suit. After all, they work hard, too.

## THINK AGAIN

Skimming is not just a little white lie. It's serious tax fraud. With much more serious repercussions than you might realize.

Don't let anyone tell you that "everybody's doing it." Everyone is not doing it. And those who don't are all the more successful for their restraint.

Sleep better at night. Maintain your integrity. Ring up every sale and put the cash where it belongs—in the register. ☺

## FAMOUS FINANCIAL WORDS

"It is hard to pay for bread that has been eaten."  
—Danish Proverb

"To acquire wealth is difficult, to preserve it more difficult, but to spend it wisely most difficult of all."—Edward Parsons Day

"Money and goods are certainly the best of references."  
—Charles Dickens



# I N Q U I R I E S & A N S W E R S LETTERS

## FREE LUNCH

*"I understand that only 50% of the cost of business food and entertainment is tax deductible. Does that include the coffee we buy for the shop?"*

**No.**

The IRS excludes several items from the 50% rules. Coffee, donuts and other "household" items purchased for the shop can be treated as regular shop expenses. You can deduct 100% of the cost.

Company-sponsored parties and meetings that focus on employees are also exempt. For example, the annual holiday party or a staff lunch meeting can be expensed at 100%. Similarly, if you give away tickets to an entertainment event as a part of your marketing, there's no problem. The money you spend on the promotion can be fully deducted.

## TRUE COST OF GOODS SOLD (COGS)

*"We use one sales category for product sales and another for non-product sales. Is that enough of a breakdown?"*

**Yes and no.**

From an income tax standpoint, you will get by. However, if you want accurate information that will help you run a better, more profitable business, you need to know more.

Breaking product sales into specific categories would make the financial information more meaningful. Arrangements, gifts and green plants are categories that will help you better understand the source of your sales. By setting up corresponding COGS accounts, you also can see how well you're controlling costs for each product.

## COMP TIME

*"One of my designers has asked for time off instead of overtime pay. Can I do this?"*

**Yes, but it won't save you money.**

Federal law requires that non-managerial employees be paid overtime when they go over 40 hours of work in a week. The law does allow comp time instead of cash, but you have to give one and one-half hours of paid comp time for every overtime hour worked. In other words, it's the same cost as paying for the overtime.

In the typical shop, all other expenses after cost of goods sold, payroll and facilities account for 18% to 22% of sales.

In other words, all those other expenses don't add up to much. The big three, by and large, determine profitability.

These other expenses include advertising, vehicle expenses, accounting, supplies, general insurance, telephones and a host of other small items. A lot to look at and monitor, but not too significant when it comes to the bottom line.

Yes, keep these other expenses as low as possible. But if you really want to impact profitability, work on the big three.

*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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