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QUICKTAKES

*Ideas You Can Put to Work Immediately*

1

Do—Don't Tell

No matter how knowledgeable you are about what needs to be done, if you can't communicate and motivate, the job won't be done properly. Often what you do is more important than what you say.

Albert Einstein made this point well: "Setting an example is not the main means of influencing another, it is the only means."

2

Continuing Education

A class on design techniques or shop management will provide you with several benefits. You'll increase your skills and become more focused on the success of your business.

However, the biggest benefit of formal education may be the chance to network with peers. You'll pick up valuable tips or ideas in conversations during breaks or group discussions.

3

Education Funds

Coming up with \$500 or \$1,000 to pay for an educational opportunity can be difficult. The solution? Pay in advance. You can do so with a savings account. Each month, write a \$100 check for "education expense" and deposit it in the savings account. You'll build up the money you need one month at a time. When the right educational opportunity comes along, you'll be ready.

## GETTING WHERE YOU WANT TO GO



A motorist was driving through dense fog. It was very difficult to see through the mist. He struggled just to stay on the road, much less make sure he was following the correct route.

But then he came upon a set of bright taillights. Another car in front of him was going in the same direction. So, he decided to take it easy for awhile and follow the lights. Let the other person do the work.

Suddenly the car in front of him stopped. The other driver turned off his lights and got out of his car.

Irritated, the first motorist rolled down his window and called, "Why are you stopping in the middle of the road?"

The answer back? "I'm not. I'm in my driveway."

Sometimes, this is what it feels like to run a small business. It is difficult to see where you are going. It may seem easier to just follow someone else.

However, that can be dangerous. You could end up where they want to go—not where you want to go.

To maximize your shop's success, you must develop your own plan. What do you want out of the business? What are your goals?

Do you want to grow? How much? How soon? Or do you just want to maintain the status quo and serve your present customer base with high-quality products and excellent service?

It's up to you. Just make sure you are doing the driving. Don't settle for following someone else's lead.

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# A Healthy Business

## By the Numbers



Last month, we talked about the benefits of building a better budget—how a good budget provides a road map to profitability and opportunities. So, here we are in January already. It's the perfect time to take a moment and contemplate how your shop is doing.

Judge for yourself: Are you on the right path? Are you on track to achieve the budget you prepared? How much more do you think you could add to your bottom line and your bank account?

What can you expect from a profitable flower business? Here are the targets.



### OWNER PAY

Historically, florists have enjoyed an estimated average net profit before income taxes of between 4% and 5% of sales. (Note that those percentages can be misleading, depending on if the owner is on the payroll. The difference is significant. Some owners make a 5% net profit and that's all. Others take a salary in addition to the 5% net profit.)

A retail flower shop doing up to \$500,000 in sales should be able to pay the owner/manager 10% of gross sales in the form of a wage. That includes payroll taxes and other employee benefits.

Larger shops should add 5% of sales above \$500,000 to that

wage. In other words, a shop with \$1,000,000 in sales could pay the owner/manager \$75,000 in salary, payroll taxes and benefits.

**When you look at all of the money a flower shop spends, three areas account for all but 17% to 20% of total expenditures: facilities, payroll and cost of goods sold (COGS). Everything else is small in comparison.**

In addition, the owner/manager of a well-run shop can expect to make 10% of the bottom line before income taxes.



Combining wages and profit, the owner/manager could reasonably expect somewhere between 17% and 20% of gross sales, depending on the shop's volume.

**'Gifts and other hard goods have lower margins compared to arrangements. So if COGS are combined, the result is that the overall COGS percent will be higher.'**

How does your shop compare? If you come up short, don't worry. You can make some changes to improve your numbers.

### FACILITIES

In profitable flower shops, total facilities expenses rarely exceed 10% of sales. In fact, the average retail flower shop spends somewhere around 7.5% of gross sales on facilities. Florists who have owned their own buildings for a long time may be down in the 3% range. That includes rent, utilities, facilities insurance, and any needed repairs and maintenance.

Good financial statements will group all of the facilities expenses together. That will make your analysis easy.

What does this tell you? Facilities expenses are not a major problem in most shops. The biggest issue with this category of expenses is that if it is too high, regaining control could take some time. Leases that have been signed must be honored.

Even so, if you are spending too much on facilities, don't panic. Do what you can as fast as you can. Does your lease allow you to sublet a portion of the premises? Would your landlord be willing to renegotiate a lower payment now in exchange for a longer term?

If you have several more years to run on the lease, begin to scout now for alternatives that better fit your sales level.

### PAYROLL

Excessive payroll is the most common cause of low profitability. And controlling payroll has its own challenges because it involves your employees and their productivity.

It is not unusual for a shop with \$300,000 to \$400,000 in sales to have the equivalent of one or two unnecessary full-time employees on the payroll. That's pretty shocking, isn't it?

To understand your shop's situation, you first need to know what your payroll expenses are. Are you on the mark? If not, how far off are you?

Again, a good financial statement will group the appropriate payroll expenses together and subtotal them.

#### PAYROLL EXPENSE TARGETS

- 20% of gross sales if the owner/manager is not on the payroll
- 30% if the owner/manager is on the payroll

**Both figures include wages, payroll taxes and employee benefits, such as health insurance.**

When a shop's payroll is too high, the design room usually is the source of the problem. Specifically, too many designers who are doing too little designing.

A reasonably productive designer should be able to produce a minimum of \$1,000/day at retail prices.

Look at your daily sales and divide by \$1,000 to see how much design time your shop really needs.

If you aren't hitting the target, work to increase productivity by using standard, recipe designs whenever practical.

### ARRANGEMENT COGS

The good news about COGS is that problems in this area can be fixed almost immediately.

First, however, you must determine your COGS for arrangements. This is a major issue for florists whose financial statements don't break out COGS for arrangements from other COGS.

Gifts and other hard goods have lower margins compared

to arrangements. So if COGS are combined, the result is that the overall COGS percent will be higher.

As soon as your financial statements separate COGS for arrangements, you'll be in the driver's seat.

If you need to lower COGS for arrangements, focus first on the cost of flowers and greens. Total cost for these items should be no more than 25% of arrangement sales. Compare your fresh product purchases against your sales each week to stay (or get back) on track.

You'll also need to count the flowers in every arrangement. To make the job easier, use a workroom wall chart that shows how much money is available for fresh flowers at each common price point.

Then, for each arrangement, count all the flowers at retail to make sure you don't go over that amount. Here is where standard recipe arrangements really pay off. You only have to do the math the first time you make the design. Once you've confirmed the recipe is profitable, every arrangement made according to that recipe will be, too.

The bigger challenge may be the personal aspect. Your designers may not want to change their methods. They may like stuffing in extra flowers to give customers extra value.

You have to stay firm. Remember, you're the manager. The buck stops with you. Sometimes, that means making and enforcing tough decisions.



Once you know where you stand, you'll be in control of where you are going. It's a simple matter of ensuring your financial statements provide you with the data you need, fixing whatever problems you see and then watching your profits soar. 🌸



# PRICING

## How Much Should You Charge?

Inflation also can cause prices to change. Over time, expenses rise. Especially labor costs. Prices must be raised to cover the added expense. Usually, a larger player in the market—the price leader—will set the example by raising prices. It isn't long before smaller competitors follow.

### RETAIL FLOWER PRICING

Flower shops are perhaps the toughest retail businesses to operate. Why? Because you not only sell your products, you also manufacture them. What shoe store makes the shoes it sells?

By definition, your pricing formulas are more complex than retailers who merely “keystone” (or double) the product cost to arrive at a retail price. Your retail price must more than cover the fresh flowers, containers, supplies, overhead and manufacturing (design) labor required to put the arrangement together.

Your pricing formula will be determined by different components. How you address each will depend upon your competition.

**Who Are Your Competitors?** You can buy 12-ounce soft drinks for 30 cents each in a 24-pack. The same soft drink at a fast-food outlet might run 89 cents to \$1.39. At an upscale purveyor of adult beverages, the soft drink could cost more than \$2.00.

It's the same drink. Why such a swing in price? Competition.

In each situation, the business is pursuing a distinct customer. Its customers are purchasing under different circumstances and will accept a different price. The retailer

matches the price to the circumstances and the customers.

The same is true with retail florists. You need to know who your customers are, what business you're in and which other

retailers are competing with you.

The more services you offer and the more upscale your products, the higher the price you can (should) charge.

**What Type of Flower Shop Is Yours?** The retail flower market represents small business at its best—many competitors meeting many needs in many different ways. From cash-and-carry bucket shops to sophisticated wedding and party boutiques to large multi-location operations. All have their place in the market. Where do you fit in?

**F**inding the right price for your products is a delicate balancing act. If your prices are too low, you won't generate enough cash to pay all the bills. If your prices are too high, your customers will eventually take their business to a competitor that offers a better price.

The goal is to find the sweet spot for you and your customers. Not too high. Not too low. Here are some guidelines to help you decide what prices will work best in your shop.

### PRICING 101

Your prices must cover your shop's operating costs and provide some extra dollars for profit so that you can enjoy the fruits of your labor.

Operating costs begin with your fixed expenses. Rent. Utilities. Vehicles. Insurance. And any other expenses that basically remain steady month after month.

You also need to cover variable expenses—the ones that rise and fall depending on sales. Cost of goods sold (COGS). Sales, design and delivery labor. Advertising. Supplies. The busier you are, the greater these expenses will be.

Most business' prices tend to stay fairly constant until something important changes in the competitive landscape. For example, a shop owner might find a new, less expensive source for buying product. If he or she decides to lower prices to attract more customers, the competition will be forced to follow suit.

**PRICING IS THE SOLE RESPONSIBILITY OF EACH BUSINESS OWNER.** Anyone attempting to influence you to set a certain price for any product in your shop would be guilty of illegal price fixing. It's up to you to decide what to charge your customers.

## MASS MARKET COMPETITORS

A few retail florists compete head-to-head with mass marketers, such as supermarkets and wholesale buying clubs. These shops don't offer a lot of service but they do offer low prices. That's how they compete.

Typically, these retailers double their product costs and offer little in the way of design. The few designs they do carry are priced similarly to those in a traditional retail flower shop.

This pricing strategy will not work for the retail florist that has a full line of services, with arrangements making up most of the shop's sales.

## TRADITIONAL RETAIL FLORISTS

This is the category in which most retail florists belong. Several characteristics define this type of shop. Two-thirds of its business are arrangements. Most orders are delivered. And a large portion of the shop's volume comes in via the internet or over the phone.

**Flower shops are perhaps the TOUGHEST retail businesses to operate. Why? Because you not only sell your products, you also manufacture them. What shoe store makes the shoes it sells?**

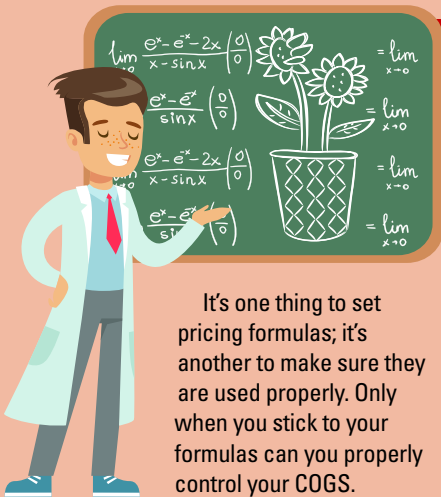
Typically, the traditional retail florist will use a 2× markup on the cost of the container and supplies, a 3.5× markup on fresh flowers and foliage, and a labor charge. (Thirty years ago, few florists charged for labor. Today, the vast majority do.)

Although 20% of an arrangement's retail price is the most common labor charge, many retailers distinguish between normal designing (20%), hand-held bouquets in a holder (35%) and hand-wired and taped pieces (50%).\*

## MIXED OPERATIONS

Many retailers compete in both markets. They do the bulk of their

\*Formulas in this article are those most frequently seen in the industry. You must decide what your formula will be.



It's one thing to set pricing formulas; it's another to make sure they are used properly. Only when you stick to your formulas can you properly control your COGS.

## Price-Point Designing

By far the most common approach is price-point designing.

With this method, you pick the price first and then make up an arrangement to meet that price. It's often called "top-down" pricing, because you start with the final price and work down to make the arrangement fit.

The easiest way to do this is to have a wall chart that shows how much of a given retail price is allocated to each part of the arrangement. The chart should have separate columns for the retail price, labor and supplies, and then a final column for the container, flowers and foliage. Price all components at retail. You can have as many rows as you have common retail price points.

With a good wall chart, all your designer has to do is look at the appropriate row to know how much money is available at retail for each item.

To make sure your designers are maximizing their productivity, consider using recipes for your own standard arrangements. Not just at holiday times, but all year long.

Create standard arrangements. Write up recipes. Ensure the designers follow the recipes. And sell, sell, sell.

business in traditional arrangements but also offer cash-and-carry, non-serviced loose flowers at competitive prices.

These retailers price their arrangements like a traditional retail florist and their loose products like mass market competitors.

There's nothing wrong with this model. In fact, it's often good business. It's a way to use pricing to meet the different needs and product desires of more customers.

# PRICING FORMULAS

## Concept Designing

With concept designing, you start with an idea of the finished product you want. Then you design it. Finally, you price it by totaling the prices for each item and adding your labor charge.

This type of design is often called "bottom-up" designing because you work up to the price. Just make sure you charge for every item according to your formulas. Don't give anything away.

## Counting Is the Secret

To ensure that your pricing formulas are being followed, your designers must count every flower and every piece of foliage in every arrangement. There is no shortcut to control.

Some florists attach a special form to each order. Most simply use the back of the order ticket. This makes a permanent record of exactly what went into a given arrangement.

Here's where the design room pricing chart can save a couple of steps. For any given retail price, the designer only has to control the amount in the final column (the amount for the container, flowers and foliage). The labor and supplies charges are fixed.

The designer finds the correct retail price and goes to the far right column to see the amount of money available for the container, flowers and foliage.

All products are noted with their corresponding retail price, and then added up and totaled at the bottom. If you do it right, you'll meet the price target every time.

See page 6 for more information specific to competitive pricing.

## ANALYZE & DECIDE

Don't be one of those florists who steps back from an arrangement and says, "It looks like a \$49.95 arrangement to me."

That's pure guesswork. You have to know the context to know the ideal price. Establish pricing formulas that ensure you will be paid the right amount on every sale. 🌹







# The Competition

See page 4 for more information about pricing.

## How Does Your Pricing Compare?

**A**s a retail florist, you seek to set prices that will allow you to compete with other retailers serving your market and also to be profitable. This challenge is faced by all florists.

The key thing to remember as you read this article is that you don't need to worry about all of the other shops in the area—just those that are serving the same market as you.

Are your prices higher or lower than those of your competitors? If you're higher, you probably wonder how much business you are losing as a result. If you're lower, you may be concerned that you are leaving money on the table.

Pricing competitively isn't easy. There are, however, some guidelines that can help.

### IDENTIFY YOUR COMPETITORS

How many real competitors do you have?

If you cater to customers who demand unique design capabilities and very personal service, you are in a very small niche. You don't have many true competitors. That niche element alone will allow you to charge higher prices.

If you focus on fairly standard arrangements or cash-and-carry loose flowers, you are likely to have numerous competitors.

Some florists compete on multiple fronts: with traditional flower shops selling arrangements, with supermarkets and mass retailers selling lower margin loose flowers, and/or with online retailers and direct shippers.

Whatever your business model, in each case you must price accordingly to compete successfully.

### SHOP THE COMPETITION

To price competitively, you have to know what the competition is charging. The only way to gather this knowledge is to shop the competition.

Big retailers do it all of the time. Best Buy hires people to go over to Walmart. Home Depot employees walk the aisles at Lowe's. These "shoppers" then report back on the prices they saw on potentially competitive products.



### NON-FLORAL PRODUCTS

Most retail florists carry "extra" products to fill out their lines. Gifts. Plush toys. Loose flowers. Often, those items do not represent a big share of their total sales.

It's ok to price these products aggressively. However, don't hesitate to lower your price to compete. It's better to make some margin than to have aging merchandise sit on the shelf, bringing in no money at all.

You need to do the same thing. Price shopping supermarkets is easy. Your secret shoppers will blend right in. Price shopping other traditional retail flower shops is another story. Often those florists are your friends. You don't want to upset them.

The best way is to periodically ask a friend or a new employee who won't

be recognized to buy an arrangement and bring it back to your shop. Then take it to the design room and check the pricing. You'll quickly learn how well your prices stack up.

### MAINTAIN HIGH-QUALITY SERVICE & PRODUCT

When it comes to competitive pricing, retail florists have it fairly easy. Your customers are spending discretionary dollars. Most are more interested in the products and services you offer than the specific prices you charge.

In fact, aggressive competition from supermarkets, online retailers and direct shippers is partly a good thing. It forces retail florists to re-evaluate their business model and ask important questions. Who are your customers? And what do they want?

As a retail florist, you are primarily in the "occasion business." You cater to customers who want a retailer who will handle the transaction from A to Z. They want quality product, design and delivery. And they are willing to pay for it.

Quality of product also plays an important role. If your flowers are fuller and last longer, your customers will notice. That's why you always should use proper chain-of-life techniques. Quality sells.

If your service is impeccable and your product excellent, you don't have to worry about charging a bit more than someone else.

Another helpful characteristic of the business is that most of your customers tend to live or work close to your shop. That makes buying from your shop convenient. The farther away (physically) your competition is, the less price-sensitive your customers will be. 🌸

# INVENTORY Q&A

**J**anuary is a perfect time to review your accounting practices, including how you handle inventory.

If you keep an inventory, do you have the right number of categories? If you don't keep an inventory, should you start?

Following is a quick review of the subject.

## WHAT DESERVES TO BE INVENTORIED?

What is inventory? It's product you have purchased that is sitting around, waiting to be sold.

Some products, like fresh flowers, are sold almost immediately. Other products, especially hard goods purchased in advance for a holiday, can sit for months before being sold.

Fresh products that turn over quickly do not need to be inventoried. It's only those products that stay on the shelf for a while that need special treatment.

## WHY BOTHER?

Good question. Listing an inventory on your financial statements won't increase your sales. At least not directly. In fact, it won't affect your shop's daily activities very much at all.

However, tracking inventory will help you gain more accurate, meaningful financial information.

**Example:** A florist with \$250,000 of annual sales probably has sales of \$15,000 in August. If the shop is doing a reasonably good job of controlling expenses and keeping productivity up, it could expect to see about \$1,500 on the bottom line in August.

In December, this same shop will do about \$32,500 in sales. Suppose that one-fourth of that (\$8,125) is gifts. The shop will buy those gifts in July and pay for them in August (assuming the shop didn't receive any concessions at the time of purchase that would have allowed a delayed payment).

The cost of the gifts purchased in August would be around \$4,000. If those items were expensed in August rather than being put into inventory, the shop

would show a \$2,500 loss rather than a \$1,500 profit for the month.

It would appear the shop was being managed very poorly, when that might not be the case at all.

Similarly, when December rolls around, the shop's profit would appear \$4,000 higher than it really was. The

**To understand how the business is really doing, you must inventory product that is bought in one accounting period (typically a month) and sold in another.**

owner would have a distorted view of the shop's performance.

To understand how the business is really doing, you must inventory product that is bought in one accounting period (typically a month) and sold in another.

That's why inventory is important.

## HOW MANY CATEGORIES ARE NEEDED?

Most retail florists use only one inventory category. However, for good financial control, you really need several.

Why? For one thing, not all cost of goods sold (COGS) percentages are the same. The most important COGS number, COGS for arrangements, should be separated from the rest of your COGS.

Only then can you track and control your costs for each type of product.

A properly organized income statement should have at least seven COGS categories:

1. COGS – Silk/Dried
2. COGS – Loose Flowers
3. COGS – Arrangements
4. COGS – Green Plants
5. COGS – Blooming Plants
6. COGS – Gifts
7. COGS – Balloons

You also need an inventory category for each COGS category with non-perishable products. The inventory categories for the typical retail florist would be as follows:

- Inventory – Silk/Dried
- Inventory – Arrangement Supplies\*
- Inventory – Green Plants\*\*
- Inventory – Gifts
- Inventory – Balloons

Remember, you don't need to inventory fresh flowers or blooming plants. They don't last long enough to bother. Only hard goods and similar products that won't sell as quickly need be inventoried. 🌸

\*Includes container inventory.

\*\*Many florists expense green plants at the time of purchase even though they might stay around for a while because buying is not concentrated for a given holiday.

## FAMOUS FINANCIAL WORDS

"Always be smarter than the people who hire you."

—Lena Horne

"The art of winning in business is in working hard—not taking yourself too seriously." —Elbert Hubbard

"A friend that ain't in need is a friend indeed."

—Frank McKinney "Kin" Hubbard

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# INQUIRIES & ANSWERS LETTERS

## FREIGHT CHARGES

*"How should I handle the accounting for freight charges?  
Are they an expense item like postage?"*

### **No. They are part of cost of goods sold (COGS).**

The easiest way to understand freight charges is to think about purchases you make from your local wholesaler. No doubt the wholesaler paid freight on the products shipped to him. He adds that cost into his pricing formula.

So you actually pay for his freight when you purchase his products. His freight becomes a part of your COGS because it is included in your purchase price.

Treat products you buy direct the same way. Include freight in your COGS by entering the entire invoice, including freight, as a COGS charge. If an invoice has different kinds of products, you'll have to allocate the freight among the various COGS categories. If the freight is charged separately, allocate it to COGS when paying the freight bill.

The final step is the most critical: When pricing the product, make sure you include the freight cost before applying your markup.

## SALES TAXES

*"My accountant has me include sales taxes in my total sales and  
then takes the taxes out as an expense. Is that right?"*

### **It's not the best way.**

What your accountant is doing is balancing your sales with your daily receipts. Her method is not going to cause any tax problems. However, it is inflating your sales a bit. When you do that, you throw off all the financial statement percentages that you use to monitor the health of the business.

The better way is to move sales taxes directly to a sales tax payable account on the balance sheet. This separates everything in a nice, tidy manner.

Your point-of-sale (POS) system should be set up to handle this allocation automatically for accounting and general ledger purposes. If you're not sure how to do that, call your vendor's support line. They should be able to give you a quick answer or configure the system the way you want.

## NORMS

### THE INTERNET BEGINS



**T**he large, government-controlled computer networks somewhat begrudgingly opened their lines for commercial use in 1995. It was the beginning of what we know today as the internet.

It is hard to overstate how much the internet has changed the world of business—both large and small. Can you even imagine what your operation would be like today without the internet?

Smart phones, websites, order confirmation, ordering online, social media ... and the list goes on and on.

If all of these changes happened in a few short years, imagine what the next 5 or 10 years will bring.

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