



Floral[®] Finance

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QuickTakes

*Ideas You Can Put
to Work Immediately*

1 Begin With Trust

You can begin relationships by trusting other people and then withdrawing your trust if they prove untrustworthy. Or you can withhold trust until they prove they can be trusted.

The first option carries some risk. However, it is the best way to launch new relationships—and to live.

2 Manage Anger

In a conflict, don't say, "That person is making me angry." That's relinquishing control to the other person. Instead say, "I'm getting angry."

The first statement suggests your reaction is the source's fault. The second separates the stimulus from your response.

You can choose whether to get angry. You are in control. People who take control are less likely to get angry.

3 Start Fast

To accomplish as much as you can, start each day the right way. Schedule a challenging task first thing in the morning.

Doing so will get your juices flowing because the task will require your full attention. You will begin the day with a significant accomplishment.

And you'll be in the right frame of mind to keep the pace going all day long.

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THE MAINSPRING OF HUMAN PROGRESS



Why do some countries do so well economically and others remain stagnant year after year?

Why do many countries in Africa, even those that gained their

independence after a positive colonial influence, seem unable to make much progress?

Many years ago, I came across *The Mainspring of Human Progress*, a small book by Henry Grady Weaver. It addresses those very questions.

Weaver says that the periods when and the countries where humankind has made the most progress share one common denominator. A common condition that spurs people to make great strides.

The condition? Freedom.

When people are allowed true freedom to work as they see fit and reap the rewards of their labor, progress ensues.

"Of course!" you might be thinking. "That makes sense." And it does make sense for those of us living in North America or Western Europe. However, it hasn't been so obvious for those living in other regions throughout history.

Freedom isn't the complete answer to progress. Actually, it is a little more complicated than that. The right to private property and the rule of law also contribute greatly.

We live and work in a system with marvelous opportunities. Instead of taking that fact for granted, stop to think about why and how we have been so blessed.

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Standard Arrangements

Mention standard arrangements at a florists' meeting. You'll likely get two distinct responses

On one side are those who favor standard arrangements and praise the efficiency of production design techniques. On the other side are those who emphasize custom arrangements and specialized service.

Where you land in the debate is normally a function of the kind of customers you serve. If you have an upscale, carriage-trade business, you undoubtedly opt for custom designs. However, not many florists cater exclusively to that niche. Most shops can use standard arrangements to their financial benefit.

Flower shops are much more alike than they are different. The big picture is the same. You are trying to make a profit by selling fresh flower arrangements you manufacture yourself. And certain rules must be followed if you are to be successful.

First, you have to control the amount of product you give for the price you charge. You simply can't add extra flowers to your arrangements and expect to make money.

Second, you must control your labor costs. The "manufacturing people" (the designers) need to be productive.

THE PROCESS

Standard arrangements are a perfect solution to both the cost of goods sold (COGS) control problem and the labor productivity issue.

First, a definition: A standard arrangement is any arrangement that is reduced to a formula—a recipe. The designer may follow that recipe two times, 50 times or 100 times. Every piece based on the same recipe should look alike.

An example is a wire-service-promoted holiday arrangement. When a holiday approaches, most florists create their version of the special.

Samples are produced to ensure they fairly replicate the original. Usually, the shop does a cost analysis of the product to determine if it will bring an adequate profit.

Once the standard is finalized, the designers simply follow the recipe. Every customer who orders the special will get exactly the same product.

In addition to wire service arrangements, shops can create and sell their own standard arrangements. The process is the same.

COGS CONTROL

Whoever establishes the recipe determines the COGS for every copy



that is produced. That's both good news and bad news.

If the recipe for the arrangement is formulated to properly control the amount of product in the finished piece, COGS won't be a problem. Every copy made from the recipe will have the same acceptable COGS.

On the other hand, if the original recipe calls for too much product, every copy also will contain too much product. The COGS will be too high on each copy.

So, setting the original recipe is the key to the whole process. Assuming it is done properly, controlling COGS on a standard arrangement is a piece of cake. Every arrangement will hit the mark. And designers (or arrangers) won't have to double-check each standard piece for COGS. They'll just follow the recipe.

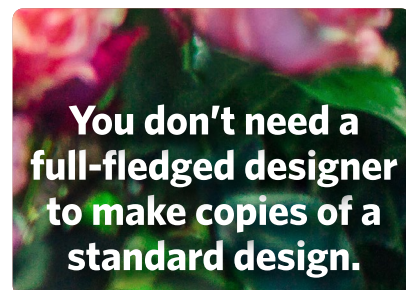
LABOR PRODUCTIVITY

When you make a copy of an arrangement, it takes much less time to complete the second one than the first one. All the creative work—flower selection, placement, design—doesn't have to be repeated. You can move more rapidly to completion. Manufacturing multiple copies of an arrangement pushes productivity into the stratosphere.

Not only does productivity go up with standardization, wage rates go down. You don't need a full-fledged

designer to make copies of a standard design. All you really need are arrangers. Employees who can follow the recipe.

You win on both counts. Higher productivity from anyone working on the standard arrangements AND lower wages through the use of less experienced or skilled talent.



This is why labor costs as a percentage of sales go down during holiday seasons. Almost all shops use some production designing techniques during these busy periods.

The trick to making money is to use the same techniques all year long. Keep COGS under control and productivity up by using standard arrangements during non-holiday periods, too.

Never make just one arrangement at a time. Increase productivity by turning out extras the same way you would during a holiday.

HOW MANY?

Depending upon the size of your shop, establish six to 12 standard

arrangements that fit your most popular price points. You can rotate new designs in every week, month or quarter to ensure that regular customers will always see new designs.

Determine how many of each standard arrangement you will need throughout the week. Then start or end each day by getting your "standard arrangement inventory" up to the daily quota.

CUSTOMER REACTION

Will customers feel cheated when they receive standard arrangements? They shouldn't. "Standard" does not mean lower quality of design or product. It simply means multiple copies are produced.

When you rotate designs, the odds of any customer getting more than one of the same arrangement will be small. And when customers order multiple arrangements—or place frequent orders—a simple tracking system can prevent duplicates.

If an arrangement is good for one person, isn't it good enough for others, as well? Almost every retailer in the world sells multiple copies of their wares.

BORED DESIGNERS?

Putting out standard arrangements is less challenging than creating a fresh design for each piece. However, design room creativity and excitement need not be a thing of the past. Hold periodic design contests to determine next week's, next month's or next quarter's specials. Reward the winning designer with a prize—cash, merchandise or a couple hours off.

And remember, you'll never reach the point where all of your arrangements are standard designs. There always will be a need for truly custom work.

Depending on your volume, targeting 30%–70% of arrangement sales for standard designs is reasonable. The larger the shop, the greater the percentage of standard arrangements.

A certain amount of standardization will help almost every shop. After all, who doesn't want increased productivity and greater control of COGS? 🌸

Special Containers

Are They Good for Retail Florists?



If you've been in the floral industry very long, you've heard many opinions about special containers—some positive and some negative.

"We're in the business of selling flowers. Why should we push special containers?"

"I ran out of the wire service special before the holiday ever got rolling. Next time, I will order more."

"I don't understand why the wire services push containers. They should focus more on the flowers."

And so they go.

Whatever your personal experience, take a moment to look at the facts about special containers. Then make an informed decision as to what you will do in the future.

WHY DO WIRE SERVICES PUSH THEM?

There are several reasons.

First, it's easier to brand a unique product. The millions of dollars a wire service spends to promote a holiday arrangement will be more effective when focused on a proprietary item.

This is especially true when the product ties into a recognized name. Teleflora, for example, used Thomas Kinkaid tie-ins successfully. Consumers had instant recognition when they saw the ad and full recall when they went to purchase.

Unique containers bring more customers in because of the national advertising. It's as simple as that.

Second, the wire service wants to make its holiday promotion different than those of other wire services.

Third, of course, containers provide a source of revenue for the wire service.

CAN I MAKE MONEY WITH THEM?

That's the big question. Are the wire services doing you a favor when they push (and pull) containers through the system?

To answer that question, all you need to do is compare the numbers on a special container arrangement to an arrangement with a standard utility container.

A quick look at the table to the right reveals the answer: *Special container*

arrangements are quite profitable for the retail florist.

Although the container cost goes up by \$5.25 (from \$3.00 to \$8.25), total cost of goods sold (COGS) is less than 4% higher (from 26.3% to 30.0%).

Floral Finance recommends that COGS on arrangements (including container and supplies) never exceed 33%. The special container arrangement is well under that target.

If you normally are sitting at 33% for your arrangement COGS, the special container arrangement would exceed the target by 4%.

However, that does not necessarily mean you are in trouble. Let's look at the larger picture.

HOLIDAY GOALS

During the holiday season, the average retail florist is running hard. The goal is to make as much money as possible by selling as much as you can while keeping expenses as low as possible.

Many florists find themselves unable to handle all the business coming their way.



Standard
Container



Special
Container

	Cost	Markup [†]	Retail Price
Labor	—	—	\$12.00
Container*	\$ 3.00	2.0x	6.00
Supplies	1.80	2.0x	3.60
Flowers & Foliage [†]	10.96	3.5x	38.35
Total	\$15.76		\$59.95
COGS	26.3%		

	Cost	Markup [†]	Retail Price
Labor	—	—	\$12.00
Container*	\$ 8.25	2.0x	16.50
Supplies	1.80	2.0x	3.60
Flowers & Foliage [†]	7.96	3.5x	27.85
Total	\$18.01		\$59.95
COGS	30.0%		

*Including freight †Using the most common industry markups

Does the special container arrangement help, or is the florist just trading a more profitable standard arrangement for a less profitable special?

That question can be answered by considering the time it takes to fill each type of order.

Normally, a special container arrangement will have fewer stems than a regular arrangement. It also might require less greenery.

All in all, the special container arrangement can be made up much more quickly than a regular arrangement. That means higher productivity and lower labor costs.

And what is your most limited resource during a holiday? It's labor.

Anything that will free up time gives you the ability to serve more customers and thereby increase total sales.



Unique
containers bring
more customers
in because of the
national advertising.

BOTTOM LINE

A special container arrangement shifts a portion of each arrangement from designed product to finished goods product. You have more "on the shelf to sell" before the holiday starts.

Rather than costing the average florist bottom-line dollars, special

containers can actually increase your profit by increasing your ability to move more product.

In addition, special containers will bring new customers into your shop. Because of the large national advertising budgets promoting the arrangement, customers come to your door looking for the special.

Now that you realize the economic value of special containers, consider building a local sales and promotion strategy to take full advantage of this opportunity.

Promote and sell special container arrangements as local orders. Your advertising will track and build on the national promotion.

The bottom line will be more sales and greater net profit. 🌸

Special Container Summary

- ✓ COGS on special container arrangements is only about 4% higher than a normal arrangement.
- ✓ The design labor required to fill a special container arrangement is lower than a regular arrangement.
- ✓ Consequently, the special container arrangement frees up labor—your most constrained resource. That allows you to increase your sales during a holiday period.
- ✓ National advertising of special container arrangements will bring new customers to your shop.
- ✓ Do not think of special containers only for wire orders. Promoting these arrangements for local sales maximizes their value.



MONEY SMARTS



Using Credit Wisely

Credit is part and parcel of Western culture. And although it is a blessing in some circumstances, it also can be a curse. Consumers, businesses and governments are carrying more debt today than ever before.

To stay out of trouble, you need to understand the basics.

DOWNSIDE OF DEBT

First, debt is bondage. When you borrow money, you place yourself under the lender's control.

It may be exciting to buy something you want when a loan you've applied for is approved. However, repaying the loan is never exciting, and it can be downright difficult.

Second, borrowing money typically leads to a lower standard of living because of the interest you pay.

To understand this phenomenon, look at the typical home mortgage. If you borrow \$100,000 at 6% for 30 years—typical terms in normal times—your monthly payment, excluding taxes and insurance, will be \$594.82.

By the time you have made all 360 monthly payments, you will have paid a total of \$214,135. That's \$114,135 in interest over the life of the mortgage.

Suppose you do the same loan but pay it off in 15 years instead of 30. Your monthly payment will be \$839.88. Total payments over the life of the loan will be \$151,178. Only \$51,178 in interest—a savings of \$62,957.

In other words, taking on debt for a shorter period of time will leave you with an extra \$62,957 to spend on something besides interest.

With those savings, most parents could pay for a big part of a college education. And, remember, that's just on \$100,000.

Many home mortgages are for much larger amounts.

Debt is bondage.

DELAYED GRATIFICATION

The best rule to follow? Have as little debt as possible.

The secret is to delay your gratification. Don't buy something until you have the cash to pay for it.

You'll end up with a lot more to spend on yourself and those you love.

UPSIDE OF DEBT

Not all debt is bad.

Going into debt is okay if the return on the loan is greater than the interest you have to pay. Here are four examples.

Education. Borrowing to get an education will enhance your earning power.

It is estimated that the typical college education is worth \$1 million in additional income. Certainly, a good return on the investment.

Borrowing for a trade reaps similar rewards. So, don't worry about taking on an education loan. Just borrow as little as possible. A part-time job during school to reduce the amount you have to borrow is usually a good idea.

Business expansion. Once again, if you can show the payoff, borrowing to build or start your business is reasonable.

Home. Few people can buy a home without a mortgage loan. The government offers mortgage interest deductions and other tax incentives to encourage home ownership.

Just be smart. Buy a house you can afford, and pay off the mortgage in 15 years or less.

Automobile. This is a tricky one. In North America, most people need an automobile. And cars are expensive.

It is okay to borrow to buy your first car, if necessary. However, to maximize your lifetime spendable income, save for subsequent vehicle purchases. You don't always need to have the newest, most expensive car.

BOTTOM LINE

Avoid most debt. Pay off your credit cards in full each month. Borrow as little as possible and pay every loan off as quickly as possible.

And learn to delay gratification. When you do, you'll have a whole lot more gratification over the course of your life. 🌸

CASH VERSUS ACCRUAL ACCOUNTING WHAT'S THE DIFFERENCE?

Both cash and accrual accounting can handle your revenue and expenses. The difference is when the revenue and expenses are recognized.

In cash accounting, you recognize revenue when the cash comes in. Similarly, an expense is recognized when you write the check.

Cash accounting is simpler than accrual. Consequently, many small businesses favor that system.

However, cash accounting also has its drawbacks.

CASH ACCOUNTING

Consider December sales, for instance. In December, your customer makes a purchase and charges it to a house account. However, he doesn't pay the bill until January. In cash accounting, the sale is credited to January—the month he makes the payment, not the month he picked up the product.

Think about that. All those December house account sales that aren't paid until January will appear on your January financial statement.

The same thing with expenses. If you order Valentine's Day flowers in February but don't pay for them until March, they appear as an expense on your March income statement.

That's the drawback to cash accounting. Your financial statements do not reflect the activities that happen during a given month—only the cash that came in and went out.

On an annual basis, it won't make much difference. Some of this month's holiday sales and purchases won't hit until January 2020. However, they will be offset by December 2018 activity that hit in January of this year.

ACCRUAL ACCOUNTING

Accrual accounting tries to remedy the problems associated with the cash system. Revenue goes into the month it is generated, regardless of when the cash is received. And expenses are entered in the month they occur, no matter when you write the check.

Three examples will clarify how this works.

In cash accounting, your financial statements do not reflect the activities that happen during a given month, only the cash that came in and went out.

1. Product Purchases

A shipment of Christmas ornaments arrives in October and you immediately cut a check to pay for them. Under the cash system, the purchase amount is expensed to cost of goods sold (COGS) in October. Under the accrual method, the purchase goes

into inventory on the balance sheet. It does not hit COGS until the products are sold in December.

2. Charged Sales

Your customer buys an arrangement and charges it to a house account in December. Under the accrual system, you ring up the purchase as a December sale and put the amount the customer owes into the accounts receivable on the balance sheet. When you receive payment, accounts receivable is reduced accordingly.

3. Fresh Flower Purchases

You order and use some flowers in December. The bill doesn't come until January. The accrual system expenses the flowers to COGS in December and puts the amount you owe in the payables account to be paid in January.

Accrual accounting is better than cash accounting for retail florists and most other businesses. It is the only way to get accurate monthly financial statements and know how well you are managing your business. 🌱

FAMOUS FINANCIAL WORDS

"If a man runs after money, he's money-mad; if he keeps it, he's a capitalist; if he spends it, he's a playboy; if he doesn't get it, he's a ne'er-do-well; if he doesn't try to get it, he lacks ambition. If he gets it without working for it, he's a parasite; and if he accumulates it after a lifetime of hard work, people call him a fool who never got anything out of life."—Vic Oliver

"In the best institutions, promises are kept no matter what the cost in agony and overtime."—David Ogilvy

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INQUIRIES & ANSWERS Letters



ANONYMOUS DELIVERIES

“What’s the best policy for handling orders that request an anonymous delivery?”

Be careful and be transparent.

There are many reasons customers might request an anonymous delivery. Some are cute. Some are funny. However, others can be downright dangerous. More than one florist has unknowingly delivered an anonymous arrangement intended to harass the recipient. In extreme cases, the police could come knocking at your door for information.

The best policy is to be upfront with the sender. Agree to the anonymous delivery only if the purchaser provides the sender’s contact information and understands you will give that information to the recipient if requested.

If someone can’t live with those conditions, don’t take the order. Better to pass up the sale than be caught in the middle of something ugly.

WEDDING CANCELLATIONS

“Should I give money back on a cancelled wedding? If so, how much?”

You need rules.

Most florists require that weddings be paid for prior to the ceremony. One or two weeks in advance is a good idea.

Occasionally, a wedding is cancelled for one reason or another. To be fair, you should refund any money you have not yet earned. If you haven’t purchased the flowers, give a full refund minus an appropriate fee for your consultation and planning time. If the flowers are already in house, keep enough money to cover your consultation and planning time plus the cost of the flowers. If the wedding already is wrapped up, no refund is warranted, except maybe for your setup charges.

Put your refund terms in a formal policy statement. Have the bride and groom agree to and sign the terms up front. Fairness and good communication will prevent bad feelings after the fact.



NORMS

HOLIDAY VOLUME



This is the number of days in December that retail florists are dealing with holiday volume.

December is busy. But it has a much more manageable pace than May, another month that brings in about the same amount of business. May has only 7 to 10 days of Mother’s Day business. The workload is much more concentrated.

Enjoy your December volume. It’s a lot easier than May.

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