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FINANCIAL INFORMATION,
EDUCATION AND CONTROL
FOR THE RETAIL FLORIST

Floral Finance®

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QuickTakes

Ideas You Can Put to Work Immediately

1 Not Just Titles

When you designate someone a manager, be sure to give that person the responsibility that goes with the title.

One way to check how effectively you have done this?

Watch to see where other employees take their questions. They ought to go to the manager of the appropriate area, whether or not you are present. Otherwise, the reality of the job is less than the title suggests.

2 Thank Employees

How often do you remember your bosses saying thank you when you were an employee? It probably didn't happen enough. Maybe not at all.

How often do you say thank you to your employees? They will appreciate it as much as you would have.

Share a few kind words. It's a no-cost strategy for boosting morale.

3 Don't Forget Customers

Do something you probably haven't done in a long time. Send a thank-you note to your best customers.

The result? More return customers … and more sales.

Although you don't have time to thank everyone who wanders in, an occasional note to your best customers is certainly possible.

Set aside 15 minutes a day for this important task. It'll pay off handsomely in better customer relations and increased sales.

INSIDE THIS ISSUE

FROM THE PUBLISHERS
OF FLORAL FINANCE®

FORCED CHANGES

I recently heard that a friend had been laid off in a corporate cutback. I bumped into her shortly thereafter and asked how she was coping.

Of course, a situation like that is never easy.

She had just leased a new house; that was the bad news. However, the landlord had insisted on a month-to-month lease; that was the good news.

And so, the story went. Some things were really tough. Others, not so bad. The biggest challenge of all was dealing with the uncertainty. She just didn't know what the future would hold.

More often than not, situations like this that appear disastrous evolve into a turning point for the better.

How many people do you know who, having lost their jobs, ended up in a better one or headed off in a different direction that brought great success and fulfillment?

I can think of many, including myself.

So, when setbacks occur, try to view them as opportunities.

No matter how big setbacks are, they always contain the seeds for future achievement. Handle them with maturity – and then get on with things.

The sun will still rise in the morning. A setback is just a different beginning to the rest of your life.

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

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MANAGEMENT ESSENTIALS

Taking a Physical

Why Is It Necessary?

One of the largest expenses for every retailer is cost of goods sold (COGS)—the cost of the products you resell (including freight). COGS does not include labor—just the cost of the product itself.

Even retail florists with a scanner at the register or a point of sale (POS) system that counts the products that are sold can't be sure how much is left in inventory. In addition to sales, theft or breakage also may reduce the inventory.

Of course, few retail florists have a scanning system. It's too expensive. Consequently, the only way to know exactly how much product has been sold or lost is to take a physical count of what is left in the store.

WHEN?

A physical inventory is necessary for accurate financial statements. The question is how many times a year should you take one.

Once or twice a year is the most practical approach. Some accountants recommend doing an inventory every month. But that's just not an efficient use of your time. And it's really not necessary.

Do the first physical inventory at your fiscal year end. For most retail florists, the fiscal year is the same as the calendar year.

A physical inventory at the end of your fiscal year ensures that your year-end financial statements accurately reflect what happened during the preceding 12 months. How much did you really make or lose?

If you take inventory twice, the most logical spot for the second one is halfway through the year. However, timing really doesn't matter.

A second inventory lets you make necessary adjustments more quickly. The size of the adjustment will suggest the accuracy of your monthly system for relieving inventory.

Inventory

CONSIDERATIONS

Ideally, you should take inventory when the shop is not busy. You also should pick a time when the inventory is low. You'll have fewer items to count.

December 31 fits both of those criteria nicely. Although you may be tired from the holidays, the week after Christmas is usually fairly quiet. Also, your stock is probably at a low for the year.

Six months down the road would be June 30. However, July 31 might be better because July is one of the slowest sales months of the year in most shops. You'll have more time to conduct the inventory. You also will have depleted your Mother's Day stock, and Christmas stock won't have arrived yet.

NOT MUCH FUN

To make the less-than-exciting task of taking inventory a little more bearable, make a game out of it. Offer rewards and prizes for employees' counting speed or participation.

However, inventory time still is more of a have-to-do than a want-to-do.

Roll up your sleeves. Dive in. It goes with the territory.

How To Take a Physical Inventory

Counting your inventory may seem to be a simple matter. However, several steps can save you time and help your results be more accurate.

Step 1: Count the Right Things

Don't count partial boxes of supplies and containers. It's just not worth the trouble. Instead, assume that any partial box is a used box.

Also, do not count perishable products: flowers, greens, blooming plants and green plants. Those items should be expensed at the time of purchase. Because they will not last long, they do not need to be inventoried.

Step 2: Break the Job Down

Count the items on each fixture or storage shelf separately. This also makes double-checking your work easier.

Step 3: Use a Form

Tape an inventory form on each fixture or shelf—either a copy of the form in *The Profit Minded Florist* (to get a copy from Teleflora, call 800-421-2815) or use a blank sheet of paper. The form should have six columns:

1. The name of the item
2. The number of items
3. The retail price of the item
4. The total dollar figure
5. Markup
6. Inventory at cost

Step 4: Make the Count

Count everything on each fixture and record the results on your form. This is best done with two people: one calling out the items and amounts and the other writing the numbers down.

Step 5: Check Your Work

Once you have counted everything, double-check the results on each form. To do so, have the two counters switch places. A person who overlooked something the first time is very likely to do it again. A fresh set of eyes will solve that problem.

Step 6: Total the Forms

Gather all the inventory forms. Sit down with a calculator and determine the total amount of inventory at retail for each item. Multiply the number of an item by its retail price to get the total retail dollars for that item.

Step 7: Review Your Markups

Using your pricing formula, determine your markup for each item. For example, suppose your pricing formula is to double the cost of a gift item. If you buy something for $5, you will sell it for $10. Your markup on that item is 2.

Step 8: Divide & Conquer

Divide the total retail dollars for each item by the item's markup to determine the approximate cost of those items.

Step 9: Tally the Results

Tally the final amounts in the inventory at cost column on your sheets to determine your total inventory for each inventory category.

Step 10: Share the Results With Your Accountant

Give all totals to your accountant. He or she can provide you the proper adjustments for your financial statements.

Price Barriers
Are You Using Them Wisely?

It's been a while since we talked about price-barrier pricing. Many retail florists have caught onto the advantage of this strategy. However, too many others are still hanging onto their old ways.

What is a price barrier?

Definition: A price barrier is that price at which a customer will NOT buy the product. Any price below the barrier is okay. Any price at or above the barrier is not.

Research has identified the most common price barriers. The table below shows the barriers most retail flower shops use.

Think about it for a minute. When was the last time you saw an appliance store advertising a washer or dryer for $500 or $600? Isn't it always $499 or $599?

COMMON FLOWER SHOP PRICE BARRIERS

Remember, a price barrier is the price at which the customer won't buy. The product is too expensive.

Barrier Is:	Price Should Be:		
$ 2.50	**$ 2.49**		
5.00	**4.95**	or	**$ 4.99**
10.00	**9.95**	or	**9.99**
15.00	**14.95**	or	**14.99**
20.00	**19.95**	or	**19.99**
25.00	**24.95**	or	**24.99**
30.00	**29.95**	or	**29.99**
35.00	**34.95**	or	**34.99**
40.00	**39.95**	or	**39.99**
50.00	**49.95**	or	**49.99**
75.00	**74.95**	or	**74.99**
100.00	**99.95**	or	**99.99**

When was the last time you saw a car advertised for $20,000 or $30,000? It's always $19,995 or $29,995.

Other retailers use prices like $2.49, $9.99 and $99.95.

Why do they price like this? Because they know they will sell more items at $9.99 than at $10.00.

Is that crazy or what?

No one is fooled by a penny, are they? "Fooled" probably is not the right word. "Comfortable" is closer to the mark.

Are customers more comfortable at $9.99 than at $10.00? You bet they are.

AN EXAMPLE

Here's another example to help illustrate this phenomenon.

Years ago, a sociologist did an experiment. He dressed one person in a beige raincoat and another in a black raincoat. Both were then instructed to deliver a small package to the presidents or owners of medium-sized businesses.

The only catch was they had to try to hand the package personally to the recipient—not leave it with a receptionist or office assistant.

Who got past the receptionist/office assistant most often: the person in beige or the person in black?

If you guessed beige, you're right. The courier in the black raincoat was perceived as more threatening and, therefore, reached the recipient less often.

The person in the beige raincoat, on the other hand, seemed more trustworthy. That person more often was given a pass.

Interestingly, this research formed the basis for the book *Dress for Success* by John T. Malloy. He couldn't explain why people reacted the way they did—only that they did react in certain ways.

For example, Malloy discovered that the best suit in a serious business meeting is the "power suit"—dark blue (preferably pinstriped) with a white shirt and red tie. That type of suit suggests power and authority, which are essential in a serious negotiation.

BACK TO PRICE BARRIERS…

We don't know why price-barrier pricing works. We just know it does. Here's an example.

If a woman walks into your shop to buy an arrangement with a price barrier of $50.00, she won't spend $50.00. She will spend *up to $49.99.*

[Note: Few people know their own price barrier off the top of their head. It's more subtle than that. But if asked, they could tell you an amount that is more than they want to spend.]

She looks in the cooler and sees arrangements for $40.00, $45.00, $50.00, $55.00 and $60.00. How much is she going to spend?

You're right! She'll buy the $45.00 arrangement. Although she might have spent up to $49.95, she didn't have that option.

So, lower your prices by a penny or a nickel. Guess what will happen? Your customers often will buy larger arrangements. They'll spend up to and just under their personal price barrier.

In the example above, the customer would have bought the $50.00 arrangement if you had priced it at $49.95.

DETERMINING PRICE BARRIERS

Good salespeople often can get customers to cross over their price barriers.

In fact, research shows that once customers go over their price barriers they will move all the way up to just under the next price barrier.

The price barriers are where the resistance is. Not the prices in between barriers. To maximize sales success, combine all the persuasive techniques you've learned with the knowledge of how far customers will go if they step over their initial barrier.

If you don't know where a customer's price barrier is, suggest a broad range of prices. Using colorful language, you can both probe for the barrier and encourage the customer to step up a barrier or two:

"We have something spectacular at $149.95, a beautiful piece at $79.95 and a colorful arrangement at $49.95 as well as other options. What would best fit your need?"

Once a customer has selected a price, don't stop there. You can still ask about adding a balloon or card. That's a different conversation.

TAXES & OTHER CHARGES

Don't worry about taxes, delivery charges and service charges that might also be involved in the sale.

The only price that matters is the original product price. The customer accepts these add-ons without including them in the analysis.

Want proof?

Think of all the consumer product commercials on cable television. Knives and spot removers, perma-glue and everything else you can think of are almost always advertised at $19.95. The marketers know from experience that a price of $20.00 or more would greatly lower the response rate.

Do customers actually pay just $19.95? Of course not. A shipping and handling fee of $7.95 or more is almost always added on. This extra fee does not affect the buying decision.

You only need to be concerned about the price of the product itself.

DELIVERY/SERVICE CHARGES

How do price barriers affect these non-product sales? The same way as with products.

If you have a $9.00 delivery charge, you can easily raise it to $9.95. Rarely will you receive a complaint. Candidly, most customers won't even notice.

PHONE SALES ARE DIFFERENT

Interestingly, it is better to stick with whole dollars when talking to customers on the phone.

A customer who is in your store or on your website can see the price at a glance. It takes no more time to see a $49.95 price than a $50.00 price. However, on the phone it takes more syllables and more time to say $49.95 ("forty-nine-ninety-five") than to say $50 ("fifty").

That's why sales experts recommend using whole dollars in phone sales presentations. Doing so simplifies and streamlines the conversation. When you are on the phone, the goal is to quickly cover several different price points and then allow the customers to select their comfort range.

So, don't feel bad about reverting to whole dollars on the phone. It is easier for both you and the customer.

Just make sure you consistently use price-barrier pricing in your store and on your website. Don't confuse the customer by mixing prices—$29.95 and $35.00. All prices should be based on price barriers.

WHAT ARE YOU WAITING FOR?

Don't wait any longer. Give your customers the opportunity to spend right up to—and just under—their price barriers. They'll be happy. And you'll make more sales.

Aren't Times Changing?

You've probably noticed that Walmart, Target and other large retailers have started to mark prices "on the dollar," Blouses for $10. Pants for $20. Other high-end retailers and restaurants have also gone to whole-dollar pricing.

Does this mean price-barrier pricing is no longer as important as it used to be?

Possibly so for discounted merchandise and for younger shoppers. But not—yet—in all retail settings.

Don't let the big-box dynamic dissuade you from following price-barrier pricing in your store. Retail flower customers are generally older. They are used to price-barrier pricing. I wouldn't switch to whole-dollar pricing unless and until that trend takes hold across the entire retail scene—and that is nowhere close to happening.

Go with proven techniques. Let someone else do the experimenting.

Is Your Goal to Be a Millionaire?

Don't plan on getting there by competing on a game show or winning the lottery. Almost no one gets wealthy that way.

Sure, top athletes and celebrities may be wealthy. But they represent only a small fraction of the millionaires in North America.

So, who are the other millionaires? Did they inherit their money? No. "Genes" didn't bring them wealth.

The Millionaire Next Door, a longtime New York *Times* bestseller by Thomas J. Stanley, tells exactly who these people are and how they got there.

COMMON FOLKS

Most millionaires do not live in flashy houses or drive expensive cars.

In fact, do you know the vehicle most commonly driven by millionaires? It's a Ford F150 pickup truck.

As a group, they are unpretentious, plain folks who follow a few simple rules.

1. They own their own businesses.

Most millionaires are self-employed people who have worked to build the value of their businesses.

If you aren't a business owner, don't let that discourage you. There certainly are exceptions. Even schoolteachers have become millionaires.

2. They work hard.

Most millionaires have worked 40 to 50 hours a week for 30 years or more. They have little intention of retiring. They enjoy what they do.

3. They want financial freedom more than an extravagant lifestyle.

They have decided they would rather live in a smaller house, drive a used car and have money in the bank than live at the edge of their income.

They want to be able to say "no" to an employer or client and go their own way, knowing they have saved enough to survive any downturn.

In a word, *financial freedom* is their goal, not a 5,000-square-foot house and a Mercedes.

Almost no one gets wealthy winning the lottery.

TWO KINDS OF PEOPLE

Financially, most people fit into one of two basic categories: prodigious savers or prodigious spenders.

The prodigious savers always live under their income. They delay gratification and pride themselves on being debt free.

They know debt is bondage. Every interest payment means less money available to spend in their lifetimes.

Prodigious spenders are just the opposite. They borrow with ease, don't wait for much, live at the edge of their income, and are only one or two paychecks away from financial disaster.

BASIC CONCEPTS

There's nothing magical about it. Most millionaires follow simple, conservative principles that our society does not promote.

Every day, we are bombarded with messages encouraging us to be discontented with what we have. Whatever we own isn't good enough. We need the latest, biggest, fastest, newest model of whatever.

If you tell a real estate agent you want to spend $200,000 on a house, what kind of houses will you be shown? Most likely, those priced at $225,000 or more.

The agent won't believe you. He knows you can qualify for a bigger loan.

And few buyers will push back. They go with the program. Buy the bigger house. Borrow. Spend. Soon, they have no reserves in the bank.

BE MONEY SMART

Get your desires in check. Recognize that you are in it for the long haul. Downsize your home or car if necessary. Start to build your nest egg.

Retail florists are perfectly positioned to follow the steps to financial freedom. They own their own businesses. They can work hard and build their savings.

Where do you want to be financially in 15 years? It's your choice. Just make good decisions.

Next month, we'll look at saving strategies.

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Loan Guarantees

What Are You Getting Yourself Into?

Your shop needs some money. You request a loan from your bank. In the loan application, you lay out why you need the money and how you plan to repay the loan.

Here's how your banker may respond:

1. "Yes."
2. "No."
3. "Yes, if…"

The third response is the most likely. The bank will lend you the money if and only if you meet certain conditions.

One of the first conditions you can expect is a requirement that you sign some form of personal guarantee on the debt.

You might be tempted to say yes and quickly agree to whatever guarantee the banker requests. After all, you need the money and you are confident you can repay the debt. So, what difference does signing a guarantee make?

Here are four questions to ask your banker.

1. Is this a continuing guarantee?

If the banker's answer is "yes," be careful. In signing a continuing guarantee, you assume liability for all of the business's debts to the bank—past, present and future. The surety will extend well past the particular loan you are requesting on this occasion.

The next time you borrow, the bank won't even mention a guarantee. They won't have to. They already will have one in the file.

2. Is this a guarantee of collection or a guarantee of payment?

Another biggie. From the borrower's perspective, a guarantee of collection is much safer. That means you promise to pay only if the business itself can't. The bank first must exhaust every possible means to get the money from the business before enforcing the guarantee.

With a guarantee of payment, you are equally liable with the business. Technically, the bank could ask you to pay personally at any time. Whenever the bank begins to feel uneasy with the shop, they can come after you.

3. Are you asking that both my spouse and I sign?

Adding your spouse to the guarantee may increase your potential liability.

One common situation is when you and your spouse jointly own a house or other property. With both signatures, the bank can force a sale of the property and take the entire proceeds to satisfy the loan.

If you alone guarantee the debt, the bank has rights only against your share of the property. In many states, the bank could not force a sale.

4. Will you limit my liability to the amount of my net worth?

If you don't ask, the bank undoubtedly will have you sign an unlimited guarantee. If the amount of the debt is beyond your net worth, you could be forced to go through bankruptcy to get the sword off your neck.

The written guarantee should limit your liability to the amount you could realistically repay. Not a dollar more.

Not all guarantees are alike. When you understand the differences, you can better evaluate the risks when you seek a loan. Know what you are getting into.

FAMOUS FINANCIAL WORDS

"If you can actually count your money,
then you are not really a rich man."
—John Paul Getty

"Money is what you'd get on beautifully
without if only other people weren't so crazy about it."
—Margaret Case Harriman

teleflora.
3737 NW 34TH ST
OKLAHOMA CITY, OK 73112

INQUIRIES & ANSWERS

Letters

PROCESSING PAYROLL

"Is it worthwhile to use a payroll processor?"

In most cases, yes.

Payroll is a task that every business faces two or more times a month. It involves a lot of detail. Both federal and state reports must be submitted on a timely basis.

Most shops will find a small business payroll service like Paychex well worth the cost. The company will process your payroll, file the required reports, take care of withholding and payroll taxes, and do all the W2s at the end of the year. What's more, they do it for a very reasonable price.

Yes, you can save some money by processing payroll yourself. However, the cost/benefit tradeoff of paying someone else to do it is a good one.

Not to mention that if you do your own payroll and accidentally miss a tax payment, the penalties can be significant. A payroll service ensures your taxes always will be paid on time.

RAISING PRICES

"I want to raise my prices for Christmas. How should I announce it?"

Just do it.

Announcing price changes is really not necessary in a retail flower shop.

It's not like you're selling Big Macs at McDonalds and your customers are used to a given price for a very specific item. In a flower shop, arrangements and arrangement prices change all the time (i.e., a $49.95 this month might be very different than a $49.95 arrangement next month). If your costs are higher at Christmas, you might have to charge more for the same items than you did last month.

However, be careful. We have lived in an inflationary economy for so long that we think price increases are natural and accepted. Deflation also crops up once in a while.

Make sure your prices are competitive with others in your market. To be sure, periodically buy arrangements from your competition, bring them back and price them using your formulas. You will quickly see how your prices stack up against the competition.

NORMS

65 YEARS OF AGE

The number of people turning 65 each day.

That's a lot of retirees.

The problem is that most baby boomers have not saved enough for retirement, and Social Security will be hard pressed to meet their needs.

As a result, most seniors must work at least part time. They are experienced. They are hard working. They are a great group for florists to tap.

Source: U.S. Census Bureau

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