

The High Cost of **STUFFING**

FINANCIAL INFORMATION,
EDUCATION AND CONTROL
FOR THE RETAIL FLORIST

Floral Finance®

teleflora

JANUARY 2017

VOLUME 36, ISSUE 1



INSIDE THIS ISSUE

FROM THE PUBLISHERS: <i>The Mainspring of Human Progress</i>	Page 2
PERSONAL FINANCES: <i>Strategic Planning for Success</i>	Page 2
HIGH COST OF STUFFING: <i>Arranging Profitably Is So Much More Rewarding</i>	Page 4
SUCCESSION PLANNING: <i>Personal Development for the Successor—a Checklist</i>	Page 6
BY THE BOOKS: <i>Accounting for Discounts</i>	Page 7
INQUIRIES & ANSWERS: <i>Anonymous Deliveries; Wedding Cancellations</i>	Page 8
NORMS: <i>Valentine's Day Volume</i>	Page 8

QUICKTAKES

**Ideas You Can Put
to Work Immediately**

1

Start Fast, Achieve More

To accomplish as much as you can in a day, start by tackling a challenging task first thing in the morning. This will get your brain engaged. Also, your first accomplishment of the day will be something significant, which will inspire you to keep the energy going throughout the rest of your day.

2

Manage Anger

When you're in a conflict with someone, take control. Instead of thinking, "He is making me angry," choose to think, "I am getting angry." The former statement focuses on the other person—relinquishing control over your emotions and your response—while the latter separates the stimulus from your response.

People who take control are more likely to find resolution when conflicts do occur.

3

Begin With Trust

You can begin a relationship with trust and then withdraw the trust if the other person proves untrustworthy or you can withhold your trust until the person proves trustworthy.

The first option carries some risk, but it is the better way to live. It opens you up to new connections and new experiences.

THE MAINSPRING OF HUMAN PROGRESS



Have you ever wondered why some countries seem to do so well economically and others are consistently struggling?

Many years ago, I came across a small book titled *The Mainspring of Human Progress*. It addressed this very question.

The author said that if you look at the periods in human history when mankind made the most progress, you will find one common denominator: a crucial, defining condition that spurred the people on to make great strides.

The condition? **Freedom**.

Actually, freedom alone isn't the complete answer. Two other factors also support progress: the right to private property and the rule of law. In a sense, the right to private property and the rule of law make freedom possible. They allow people to be free.

Whenever people are given true freedom to work as they see fit and reap the rewards of their labors, progress ensues.

"Of course!" you might be thinking. That makes sense.

Well, it does for people from North America, Western Europe and other traditionally free countries. However, it hasn't been so obvious to others throughout history.

We live and work in a system with marvelous opportunities. Unfortunately, we rarely stop to think why—and how—we have been so blessed. Maybe we should.

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



Personal Finances

Strategic Planning for Success

In large corporations, the way the president manages his or her personal checkbook has little impact on the health of the business.

This isn't the case for small companies. The owner's personal finances can impact the financial health of the business.

CASE STUDY

Sally had owned her shop for about five years.

Unfortunately, she never did a good job of controlling her personal spending. She ran up several large credit card balances. She also had hefty monthly payments on a new car she couldn't resist and also couldn't afford.

Initially, Sally had paid herself a reasonable salary for managing the shop. However, with her uncontrolled personal spending, it wasn't long before that salary couldn't cover all of her bills.

So, she started drawing extra cash out of the business. Pretty soon, the shop didn't have enough money to pay its suppliers on time. Things got tougher and tougher.

If Sally had been more careful in her personal life, the business wouldn't have suffered.

A COMMON OCCURRENCE

Owners often take too much cash out of the business. They try to maintain a richer lifestyle than the

business can reasonably support.

Ultimately, poor personal cash management can lead to business failure. You would be surprised

how many flower shops look fine on the outside but are actually in serious financial trouble, all because of the owners' out-of-control personal spending habits.

BRING IN REINFORCEMENTS

Solomon got it right: "One standing alone can be attacked and defeated, but two can stand back-to-back and conquer; three is even better, for a triple-braided cord is not easily broken."

In Western movies, the hero usually conquers the bad guys single-handedly and rides off into the sunset. We too often carry this image over into real life. We think doing a job by ourselves is somehow better or more honorable than getting help from others. That flying solo will show how smart or talented we are. This notion is a myth. We always do better with help from others.

Even superstars need coaches to help them achieve their best. Finance is no exception. You will do your best if you seek advice from others: experts, professionals, individuals you respect. Here are two examples.

1. Your Spouse/Significant Other

Those who are in relationships should seek the advice of their partner on important financial issues. Failing to do so can lead to relationship tension and even disaster.

Each partner's thoughts, experiences and even feelings merit consideration. Many couples have avoided trouble by declining a course of action one partner didn't feel right about.

2. A Trusted Authority

You'll also want to seek counsel from a trusted and knowledgeable person outside of the family unit. Someone whose financial advice you respect.

It's easy to rationalize financial decisions that an outsider would clearly see as unwise—decisions such as overextending to purchase a dream car or home. An objective third party wouldn't be swayed by emotion.

YOUR WEAKNESSES

For many people, financial management is not an area of strength. The

worst thing you can do is deny that fact and plod along. Instead, admit it, get help and solve your problems.

There's nothing wrong with admitting you're not a financial genius. Do you feel bad that you can't repair your own car? It's the same principle: You can't be an expert at everything.

Just get the help you need.

Even individuals with good financial minds need input from others. A fresh perspective can help you make even better decisions.

Recognize the personal finance areas that need your attention. A small amount of planning with good counsel will go a long way toward putting you on solid financial footing. 

KEY FINANCIAL PLANNING AREAS

DEBT Which debt is good debt? Which is bad? How much is okay? How much is too much?

Other than your income, nothing will impact your financial health more than how you handle debt.

BUDGETING You can't reach your destination if you don't know where you are going. This has always been true: Someone who fails to plan is planning to fail.

Your personal finances are no exception. A simple budget will keep you out of trouble. You'll know ahead of time how much you can spend and where your money should go.

INSURANCE Insurance companies pool risk. Each person pays a relatively small amount to guard against a potentially devastating loss.

An insurance policy shelters you (or your family) from the full financial impact of unpredictable, unwanted events.

Life. Health. Disability. Property. Liability. Auto. These are the big policies most people need.

As important as insurance is to protect yourself against catastrophes, you can over-insure. You can easily go broke paying too many insurance premiums.

Life is full of risks. It's neither wise nor necessary to insure yourself against all of them. Work hard. Be responsible. You can't protect yourself against every potential problem. But it's wise to protect yourself against common ones.

RETIREMENT It comes faster than you think. That day when you step down (voluntarily or involuntarily) from a career.

Everyone dreams about retiring to

Florida or Arizona. Relatively few realize that dream. Only one-third of all Americans set aside enough funds to provide for the retirement lifestyle they want.

Once again, it takes planning. To save enough money for retirement, live below your income today.

INVESTING Investing money wisely is more than following a hot tip or a good hunch. It takes discernment. And some know-how. Different choices have different risk-and-reward characteristics.

What are the implications of the investment decisions you make today? What benefits are likely? What risks will result?

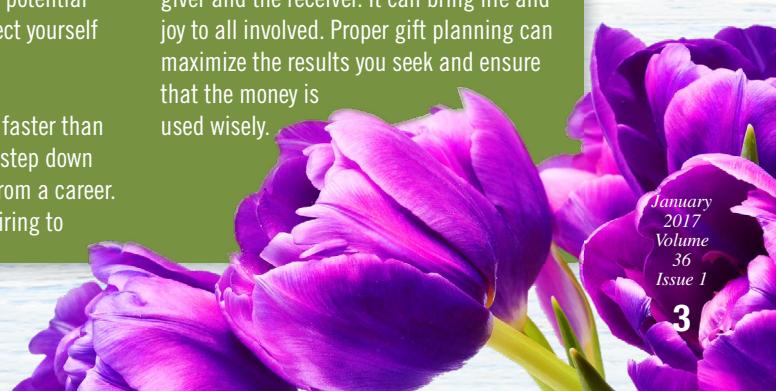
ESTATE PLANNING Many people just hope for enough money to meet their needs while they are still alive. They have little hope of leaving much behind.

Others will earn more than they can or want to spend in their lifetimes.

For both groups of people, estate planning is an important issue.

If you don't plan what you want to do with your estate, the government will decide for you. Proper planning can reduce your estate taxes and ensure that as much of your inheritance as possible will go to your chosen heirs.

GIVING Giving is good for both the giver and the receiver. It can bring life and joy to all involved. Proper gift planning can maximize the results you seek and ensure that the money is used wisely.



The High Cost of STUFFING



Dave knew his way around a shop. He had been a designer for more than 10 years. Always working for someone else. Until he finally decided to go out on his own.

It wasn't long before he began to appreciate the difference between collecting a paycheck and making payroll. Owning a shop brought much, much greater responsibility.

Dave remembered the many times his previous employers had begged the designers (including Dave) not to put extra flowers in arrangements. At the time, his philosophy had been to make the final product as nice as possible. Keep the customer happy.

Back then, the shop's bottom line was not his responsibility. Although he and the other designers had tried—sort of—to follow cost of goods sold (COGS) guidelines, extra flowers frequently found their way into the arrangements.

Now it was different. It was his shop and his bottom line. The money for those extra flowers was coming right out of his pocket. He soon began to appreciate just how great the cost was.

Something had to change.

Arranging Profitably Is So Much More Rewarding

THE NUMBERS

One or two extra flowers "added in" a design may not seem like all that big of a deal. Multiply that cost by thousands of arrangements, however, and your profit quickly heads south.

To get a better idea of the cost of stuffing, let's look at \$100,000 in arrangement sales. Suppose your average order size is \$45. Dividing \$100,000 by the average order price shows that 2,222 arrangements make up your sales.

What happens if you put just one extra flower in each of those 2,222 arrangements?

If the flower is a 35-cent carnation, adding that single stem to each arrangement would cost you \$778.

That's right. Just one extra carnation in each arrangement will cost you \$778. And the carnation is one of your least expensive flowers.

Slipping in an extra alstroemeria at a 55-cent cost would add up to \$1,222. And an additional \$1.25 enchantment lily would tack on \$2,778 to your costs.

Staggering numbers, aren't they?

But often the problem is even worse. Stuffing rarely stops at just one flower. Some designers routinely include two, three, four or more extra stems.

And when that happens, stuffing can easily end up costing an extra \$5,000 on every \$100,000 of arrangements you sell. It's like throwing \$5,000 right out the window.

And it all happens one flower at a time.

Your New Resolution

As Valentine's Day draws near, it's time to make a resolution: "*I am going to put an end to stuffing in my shop.*"

As with all resolutions, however, making it happen won't be quite as simple as it sounds.

Not because an anti-stuffing campaign is difficult, but because it requires constant monitoring. You can't control stuffing one month and then disengage so that designers might easily slip back into their old ways the next.

Fixing the problem requires a long-term commitment to staying on top of the design process. You have to implement firm design control procedures.

If you truly want to control stuffing and realize a healthier bottom line, these steps will get you there.

Set Your Goals

How many flowers should go into an arrangement in the first place? The answer lies in your pricing formula. Establishing a pricing formula is the toughest part of controlling stuffing. No one, except you, can determine how to price your products. You have to answer several crucial questions:

- Will I charge for labor?
- How much should I build in for supplies?
- How much for the container?
- What's left for flowers?

No single pricing formula works for everyone. However, the example below has worked well for many florists:

20%	Labor
6%	Supplies
10%	Container
64%	Flowers and foliage
100%	= TOTAL

This formula shows the percentage of the retail price that is allocated to each component. The supplies and container typically have a $2\times$ markup, and the flowers and foliage a $3.5\times$ markup. In this example, the container is a standard utility container.

A florist using this pricing formula knows that 64% of an arrangement's retail price is available for flowers and foliage. For example, in a standard \$49.95 arrangement, the price of flowers and foliage at retail should not exceed \$31.97 ($\49.95×0.64).

By keeping the total flower and foliage price at or below 64% of the retail price, this florist can feel confident that stuffing is being controlled.

Price All Products at Retail

The easiest way for designers to control costs in arrangements is to work with retail prices. Post your retail prices for each flower or foliage item on a blackboard in clear view, or use laminated sheets at each design table.

When working on an order, your designers can look at the chart to see how much is available for flowers and

THE RELUCTANT DESIGNER



Dave knows what it's like to be in his designers' shoes. He admits that stuffing was once a way of life for him. When he was a young designer, he resisted the design room controls the shop owners put in place.

As a designer, Dave thought the controls cramped his creativity. As a shop owner, he's changed his mind.

How can you—and Dave—get designers to follow a design room control program?

First, appeal to their creativity and design sense. After all, it takes more artistry to design something beautiful with a limited amount of product than with an unlimited amount.

Second, pair these appeals with a little positive reinforcement. Incentives are one good approach. Give away prizes for designers who follow the proper procedures. Theater tickets. Dinners out. Maybe even cash. Or set a small reward—like 25 cents—for every

arrangement that hits the target. Compared to the cost of stuffing, your total investment in these rewards will be minimal.

You may still have a designer or two who won't cooperate. If they won't cooperate, don't hesitate to get tough. Use discipline when necessary.

You may even have to terminate an employee who just won't do what you ask. As hard as this is, letting an uncooperative designer go will send a message to the other employees. They'll know how serious you are about controlling stuffing. Plus, with the culprit gone, the bottom line will improve dramatically.

Remember, it's your business. You're the manager. You're responsible for the bottom line. Exercise your authority to bring about the necessary changes.

Get the job done ... whatever it takes. Don't allow stuffing.

foliage and then select that much product from the cooler. Using retail prices will make it easy to choose the correct number of flowers, as long as you mark them up $3.5\times$.

Record What You've Done

Use the order ticket itself to keep a record of what went into the arrangement. How many flowers. How much greenery. The kind of container you used. Include everything. Then, add up the total for flowers and foliage to make sure you are under the target.

This task takes just a minute or two per order. And it's time very well spent. Another confirmation that the arrangement hits your pricing and profitability target.

Develop 'Recipe' Arrangements

Once you have created a profitably priced standard arrangement, every

copy of that arrangement also will be profitable.

The designers don't have to mark down what they used in the arrangement. They just have to follow the recipe.

Standard arrangements can increase design productivity. A designer is always more efficient on the second and third copies of an arrangement than on the first.

PROBLEM SOLVED

Stuffing is by far the most common design room profitability problem. But the nice thing about stuffing? It's one of the few business problems that can be turned around on a dime.

Starting tomorrow morning, you can put a stop to all stuffing in your shop. Make the commitment and stay with it. Once you've learned how to arrange profitably, you will never want to go back.



SUCCESSION PLANNING: PROFESSIONAL DEVELOPMENT FOR THE SUCCESSOR: A CHECKLIST

You've jumped all the hurdles. The decision to turn the business over has been made. The successor has been chosen. The various family and money issues have been worked out. A timetable is set.

Before the transition is complete, you want to make sure that the successor is as prepared as possible. Although a significant portion of the preparation has to do with values and relationships, important business and management skills are also required. Here is a checklist of experiences and other considerations that can help set your successor up to succeed.

Mentor

Try to match the successor with a mentor. An older, experienced individual who can pass along insight and experience, as well as encouragement.

Aim for someone who has demonstrated business and personal success and who is respected by the successor.

Floral Education

Make sure to take advantage of any industry education available. A horticulture or floriculture degree might be a good idea.

Attending industry seminars is a must. These events educate and also expose the successor to other industry leaders with practical advice to share.

Peer Groups

Ideally, your successor can link up with other successors in the industry.

Currently the industry has several informal associations of retailers from geographically dispersed parts of North America. They get together



periodically to share their business experiences.

These groups have been very helpful to their members. Participating in such a peer group would be a great benefit to your successor.

Responsibility and Rotation

Depending upon the size of your business, make sure your successor has experience in all facets of the business. Only after experiencing the stresses, strains and opportunities of each area will he or she learn how best to manage under any circumstance.

Management Involvement

Involve your successor in management processes, such as cash-flow forecasting, strategic planning, marketing planning and operational meetings.

The idea is to provide experience while the parents are still on the scene to advise and prevent major mistakes.

Outside Experience

Encourage the successor to gain experience outside of the family business for a period of time. Ideally, this company would be in the same business. However, employment in any other small business is beneficial.

Outside work provides the opportunity to experience different cultures and management styles. It broadens one's perspective and, in many ways, increases appreciation for the business being passed on.

Profit and Loss Responsibility

The final test is to actually make the successor responsible for the bottom-line performance of the business.

In other words, allow the successor to make the daily decisions that lead to profit or loss. Buying products, planning advertising and promotion strategies, hiring and firing, directing employees, and many other management duties need to be handled.

The income statement will be the report card. How well was the business run? Did anything unusual happen? Why? How was it handled?

Only when a person is in the driver's seat will he or she really feel the pressures and experience the consequences of decisions.

• • •

Succession planning certainly is not for the weak-natured. Passing along a family business is a lot like giving birth. You are excited about the prospects the future holds for the next generation. You want them to surpass your own successes and climb to great heights. Creating and passing a successful business through the generations is a part of the American Dream for many families.

Provide all of the opportunities available to prepare your children professionally. Then have faith that they will rise to the occasion and your expectations. The odds are high that they will. ♡

ACCOUNTING FOR DISCOUNTS

You're offering one of your weekly specials at a discount. Or you decide to lower the price on loose flowers every Friday afternoon as a happy hour special. In each case, how do you account for the discount?

WHY BOTHER?

Isn't it simpler and faster to just ring up the sale at the discounted amount?

Absolutely. Putting the discounted amount in your point-of-sale (POS) system would be easier.

However, there are two big reasons why you shouldn't do that.

COGS

The first reason to ring up sales at full value has to do with cost of goods sold (COGS). Making sure your designers put the correct number of flowers in each arrangement is one of your most important management functions (see page 4).

You tell your designer that fresh product COGS on an arrangement should stay at or under 25%. She creates a \$39.95 arrangement and keeps fresh COGS on target at \$10.00. Right on the money.

Then you come along and discount the price to \$29.95. If you look at the COGS (\$10.00) in relation to the discounted price, it comes out to a whopping 33%. Your designer looks like she really blew it, when in fact she did everything right.

Every sale needs to be rung up at full value, including discounted sales. Otherwise, you will not know how well your designers are controlling COGS.

It's that simple.

COST OF DISCOUNTS

The second reason you need to ring up the sale at full value and the dis-

count separately is to see how much your discounts are costing.

Are you discounting too much? If all of your discounted sales are buried in a total sales number, you will never know. Nor will you know whether the discounts are having the positive effect of bringing in new business.

Making sure your designers put the correct number of flowers in each arrangement is one of your most important management functions

MECHANICS

Handling discounted sales properly is really quite easy. It starts with how your POS is set up. Your POS keeps track of two basic items. What was sold and how it was paid for.

In most cases, the form of payment is the easiest part. Cash or credit.

But you also need to add another method of payment method to your POS: discounts. This is for the portion of any sale that is discounted.

Suppose a \$39.95 arrangement is discounted and sold for \$29.95. Ring

up the sale as \$29.95 in cash (or credit) and \$10.00 as a discount.

At the end of the day, your sales summary will show the total amount of discounts.

GENERAL LEDGER

Where do you put the discounts on the income statement? Some florists make this a negative line item under sales. Others make it an expense item.

Floral Finance recommends that discounts be the last line item in the COGS section. That way, neither your total sales nor your total expenses will be distorted. And, besides, discounts are rightfully a part of your COGS.

With this approach, COGS for each sales category, especially arrangements, will be correct when you prepare your financial statements. Plus, you can look at the discounts line item and see exactly how much discounting you did.

Discounting can help you move stale product or make additional sales.

But no business can be profitable if it offers too many discounted sales. What you really need are sales at full price. So, be careful. And when you do offer a discount, make sure you account for it properly. 

FAMOUS FINANCIAL WORDS

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

"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

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

ANONYMOUS DELIVERIES

"Is there an appropriate policy for handling orders that require an anonymous delivery?"

You bet.

There can be many reasons for anonymous deliveries. Some are cute. Some are funny. However, others can be downright dangerous.

More than one florist has found themselves delivering an anonymous arrangement for someone who wants to harass the recipient. Depending upon the situation, you could end up with the police knocking at your door for information.

The best policy is to be upfront with the sender. Agree to deliver the arrangement anonymously under the following conditions: (1) They give you the sender's name and address, and (2) They understand that 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 it up than be caught in the middle of a situation that could get 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 in advance of the ceremony. Seven to 14 days in advance is a good idea.

Your policy should cover several different cancellation scenarios. To be fair, you should refund money you have not earned. But you shouldn't lose money on work you have done or purchases you have made.

If you aren't yet obligated to pay for 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 time, as well as the cost of the flowers.

If the flowers are already made up, there should be no refund, except perhaps for your setup charges.

Write all of this down in a policy statement. Have the bride agree to and sign the policy at the front end. Clarity on a fair policy will usually keep bad feelings from arising after the fact.

NORMS

VALENTINE'S DAY VOLUME



T

his is the number of days in February that are busy with Valentine's Day volume. Many florists think that the entire month of February is busy and staff accordingly. That's a sure way to lose money. You'll have extra staff hanging around for most of the month.

You usually don't get busy until the 10th or so. Then, on Feb. 15–16 you clean up a few problem orders. From there through the end of the month, you are back to normal, non-holiday sales levels.

Staff February for non-holiday levels of business. Add extra staff only for the few days you really need more help.

Source: Floral Finance Business Services

FLORAL FINANCE is published 12 times a year by Teleflora LLC

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

Copyright 2017 by Teleflora LLC
All rights reserved.

Subscribers may use articles in other publications providing source is cited. Since every situation varies, appropriate legal or accounting advice or other expert assistance should be sought from a competent professional who understands that specific situation.

Consequently, although published material is intended to be accurate, neither *FLORAL FINANCE* nor any other party will assume liability for loss or damage as a result of reliance on this material.

Opinions expressed are not necessarily those of Teleflora.

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