



INSIDE THIS ISSUE

FROM THE PUBLISHERS: <i>Introducing Management Essentials</i>	Page 2
MANAGEMENT ESSENTIALS: <i>Controlling Cost of Goods Sold: Part 1</i>	Page 2
MANAGEMENT ESSENTIALS: <i>Controlling Cost of Goods Sold: Part 2</i>	Page 4
PERKS: <i>Something for Nothing?</i>	Page 6
BY THE BOOKS: <i>Pricing Arrangements</i>	Page 7
INQUIRIES & ANSWERS: <i>Monitoring Shrink; Maintaining Profitability</i>	Page 8
NORMS: <i>Three Big Expenses</i>	Page 8

QUICKTAKES

*Ideas You Can Put
to Work Immediately*

1 Idea Sources

Some of the best business ideas come from observing other industries. People inside a given industry are so busy with their day-to-day work that they often don't see a need for improvement.

It took someone from outside the copy industry to see the need for a 24-hour copy center for students. Students didn't need copies; they needed help putting together "better papers"—often late at night. Kinko's was born.

Keep your eyes open. Look to other, non-floral retailers for business ideas.

2 Think Gray

Finding good employees is always a challenge. It's an even bigger challenge in times like these, when unemployment is low.

For many retailers, one solution is to hire older workers. They generally have a good work ethic and years of work experience. Many also need to supplement their retirement.

Help them. Help yourself.

3 The Perfect Match

Catering is a growing business. And catered events often need florists. Call your local caterers. Offer your services. A good relationship with a caterer could lead to lots of new opportunities. Not just for the catering jobs but also through follow-up business from the guests who see your flowers.

FROM THE PUBLISHERS
OF FLORAL FINANCE®

INTRODUCING MANAGEMENT ESSENTIALS



It's been eight years since *Floral Finance* ran a series of articles on the basics of profitably managing a flower shop. Since then, many new owners and managers have come into the industry. Old-timers also are due for a refresher course.

In 2019, each issue of *Floral Finance* will feature one or two articles on management essentials. This month features two articles on controlling cost of goods sold.

Over the course of the year, we will review all of the major issues in managing a retail flower shop. We'll look at payroll, pricing, expenses, receivables and other critical areas.

Managing a retail flower shop is arguably the most difficult job in the retail sector. It's much more challenging than managing a "finished goods" operation, such as a clothing store, where all the merchandise is manufactured elsewhere.

A retail flower shop is both a retail sales operation AND a light manufacturing business. You buy raw materials. You manufacture (design) the merchandise. Finally, you sell those products. To make the job even more complex, you are dealing with extremely perishable product.

If you've ever wondered why running a flower shop seems so complicated, the answer is because it is.

However, with attention to management essentials, you can conquer the challenge. Enjoy this series and sharpen your management skills.

Paul Goodman
Editor

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

January
2019
Volume
38
Issue 1

MANAGEMENT ESSENTIALS

Controlling Cost of Goods Sold: Part 1



Over the next 12 months, we will explore all of the areas of floral shop management that have the greatest impact on your profitability.

Whether this is your first exposure to financial controls or you're an old pro, check how well your operation stacks up against these standard industry procedures.

PRIMARY CULPRIT OF LOW PROFIT

Cost of goods sold (COGS) is one of the three most likely culprits when your bottom line is suffering. (The other two are payroll expenses and facilities expenses.)

Most retail florists have become keenly aware of the need to control COGS. The result is that as an industry we are doing better than in years past.

However, every day is a new day when it comes to COGS. Good control yesterday can be out the window today. Only a continually watchful eye will keep this area in check.

First, a definition. What exactly is COGS?

COGS is the cost of whatever goes into the products you sell. For a gift item, COGS would be the cost of the item itself. For arrangements COGS, it's the fresh flowers and foliage, container, and supplies like floral foam or wood picks used to make up the arrangement.

Florists often assume that design labor also is a part of COGS. It is not. Although labor is an important expense that also needs to be controlled, by definition, COGS only includes the actual components in the product.

In a retail flower shop, the most important COGS area is COGS for arrangements. That's where the problems typically lie.

Gift items are "finished goods" inventory. You buy each product in its finished form. All you do is mark it up and sell it.

Arrangements are completely different. You are the manufacturer of each arrangement. You buy raw product, manufacture (design) the arrangement and sell it.

WHAT'S THE PROBLEM?

When an arrangement's COGS is too high, you have put more product into the design than you were paid

for. You simply gave away flowers or other raw materials.

This can happen for one of two reasons: You either are not following your pricing formula or you don't have a pricing formula.

That's why effectively controlling COGS starts with pricing.

PROPER PRICING

As a retailer, only you can determine the prices you will charge. No one can tell you what to charge. (That would be price fixing, which is illegal.)

A properly managed retail flower shop must establish its pricing formulas and then adhere to them. Different kinds of products require different markups.

Many retailers use a "keystone" markup on gifts and other hard goods. A keystone markup doubles the cost of the item to arrive at the retail price. An item that cost \$9 would be multiplied by 2 to give a retail price of \$18.

That's easy. The real pricing challenge comes with arrangements.

Since you are manufacturing (designing) the arrangement, you must mark it up more because of the labor you have put into it. In addition, the markup needs to account for shrink or waste during the manufacturing process.

Across North America, the most common pricing formula for arrangements is the following.

- Labor: 20% of finished retail price
- Container and supplies: 2× markup
- Flowers and foliage: 3.5× markup

Some design work, such as corsages and bridal bouquets, require a higher labor charge to cover the increased labor input. Hand-wired and -taped items often command a 50% labor charge, and bridal bouquets in a holder typically get a 35% labor charge.

Of course, you have to choose your own formula. You might charge a little more or a little less for each of the items in an arrangement. The goal, once you have determined your pricing formula, is to follow it consistently.

COUNT EVERYTHING

The secret to controlling COGS is to count everything you put into every

arrangement. That's right: e-v-e-r-y-t-h-i-n-g.

That's the only way to know you are charging for what the customer receives.

One helpful technique is to turn the sales ticket over and log all the materials on the back. Or you might use a form created specifically for tracking the product and supplies in each arrangement. It doesn't matter which system you use—as long as you stick to it.

To make this as easy as possible for the designers, most shops price products and supplies at retail. The designer just records retail prices. The total of everything should equal the retail price when the arrangement is done.



In a retail flower shop, the most important COGS area is COGS for arrangements.

Most arrangements are designed to hit a specific price point. In other words, you select a price and then create an arrangement to meet it. This is called price-point designing.

To get started, multiply the retail price by your labor charge percentage.

Next, record the retail price of the container.

Supplies are a little tricky. Counting every piece of wire, tape and foam you use would be a burden. On the other hand, you can't skip these little items. They add up.

So, use an estimate. The average arrangement will include supplies that cost about 3% of the arrangement's retail price. If you use a double markup on supplies, you will need to allocate 6% of the arrangement's retail price to supplies.

Next, total the labor, container and supplies charges you calculated. Subtract that total from the retail price. What is left is the amount available for flowers and foliage.

Mark all your flowers and greens at retail prices. The designer then can select enough fresh product to meet the amount available for flowers and foliage.

MISSION COMPLETE

If the total of labor, container, supplies, flowers and foliage equals the arrangement's retail price, you have controlled your COGS.

Repeat this process for each arrangement.

At the end of the day, your COGS will be on target. Do this for a month and you will have controlled COGS for the month.

DESIGN ROOM RESISTANCE

When you get serious about controlling COGS for arrangements, you can expect some resistance from the designers. After all, they enjoy the creative process, not the accounting.

You might point out to your designers that it takes more creativity to design with a limited amount of product than an unlimited amount. They might see and rise to the challenge.

However, ultimately, designers must fill out design room control forms because that's what it takes to run a profitable shop. It's just a part of the job.

New designers who come into the business knowing they have to fill out a form for each arrangement will accept that as a part of the job.

Designers who have been with you for a while are another matter. They are used to designing one way. When you ask them to begin using design room control forms, you've added something new to the job.

Explain why this step is important: A flower shop cannot be profitable without tight design room control. Then, solicit their cooperation.

A DOABLE CHALLENGE

Yes, controlling COGS for arrangements takes work. But it is doable. What's more, it is necessary if the shop is to achieve a solid bottom line. The reward for all your effort will be the money in your bank account. 🌸





MANAGEMENT ESSENTIALS

Controlling Cost of Goods Sold: Part 2



The article on page 2 defines cost of goods sold (COGS) and makes the case that only by counting every item that goes into every arrangement can you hope to control this critical cost area.

This article looks at the cost of shrink and some helpful design room shortcuts that will make control of arrangements COGS easier.

COST OF SHRINK

Shrink happens whenever a flower leaves the shop without being paid for by a customer. Shrink can be the result of theft or flowers being thrown away due to breakage or spoilage.

Most commonly, however, shrink comes about when designers put extra flowers into arrangements. It's called "stuffing." It's expensive. It kills your bottom-line profit.

To see just how expensive stuffing can be, look at the table below.

shop \$1,125. An Asiatic lily would add \$2,625 to your COGS.

Of course, a designer who stuffs rarely puts just one extra flower into an arrangement. It's usually two, three or more. As a result, arrangement COGS can climb by 5% or more through just moderate stuffing.

That's why counting everything that goes into each arrangement is so important.

The most common way to do this is to list and total the items in each arrangement. However, there are shortcuts.

Cost of Stuffing

Sales volume = \$100,000

Average arrangement size = \$40

Arrangements produced = 2,500

(Assume one extra flower in each arrangement.)

	Cost per Stem	Total Cost
Carnations	\$0.30	\$ 750
Alstroemeria	\$0.45	\$1,125
Asiatic Lily	\$1.05	\$2,625

If you assume a \$40 average arrangement size, you must produce and sell 2,500 arrangements to reach \$100,000 in arrangement sales.

The table shows the approximate cost if you put just one extra stem of three typical flowers into each arrangement.

If the extra flower were a carnation, you would have an extra \$750 in COGS. An alstroemeria would cost the

total all the items in the arrangement, including labor, to arrive at the sales price. With price-point designing, you design the arrangement to fit a certain retail price.

Price-point designing is much more common.

When doing price-point designing, you can save the time and frustration of counting every item by mounting a wall chart in your design room (or

providing a laminated spreadsheet for each designer). The chart will simplify the process of tracking your costs.

A designer doesn't have any control over the labor charge or supplies. The only items the designer can control are which container to pick and the flowers or foliage in the arrangement.

The most common industry pricing formula allocates 20% of the arrangement's final retail price to labor and 6% to supplies. That totals 26%.

The remaining 74% must cover the price of the container, flowers and foliage. That's all the designers need to worry about.

So, set up a two-column chart for your most common retail price points. The first column is the retail price of the arrangement. The second column is the amount the designer has for the container, flowers and foliage. Your chart would look something like the following:

Design Room Pricing Chart

Retail Price	Container, Flowers & Foliage
\$19.95	\$14.76
24.95	18.46
29.95	22.16
34.95	25.86
39.95	29.56
44.95	33.26
49.95	36.96
59.95	44.36
69.95	51.76
74.95	55.46
79.95	59.16
89.95	66.56
99.95	73.96



When it's time to put an arrangement together, the retail price directs the designer to exactly how much is available for the container, flowers and foliage. If the designer hits the target for those items, the arrangement's COGS will be controlled.

BENEFITS OF STANDARD ARRANGEMENTS

Standard recipe arrangements are another helpful tool for controlling COGS. With this approach, you only have to worry about getting COGS right in the recipe.

When a recipe hits your COGS target, so will every arrangement that follows the recipe. Designers won't have to fill out a separate form for each arrangement—they just have to follow the recipe.

Recipe arrangements also boost profitability by increasing productivity. Designers can make two copies of a single design faster than they can make two unique designs.

You'll never totally do away with custom work. However, *Floral Finance* estimates the average retail florist can fill 40% to 60% of his or her arrangement sales with standard arrangements.

CREATING STANDARD ARRANGEMENTS

Check your sales records to identify the price points for the bulk of your orders. For example, you may find that 80% of your arrangements are between \$49.95 and \$99.95.

Then, depending upon your daily sales volume, determine how many standard arrangements you want for each of the most common price points.

Finally, have a design contest to create the recipes. Give your designers a list of acceptable flowers to use or leave the choices up to them. Just make sure that each arrangement adheres strictly to your pricing formula.

Give prizes to the designers whose arrangements are selected. A small monetary gift or maybe a gift certificate. Just so it's something tangible.

You might also want to put a plaque by the cooler that says, "Today's featured arrangements were created by..."

To maximize sales and profitability, have a couple of standard arrangements outside your normal price range. Some customers will be looking for a fabulous arrangement at, say, \$124.95, \$149.95 or \$174.95. If those kinds of arrangements are not on display, the big spenders might settle for something smaller with less bottom-line impact.

FINALLY, NEVER MAKE JUST ONE

The last shortcut to controlling COGS (and keeping productivity high) is to never make just one copy of an arrangement—even custom designs. If you've controlled COGS on the first

one, you also will hit the target on the second or third copy.

It's the same as the principle behind standard arrangements, except that instead of making many, many copies, you make only two or three.

Caution: Never make more arrangements than you can sell. If you are a low-volume shop or are experiencing low sales during a certain season, be conservative. You don't want to end up with unsold copies in the cooler.

It's better to be a little less efficient than to throw product away.

PROFITABLE COGS

It's as easy and as hard as that. Stick to your pricing formula. Avoid stuffing. Count everything you put into every arrangement.

For price-point design arrangements, use a design room pricing chart to simplify the accounting work for the designers.

You can make life even easier with standard arrangements and a commitment to producing multiple copies of every design.

Just remember: You will never be a profitable retail florist until you control your COGS. 🌿





Perks



Something for Nothing?

Some people who own a small business think it is a ticket to free goodies. The company pays, and the owner doesn't.

That's not really the way it works. When the business writes the check, less profit will appear on the bottom line. The owner ends up paying in the end.

The only difference between the company writing the check versus the individual is that the company pays with pre-tax dollars rather than after-tax dollars. So, to the extent that the company can legitimately pay for something, the owner saves the amount of tax that he or she would have paid on that purchase.

A SOURCE OF ABUSE

Since the person who gets the benefits of this tax-reducing tactic controls the checkbook, tax abuse is a real danger.

So, the IRS has created several rules that put up a roadblock for potential abusers.

Take company cars as an example. Why not have the company purchase the owner's vehicle and pay all the expenses? The owner gets to use the car with pretax dollars, right?

Not quite.

First, there are strict limits on depreciation. Cars don't qualify for the rule that allows depreciation of the entire cost of an item up front. They must be depreciated according to a schedule.

Then, there's the issue of how much the car is used for business purposes. The company must keep an exact log of personal and business use. The individual must pay for the personal use.

A better solution is to just buy the car yourself and charge mileage to the company for any business use. It's easy. It's clean. And there is an even better benefit: You won't be a target for an audit.

If you've ever been audited, you know that one of the first things an auditor does

is look for personal expenses that are being paid by the company. Company cars are always scrutinized carefully.

If there is no car, there is no issue.

There are special (and sometimes complicated) rules that require you to pay personally for personal travel, as well as for a prorated portion of the ticket to the original location.

WHAT ABOUT TRAVEL?

Same issue. You don't want to do anything illegal or open yourself up to an audit. It's just not worth the few dollars you might save.

So, if you take a trip that is really for personal purposes, belly up to the bar and pay for it yourself.

On the other hand, always take advantage of the deductibility of true business trips. Travel to gifts shows, design conferences and similar industry events are prime examples of travel you can write off.

And there's nothing wrong with going out to a nice dinner while you're on the trip.

The problem is when you attach personal travel onto a business trip. Be careful. There are special (and sometimes complicated) rules that require you to pay personally for personal travel, as well as for a prorated portion of the ticket to the original location.

OTHER PERKS

Owning a business brings many legitimate perks. Business travel, health insurance and budgets for entertaining business suppliers, associates and customers, to mention a few.

However, you shouldn't try to expense everything.

The first and most important reason is a moral one. How much is your integrity worth? Hopefully, your integrity is not for sale at any price.

Second is the IRS. You run the risk of getting caught when you push the envelope. If you break the rules, you will pay often substantial penalties and interest.

THE BEST ADVICE

Don't try to take what isn't yours. Your conscience will be clear. You will sleep better at night. And it really doesn't cost that much to walk the straight path. 🐼



PRICING ARRANGEMENTS

The most common pricing formula for arrangements is as follows:

Labor—20% of the retail price
Container—2× markup
Supplies—2× markup
Flowers & Foliage—3.5× markup

That formula will yield a cost of goods sold (COGS) of 28% of arrangement sales. So, why not just mark up every product by about 4×? Won't you get the same result?

It's a good question. In a small business, simplicity is usually the way to go. In the case of arrangements, however, such a simple approach could hurt your sales and, over the long haul, lead you astray on your prices.

COMPETITIVE PRICING

When you're selling to consumers, your prices must be competitive. If you charge too much, your customers eventually will go to a competitor. On the other hand, if you don't charge enough, you won't make a reasonable profit.

Take the case of fresh flowers. Most retail florists sell both loose and arranged fresh flowers. Some florists use different markups for loose flowers and those sold in arrangements. However, many charge the same price per stem—loose or arranged.

An across-the-board 4× markup will not keep you competitive with other fresh flower retailers. You will lose sales.

Many florists also sell containers and supplies separately. A 4× markup on those items will not keep your customers coming back. It's just not competitive.

THE LONG HAUL

Over time, your costs will vary for the different components in arrangements.

Historically, labor has been the most important item to consider.

Consider that back about 35 years, most retail florists did not use a separate labor charge. They just marked up the fresh product enough to cover the cost of their designers.

BY CHARGING SEPARATELY FOR LABOR AND THE OTHER ELEMENTS IN AN ARRANGEMENT, YOU CAN MAKE ADJUSTMENTS PRECISELY WHERE THEY SHOULD BE.

However, two things happened. Flower growing went overseas. The greater supply led to a drop in wholesale prices, relative to the rate of inflation. Relatively speaking, flowers are less expensive today than they were 35 years ago.

At the same time, wages increased right along with inflation.

As a result, applying a standard markup to fresh product will not be sufficient to cover your increased labor costs.

The solution? Add a design labor charge to the price of the arrangement.

By charging separately for labor and the other elements in an arrangement, you can make adjustments precisely where they should be.

PRICING FLEXIBILITY

Pricing each element separately also lets you easily use different labor charges for different kinds of design work.

It takes much less time to design a regular arrangement than a corsage or boutonniere, relative to the retail price for each item. Wiring and taping individual flowers is time consuming and, therefore, expensive.

The same is true for bridal bouquets in handheld containers. They are more labor intensive than regular arrangements.

The solution is to price hard goods and fresh product in every arrangement the same but to change the labor charge. You will be making the proper adjustment—right where it is needed.

For example, you might use a 20% labor charge on standard arrangements, 35% on handheld bouquets and 50% on hand-wired and -taped items.

Treating each element separately gives you the flexibility to put the appropriate price on each item. 🌸

FAMOUS FINANCIAL WORDS

"When your work speaks for itself, don't interrupt."

—Henry J. Kaiser

"Too many managers content themselves with an employee's performance rather than add to their administrative burden by trying to improve it."

—Marion S. Kellogg

teleflora.

3737 NW 34TH ST
OKLAHOMA CITY, OK 73112

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

MONITORING SHRINK

"Is a dump sheet helpful for determining shrink percentage?"

Partially.

The best way to determine your shrink is to calculate how much your actual cost of goods sold (COGS) for arrangements varies from your pricing formula. The difference between those two numbers tells you how many flowers are being stolen, given away or thrown away.

Most shrink is the result of stuffing—so the loss won't show up on your dump sheet. However, a dump sheet will reveal how much product you are consciously throwing away. That, in turn, will allow you to pinpoint patterns and find solutions for that part of the shrink equation.



MAINTAINING PROFITABILITY

"From a financial standpoint, how do you handle broken, bent and otherwise unacceptable product received from suppliers?"

Don't accept it.

If you receive unacceptable product from a supplier, don't accept it.

Any reputable supplier will guarantee the quality of its product. Whether you receive a few broken stems or a whole box of subpar flowers, call and get credit.

Watch for patterns. If a supplier consistently sends poor product, you might want to find a new source.



NORMS

THREE BIG EXPENSES



This is the total of all other expenses after COGS, payroll and facilities expenses in the typical flower shop.

In other words, all the other expenses in a retail flower shop don't add up to much compared to the big three. COGS, payroll and facilities expenses, by and large, determine profitability.

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

Yes, manage and keep the smaller expenses as low as possible, but if you really want to impact profitability, focus on the big three.

FLORAL FINANCE is published 12 times a year by Teleflora LLC

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

Copyright 2019 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, OK 73112.