WHEN A PARTNER LEAVES

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FINANCIAL INFORMATION, EDUCATION AND CONTROL FOR THE RETAIL FLORIST

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QuickTakes

Ideas You Can Put to Work Immediately

1 Become a Cheerleader

You don't have to buy pom-poms. You just have to recognize that an important part of being an effective owner/manager is encouraging your team.

Bring enthusiasm into your shop. Build your employees' excitement about what you do for your customers.

Share your vision for the shop. Tell stories about actual customers you have helped. Your employees will gain a higher sense of purpose and work with more dedication.

2 Safety First

When did you last check your fire extinguishers? Are they out of date? Do your employees know how to use them?

What about your smoke detectors? If they are battery-powered, when did you last change the batteries?

An ounce of safety….

3 Add-on Sales

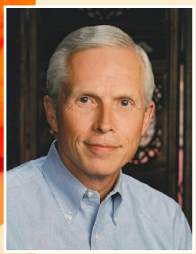
The quickest way to increase sales is with add-on purchases by customers who are already buying.

You don't have to be pushy. Merely recommend ways the order could be enhanced. Options that would increase their satisfaction. It could be as simple as adding a balloon or card to the arrangement.

You probably can increase sales 5%–10% by just asking a few extra questions.

FROM THE PUBLISHERS
OF FLORAL FINANCE®

INCREASE CUSTOMER LOYALTY



Offering better products and service certainly will build your shop's reputation for customer loyalty. However, did you know you can increase customer loyalty even when you goof up?

Nine out of 10 customers will continue to do business with you if they think you handled their complaint properly. So, use complaints as opportunities to turn an unhappy customer into a more loyal supporter.

Start by listening. Everyone who has a complaint—first and foremost—wants to be heard. Don't jump in too quickly to fix the problem.

Let them talk. Listen carefully. And ask enough questions to get the specifics of the problem. Another good technique is to summarize the problem out loud to make sure you completely understand.

Ask the customer what would make her happy. Then, offer a solution that is in keeping with her desires.

Do exactly what you promise. If possible, add something extra to show your shop is willing to do more than expected.

Finally, when it's all over, check back to make sure the customer is happy.

Don't avoid dissatisfied customers. Embrace them, and make them happy.

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WHEN A PARTNER LEAVES

NAVIGATING A SPLIT

Partnerships are one of the most popular ways to form a business.

Partners with different, but complementary, skills can be a great asset for a new venture.

In the flower business, for example, one partner might be a designer. The other could be more oriented toward sales or management. The division of responsibilities is easy.

Two people also can bring more contacts to the business — potential customers, suppliers, employees or sources of capital.

BEWARE THE PITFALLS

However, partnerships also present enormous potential for problems.

The first, and by far the biggest, is that people change over time. Desires change. Goals change.

These changes can affect work habits. All too often, one partner will begin to feel that the other partner is not pulling his weight.

One of the partners also could become ill and unable to perform her duties. Even worse, one of the partners could die.

Before you sign on the dotted line, know that the odds are against a partnership succeeding for the long term. Most partnerships don't end well. So, if you choose to enter into a partnership, address these troubling situations up front.

WHEN A SPLIT HAPPENS

Whatever the situation that causes a partner to leave, you have to be prepared to deal with the issues that remain.

In an odd way, losing a partner to illness or death can be an easier transition—once the issue of grief is processed—than having a partner who leaves due to a conflict over roles or goals. The latter can be as messy—or more so—as a bad divorce.

There are many major issues to address.

How will the work get done?

Initially, you as the remaining partner may simply take over the departed partner's responsibilities. Just add more hours to the work week.

Although this may be okay in the short term, no one can cover two jobs forever. Sooner or later, you will burn out. Your family also will suffer.

The partner who remains also may not have the skills to fill the empty shoes. After all, complementary skills are probably what brought you together in the first place.

Quickly identify who can best take over your partner's responsibilities. If no present employee can do so, you might have to hire someone.

The faster you fill the gap, the greater the odds that the business will survive. You will be able to focus on your duties, and the business won't suffer from your former partner's absence.

Is there enough money?

If the shop is profitable and you have sufficient capital, cash flow should not be a problem.

However, if the business' performance is marginal, you may not have enough money to hire a replacement for the departed partner.

Is there a financial solution?

Yes, if you plan carefully.

Many businesses purchase key-man insurance. In the event of death or disability, the insurance pays off and extra cash is infused into the business. Some partners also carry life insurance to protect the business' interests. Both types of insurance can be purchased as an operating expense of the business.

The key to the money side is maintaining a healthy bottom line.

What do you do about a departed partner's share of the business?

If your partner dies, you will have to deal with whomever ends up with your partner's assets.

A former spouse might insist on receiving half the profits or want to take over the vacated job. Neither might be in the business' best interests.

The solution to these potential headaches is to work out a buy-sell agreement in advance.

The agreement can define various scenarios under which the buy-sell kicks in: death, disability for a more than a specified amount of time, or one partner wanting to leave.

The buy-sell agreement also should include a method for valuing the business. The value probably should be based on gross revenue, profitability and net assets. The expert assistance of a CPA or business valuation firm is often helpful. (In the floral industry, *Floral Finance* Business Services does flower shop valuations.)

One of the simplest buy-sell agreements is called "The Texas Shootout." Under this scenario, either partner (or heir) can decide to end the partnership at any time by making an offer for the other partner's share. The other partner can either accept the offer or buy out the offering partner under the same terms.

Without an executable buy-sell agreement, a 50-50 partnership is a potential nightmare.

This means the offering partner, at the time of the offer, won't know if he will buy out the other partner or be bought out. So, he will have every incentive to make a fair offer.

The only problem with The Texas Shootout relates to assets. If one partner is cash-rich and the other cash-poor, the one with cash can make a lowball offer, knowing the other party won't be in a position to buy him out.

Consequently, when partners have unequal wealth, including payment terms in the buy-sell agreement is a good idea.

The point of buy-sell agreements is to avoid a stalemate that ends up in court. Without an executable buy-sell agreement, a 50-50 partnership is a potential nightmare.

I clearly remember one florist who was facing this very situation. His mother had left the business 50-50 to him and his brother, thinking she was being fair.

The other brother didn't want to work but did want half the profits. What's more, he refused to sell his half.

The ensuing years totally ruined the relationship between the two brothers.

If you must have equal ownership, set up a buy-sell agreement that either party can execute or give a 1% voting ownership to a trusted, independent attorney or CPA who can break any deadlock.

So, you never drafted a buy-sell agreement and your partner just left. What can you do?

A lot depends upon the former partner or, in the case of death, his heirs. If there is cooperation, you can probably work it out. A business broker can be a big help. She can value the business and perhaps find a buyer who is interested in buying the partner's share or the entire business.

If, however, the departing partner or his heirs don't want to cooperate, you're probably headed for court.

Either way, speed is of the essence. A business can lose its value very quickly, especially a flower shop that is experiencing lower sales volume and profitability.

If you know the shop must be sold, do it as quickly as possible—but operate the business wisely until then.

THE POWER OF PLANNING

Some individuals don't want to talk about death or dissolving a partnership. It's too difficult.

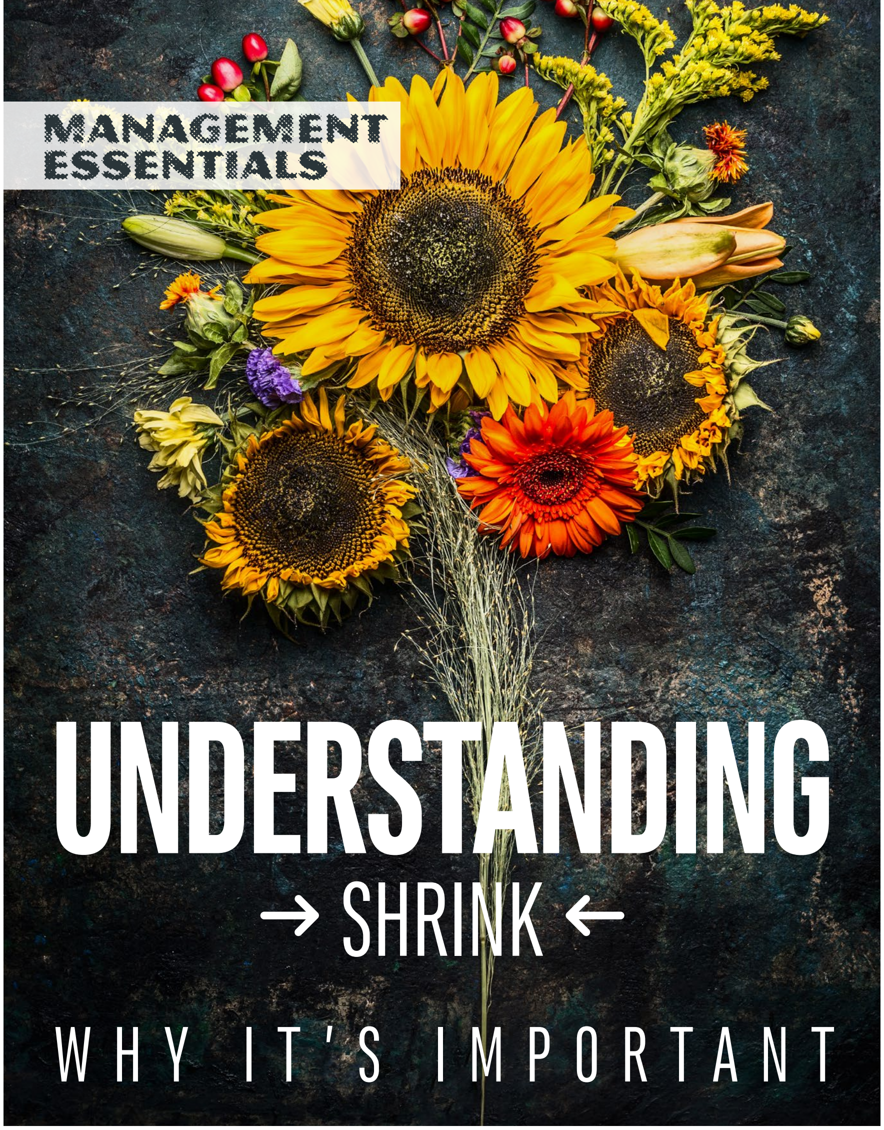
However, the issues won't go away. And, the problems will be even more difficult to deal with later. So, force yourself to sit down and handle it now. The sooner the better.

If you're already in a partnership but don't yet have a buy-sell agreement, negotiate one as soon as possible.

Hopefully, your relationship with your partner is solid and you can work together to reach a fair agreement.

If you're already having relational issues, a mediator or courtroom may be a good alternative.

Planning for the potential dissolution of your partnership is important. Don't ignore it or put it off.



When a flower shop is unprofitable, one of three things is usually to blame: excessive payroll, high facility expenses or out-of-control cost of goods sold (COGS).

When COGS is the issue, you can expect shrink to be part of the problem. Shrink occurs when flowers (or other products) are given away, stolen or thrown out without being paid for by a customer.

You can't eliminate all shrink. You will always lose some flowers. However, excessive shrink will crater your profits. If you're serious about making money, you have to keep shrink under control.

SHRINK TARGETS

Shrink should never exceed 10% of the perishable product you purchase. In other words, you shouldn't lose more than one of every 10 flowers you buy.

Although 10% is a good rule of thumb, it is a maximum figure. With proper control, you can keep shrink to 5% or less.

Remember, the lower your shrink, the higher your profits.

SOURCES OF SHRINK

Understanding the causes of shrink is the first step toward controlling it. In the typical shop, shrink can be traced to the receiving cooler, the design room, the sales cooler and/or theft.

1. The Receiving Cooler

Flowers can be lost in the receiving cooler in one (or more) of three major possible ways.

First is **improper buying**. It's fun to buy a lot of flowers. It also can be dangerous. You never should buy more flowers than you reasonably can expect to sell. In fact, the safer course is to buy a little less than you expect to sell and supplement with additional orders, if needed. (A daily sales analysis will help you plan your flower-buying needs for each week of the year.)

If your shop is large enough to have standing orders with your wholesaler or grower, that's great. But trying to cover all your fresh needs through standing orders invariably will lead to waste.

If you use standing orders, buy only quantities you know you will always sell. Then, work with your local wholesaler to match additional flower purchases to the shop's sales.

The second way flowers are lost in the receiving cooler is through **improper care**. Buckets are not cleaned. Preservative is not used. Flowers are not prepared properly.

Use all appropriate chain-of-life care procedures to ensure maximum shelf life and minimum shrink.

The last cause of shrink in the receiving cooler is **improper rotation** by the designers. Employ a simple bucket-marking system to ensure the oldest flowers are used first.

If the designers keep using the latest arrivals first, older stems will lose their freshness and have to be thrown away. Proper rotation will keep your flowers from sitting too long in the cooler.

2. The Design Room

The biggest cause of design room shrink is the practice of stuffing more flowers in an arrangement than the pricing formula allows.

Designers want their arrangements to look "just right." They often are not as concerned with profitability as with the product's appearance.

It's understandable. Design is their job. They have high standards. They take great pride in their work. And they should.

However, putting too many flowers in an arrangement is dangerous for the shop's economic health. Teach your designers to follow your pricing formula strictly. They should use no product that is not reflected in the final retail price. None.

The process is simple. First, determine how much product can go into the arrangement based on the price that will be charged. Then, go to the cooler and get exactly that amount of product. That is all they can use. No more trips back to the cooler for just a little bit more.

If every arrangement is priced properly, you will never give away product. Every item in the design will be reflected in the retail price.

Breakage is another design room danger. To combat this, keep a bucket for broken flowers by each design table. Don't throw broken stems away. A little creativity will help in making sure those flowers are not wasted. Corsages, bud vases, sympathy work and potpourri are just a few of the places in which broken flowers can be used.

3. The Sales Cooler

Flowers are lost in the sales cooler when they get too old to sell. To reduce this risk, carefully track when each arrangement is made and placed in the cooler. Make sure the sales staff knows which products to sell first.

Incoming wire orders or telephone orders are excellent ways to move out the products in your cooler.

4. Theft

Theft is the least common but most troubling cause of shrink. It also can be the hardest to spot. Unless you catch the thief in the act, you have to somehow deduce that the theft is taking place.

Most theft can be avoided by giving employees a generous discount on flowers. This will reduce or remove their "temptation" to steal.

In addition, set a policy that no one (including the owner) can take flowers without another employee ringing up the sale and marking the flowers as paid. Owners who do otherwise are setting a poor example and teaching their employees to steal.

Here's how to deduce that theft is taking place:

If …

… you have tracked all shrink at the receiving cooler, the design room and the sales cooler and found it to be less than 10% ...

... and your designers are consistently following your pricing formula ...

... but your financial statements say that your COGS percentage is still too high ...

… then you can deduce that theft is occurring.

SHRINK CONTROL FORMS

To control shrink, keep shrink control forms at all three locations: the receiving cooler, the design room and the sales cooler. Use the forms to record every flower or arrangement that is thrown away.

Most florists find it easier to mark down the retail price of the lost items. (Either cost or retail is fine. Just be consistent.)

If there is no theft in the shop, these forms will contain a complete list of all shrink in your shop each month.

GO AFTER THE PROBLEM

Use the information on the shrink control forms to identify the source of your problem. Then, set up procedures to correct it.

If the shrink control forms point to an issue in one of the coolers or in the design room, tighten up your procedures in that area.

If your designers aren't following the specified pricing formula, work to rein in their "generosity."

And if you deduce that theft is taking place, be on the lookout. Give generous discounts to reduce the temptation to steal. Then let your staff know that you won't treat any incidents of theft lightly.

CONTROLLING SHRINK

Step 1.

Add 10% to the cost of all products before markup to ensure that your pricing reflects a realistic level of shrink.

See the article on page 7 for more information on this.

Step 2.

Make sure the designers are following your pricing formula for every arrangement. No exceptions. (And you must do the same. The boss can't operate under a different standard than the other designers.)

Step 3.

Place shrink control forms at the receiving cooler, in the design room and at the sales cooler. Record the retail price of each item that is thrown away. (Using the wholesale price is also acceptable as long as you are consistent.)

Step 4.

At the end of the month, add up all the discarded product. If you record your shrink at retail, use your pricing formula in reverse to determine the cost of that product.

Next, look at your profit and loss statement (P&L) to see how much product you bought. If the shrink is more than an acceptable amount (maximum of 10% but 5% is preferred), identify the reasons and take steps to fix the problem.

Step 5.

Review your P&L to see if the COGS percentage is at or below your target based upon your shop's pricing formula.

If COGS is too high and your shrink control forms don't reflect that much shrink, one of three things is wrong:

- The employees are not writing down all unused flowers on the shrink control forms;
- The designers are not following your pricing formulas; or
- You have a thief.

Track down the reason for excessive shrink. Make a plan to fix it. Implement your solution. Check again next month to see if shrink has dropped to an acceptable level. If it hasn't, dig deeper.

CUTTING ORDERS

Is It Ever Okay?

Most florists are looking for ways to reduce expenses and save money. Cutting incoming wire orders is one approach a few shops consider.

They figure that since they are not getting 100% of the revenue on an incoming wire-order, they have the right to decrease the amount of product in the arrangement.

That's the logic.

But is it okay?

No. Absolutely not. **Cutting orders not only is NOT OKAY, it's bad business.**

Let's look at the various issues that lead to this conclusion.

THE RULES

Cutting orders clearly violates wire-service rules and regulations. Incoming wire orders are supposed to be delivered at full value, just like a local order.

The only qualifier is that when a wire order comes in, the shop may take its standard delivery charge off the top. The remaining amount is what the order is to be filled for.

If, for example, you get a $59.90 incoming wire order and your local delivery charge is $9.95, you may deduct the delivery charge and fill the order for $49.95.

That's the rule. Plain and simple.

THE MORAL ISSUE

The consumer who purchased the wire order, the sending florist and the wire service expect the order to be filled at full value.

The receiving florist has a moral obligation to live up to those expectations. To accept an order and then cut it is dishonest.

In addition, the receiving florist has signed and agreed to abide by the wire-service rules and regulations. Cutting an order puts the florist in the position of breaking that agreement. It's wrong legally. It's wrong morally. It's just wrong.

THE BUSINESS ISSUE

Running a business is hard.

The pressure to cut expenses is there. In the case of an incoming wire order, no one is looking. Cutting the order seems an easy solution.

Easy. But very shortsighted.

> **You may get away with cutting orders for a while, but eventually you'll be found out.**

First, you will get caught. A friend of mine often said to people who wanted to share confidential information with him, "Don't tell me anything you don't want others to hear."

My friend didn't mean that he couldn't be trusted. He just knew that confidential information usually leaks out in one way or another. He did not want to be suspected of being the source of the leak.

You may get away with cutting orders for a while, but eventually you'll be found out. The customers who paid for the order will see a picture and know they were ripped off.

And that's where good business sense enters the picture. Once a customer has discovered your deceit, do you think he will keep quiet? He most assuredly will not.

He will ask the sending florist why the order was so puny. The sending florist will confront you and let the recipient know you cheated. And she probably will tell other florists about your deceit, as well.

Your reputation for dishonesty will spread far and wide. You will lose both wire-order and local-order business.

The incoming wire order is a fantastic opportunity to put your product into a potentially new customer's hands. You should want to impress that recipient.

Cutting orders is shortsighted. You might save a few dollars in product costs. You definitely will lose future sales and customers because of the practice.

Cutting orders—from a business perspective—doesn't save you money. It costs you money. It's a lose – lose – lose – lose – lose proposition. The customer loses, the sending florist loses, the wire service loses, the filling florist loses and the recipient loses.

DO YOURSELF A FAVOR

Never cut an incoming wire order. Instead, make sure the products you deliver offer the kind of value that will make recipients want to become regular customers themselves.

Handling the Cost of Shrink

Suppose your target cost of goods sold (COGS) for arrangements is 25% (flowers and greens only, not the container or supplies).

You have counted every item in each arrangement. You know your designers are not adding extra flowers. And you know you have not thrown away flowers in the receiving or sales coolers.

However, your income statement shows your COGS for arrangements is 28%.

What went wrong? After all, you followed all the rules to control your flower usage.

SHRINK HAPPENS

No matter how well you control your flower care and design processes, some shrink is inevitable. Some flowers get broken. Others are damaged during handling and delivery. You can't use every flower.

These lost flowers will result in higher COGS. However, you can plan for this shrink and make an appropriate adjustment.

The trick is to estimate how much shrink you will have and add that amount to the cost of every perishable item before applying your markup.

How much shrink is acceptable? Shrink should not exceed 10% under normal circumstances. Realistically, it should be 5% or less.

THE TRICK

Start by estimating what you think your shrink is. If you don't know, be conservative. Assume 10%.

Next, add that same percentage to the cost of your perishable products (including freight) before marking them up. From a financial standpoint, this will compensate for losses to shrink and help ensure that you meet your COGS for arrangements target.

Example: Suppose a carnation costs 30¢ (including freight). Also, suppose you are planning for 10% shrink.

Add 10% to the cost of the carnation (0.10 × 0.30 = 0.03). This will make the new cost (including shrink) 33¢. Apply your normal markup to the 33¢ to get your retail price.

This little trick is, literally, worth gold. The small adjustment will add dollars to your bottom line. The larger your shop, the greater the benefit.

PROOF

Let's say your markup on fresh product is 3.5. Mathematically, that means your COGS should be 28.6%.

You buy 10 carnations at 30¢ (including freight) each—a total cost of $3.00.

After applying your markup, the retail price of these carnations is $1.05 (3.5 × 0.30 = 1.05). If you sell all 10 at $1.05, you will have total sales of $10.50. If you divide your cost ($3.00) by your sales revenue ($10.50), you will get COGS of 28.6% (3.00 ÷ 10.50 = 0.286).

You hit your target.

However, suppose you broke one of the carnations and had to throw it away. Selling the other nine produces sales revenue of $9.45. Your COGS now is 31.7% (3.00 ÷ 9.45 = 0.317).

You've missed your target by quite a bit.

So, let's try our new trick.

Add 10% to the cost of the carnation: 30¢ + 3¢ = 33¢. Now apply your markup. The new retail price for each carnation is $1.16 (3.5 × 0.33 = $1.16).

Again, suppose you break one and sell the remaining nine. Your sales revenue will be $10.44 (9 × 1.16 = 10.44).

Your COGS is now 28.7% (3.00 ÷ 10.44 = 0.287).

There you have it. The trick works. You were able to keep your COGS where it belongs.

Pricing for Shrink

Product: 10 Carnations
Cost: 30¢ each/$3.00 total
Markup: 3.5x (COGS should be 28.6%)
Lost to Shrink: 1 of the 10

	Before	After
Cost	0.30	0.30
Adjustment	0.00	0.03
Adjusted Cost	0.30	0.33
Markup	×3.5	×3.5
Sales Price	1.05	1.16
Sell 9 for	9.45	10.44
COGS	**31.70%**	**28.70%**

FAMOUS FINANCIAL WORDS

"A good problem statement often includes what is known, what is unknown, and what is sought."—Edward Hodnett

"If you don't profit from your investment mistakes, someone else will."—Yale Hirsch

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INQUIRIES & ANSWERS Letters

COMPUTER DECISIONS

"What's the most important part of a computer/software purchase decision?"

Support.

No question about it. You have to know who will be there to help when something goes wrong, because eventually it will. Make sure you buy your hardware and your software from someone who is dedicated to support.

DELIVERY CHARGES

"Should I bundle my delivery charge in with the arrangement's price like some of the order-gatherers do?"

Absolutely not.

Although some customers say they prefer an all-inclusive price, including the delivery charge in the price of an arrangement causes several problems.

First, it inflates the cost of flowers in the customer's eyes. Most customers already believe flowers are expensive. When the delivery charge is added, the flowers appear even more expensive. Few customers will think to subtract the delivery charge to get the true price of the flowers.

Second, bundling penalizes the customers who don't need delivery. Why should they have to pay for a service they don't use?

And, finally, bundling leaves money on the table. Studies show that customers are most concerned with the cost of the arrangement, not the added cost of sales tax and delivery. A customer who balks at a $59.90 order might feel just fine about purchasing a $49.95 arrangement with a $9.95 delivery charge. Go figure, but it is true.

Keep your delivery charge separate. You will be doing yourself and your customers a favor.

NORMS

APPLE PAY

This is the percentage of all U.S. retail locations that soon will support Apple Pay.

Target, Taco Bell, Speedway convenience stores, Hy-Vee supermarkets and Jack in the Box all recently announced partnerships with Apple Pay.

With these new retailers jumping onboard, 74 of the top 100 U.S. merchants and 65% of all retail locations will accept Apple Pay.

You might want to consider adding Apple Pay to your payment options. It's a way to serve the growing number of customers who love to pull out their phone, place it over the scanner and pay with ease.

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