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FINANCIAL INFORMATION, EDUCATION AND CONTROL FOR THE RETAIL FLORIST

Floral® Finance

teleflora®

MARCH 2018
VOLUME 37, ISSUE 3

INSIDE THIS ISSUE

QUICK TAKES

Ideas You Can Put to Work Immediately

1 Build Trust

If you want employees and customers to trust you, you must be consistent. Acting one way today and another way tomorrow confuses everyone.

Similarly, saying one thing and doing something different builds distrust and resentment. Be reliable. Do what you say.

2 Evaluate Delivery Zones & Charges

Have you reviewed your delivery practices lately? Do your delivery zones make sense? Do any need to be adjusted?

Then evaluate your charges. You should make money on delivery. It's a luxury people are willing to pay for. Ensure you are charging enough. Every extra dollar of delivery revenue goes straight to your bottom line.

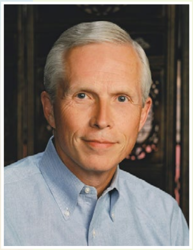
3 Deploy a Survey

Ask your customers about how they perceive your shop. This is a great way to get anecdotal evidence on important issues.

For example, ask your customers if they buy flowers online. What do they look for when shopping? Is it color, flower type, occasion or something else? The answers will help you plan your online strategy. And that's only one example of what you can learn—just by asking.

FROM THE PUBLISHERS
OF FLORAL FINANCE®

CHOICES



Sometimes, we think we don't have many choices. Unforeseen or unwelcome circumstances seem to leave us with little room to maneuver.

Your banker calls a note, creating financial problems. A business partner walks out, leaving you holding the bag. You're in a serious car accident that leaves you physically impaired.

We all want to believe we control our lives. But that is true only to a certain extent. Beyond that, we really don't have control. Devastating events like those mentioned here do happen, often without warning.

However, no difficulty ever leaves us completely without choices.

When something bad happens, what are we going to do about it? Will we pursue option A or option B? Will we fight on or quit?

The most important choice in any circumstance is how we react. We can choose to be angry or calm. We can resign ourselves to our fate or move forward with a good attitude.

It's true that we can't control every situation. But we can always control how we react. And that's important.

The attitude you bring to a particular problem will determine where you go and how you end up. A positive, calm, thoughtful outlook will carry you a long way, no matter the challenge.

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Delivery

Delivery is one of the most important services a retail florist offers. Many of your customers rely on it.

From your standpoint, delivery also is expensive. It takes a lot of effort. And the geographic area you serve may be bigger than you can handle economically.

From the customer's standpoint, an unfriendly driver or a late delivery can change a happy buying experience into a disappointing one.

SIZE & SHAPE

The steps in the box on page 3 will give you a good start on a financially sound delivery program. But don't stop there. One additional possibility can be a big help for many shops. What is this potential cost-saver? Participation in a delivery pool.

While delivery pools look different from city to city, all attempt to bring better economics and service to the participating florists' delivery programs.

To understand why pools work, just think about why Federal Express has been so successful for so many years. The same concept steers both operations. FedEx brings packages from around the world into a hub facility in Memphis. Packages are then grouped and sent back out again. A single plane carries all the

Pools

packages destined for delivery in each area.

A delivery pool uses the same concept. Participating florists bring their orders into a central warehouse. The orders are then grouped geographically. Each shop is given responsibility for all deliveries in or near its location. The coordination lowers the florists' costs and increases their efficiencies.

It sounds good on paper. And it usually works well in practice.

NUMBERS

Three numbers determine the profitability of participation in a delivery pool:

1. **The shop's delivery charge;**
2. **The charge to send an order to the pool;**
3. **The amount the pool pays each shop to deliver an arrangement.**

To encourage participation, many pools set a low fee for putting an order into the pool. They then pay very little to the florist who delivers the order.

Under this scenario, florists who bring in more arrangements than they deliver make out like bandits. Florists who deliver more than they bring in lose their shirts.

There's a better way.

Florists first need to charge enough to make money on deliveries. A charge of $9.95 or more is usually enough to make delivery profitable.

The pool also needs to pay enough for the florist doing the delivery to at least cover its costs.

In most markets, the average cost of a delivery is between $5 and $6, with labor being the largest component. A pool delivery fee of $5.95 to $6.95 would at least ensure that the delivering florist won't lose money in this area.

The florist who puts an order into the pool would then pay $6.95 to $7.95.

This structure would ensure that all participating shops come out whole. The shops could then focus on the other benefits of a delivery pool.

NON-FINANCIAL BENEFITS

Delivery pools offer more than financial benefits.

Divide & Conquer

Partnering with other shops allows you to cover an enormous delivery area without all the effort and equipment that flying solo would require.

The pool's total service area is divided into smaller areas. Each participating shop is responsible for only a small slice of the community.

That means each florist's average trip will be shorter and the costs per delivery will be lower. Ten deliveries in a 3-square-mile area will be substantially less expensive than 10 deliveries scattered over a 25-square-mile area.

At the same time, each individual shop's ability to serve customers efficiently grows because getting an order to an outlying area is now easier; you just bring it to the pool and let the florist who has that area handle it.

Together

In a well-run delivery pool, the lines for each area will be drawn so the system is fair and efficient for all.

This means dividing local funeral homes and hospitals equally. If a given delivery area doesn't include one of these multiple drop-off locations, the pool can shrink another area a bit to compensate.

The idea is to make sure each participant can pack in roughly the same number of deliveries per mile driven.

Flexibility

Some customers are special. Some orders have special delivery requirements.

That's why participants have the freedom to handle any of these deliveries on their own rather than bringing them to the pool, even if the destination is outside of the shop's normal pool delivery area.

At the same time, when a driver is sick or a vehicle is out of commission, the shop can send more orders than normal to the pool.

Holidays

Holidays can stretch an already strained delivery system even further. It's true for a shop that's flying solo. It's also true for a delivery pool. In either case, the system will have to adapt to meet the extra demands.

A delivery pool, for example, might increase the number of daily pickup times from one or two to five or six, if necessary.

When done right, the smaller the delivery area that each florist covers will pay even bigger dividends during holidays. Participants may have more deliveries, but they will be concentrated in a small area rather than spread out over the entire city.

The Options

Financially speaking, you can lose money on delivery if you don't plan properly. Several basic steps will help keep your delivery program on a sound financial footing.

SENSIBLE PRICING. You'll lose money on every delivery if your delivery charge is less than your cost. Last month's issue of *Floral Finance* reviewed how to calculate delivery costs. The only way to make delivery profitable is to charge a reasonable delivery fee.

GOOD VEHICLE MAINTENANCE. You know the old saying: "You can pay them now or pay them later." Regularly checking delivery vehicles' oil and tire pressure, and other periodic maintenance tasks are easy to overlook. However, small steps now will prevent major breakdowns and expenses later.

GOOD ROUTING. Wasted time on the road means unnecessary vehicle and labor expenses, and slower customer service. Scheduling your routes wisely will increase efficiency and lower delivery costs.

Charging for Non-Design Labor

Event Decorating & Parties

It happens all the time. Especially during holidays. One or more of your employees leaves the shop to work a party or decorating job at your customer's location.

You're paying wages from the time they leave until the time they return. That's certain. What may be less certain is how much you should charge your customer for that time.

WHAT DOES IT COST?

Before you can determine the labor charge, you need to know how much this work is costing you. An employee's hourly wage rate is only the beginning.

Payroll Taxes

Social Security/Medicaid. You and the employee share this payroll tax—7.65% for each of you (6.2% for Social Security and 1.45% for Medicaid).

Unemployment and Workers' Compensation Insurance. Federal unemployment insurance (FUTA) is 0.6% of the first $7,000 of wages in states that have a separate state unemployment charge.

State unemployment insurance (SUI) varies depending upon your state and the number of claims you have had in the past. The greater the claims, the higher your premium will be.

Workers' compensation insurance varies by the type of workers you have and the previous claims you have had against the insurance or fund.

It is safe to assume that together these payroll taxes will add a solid 15% to your wage costs.

Holidays, Vacations & Sick Pay

There are 52 weeks in the year. At five days per week, that's a possible 260 work days. How many paid days off do you give your employees?

Two weeks of vacation, five holidays and five sick days would total 20 days off with pay. Not every retail florist can afford to be this generous. However, doing so would add an 8% cost to your payroll.

Health Insurance

Not many florists provide health insurance for their employees. Those that do usually pay only a portion of the cost.

Suppose you pay $100 of the monthly health insurance premium ($1,200 per year). For a $10-per-hour employee, that amounts to a 6% benefit. For a $15-per-hour employee, it would be a 4% benefit.

If you pay more than $100 per month, your health insurance cost as a percentage of the employee's wage is even higher.

Retirement plans

Again, not many florists make contributions to an employee retirement plan. However, if you do, that's an additional cost to include when calculating your total payroll cost.

BOTTOM LINE

When all of the items above are combined, they can easily exceed 30% of the actual hourly wage.

Even a shop with no employee benefits at all would have to add 12.65% to its wages, thanks to the payroll taxes here.

You'll have to determine the items that apply to your shop. The final number will probably be higher than you thought.

However, a labor rate based only on wages and benefits is not enough. You also have to factor in overhead and profit.

OVERHEAD

One of the largest employee-related overhead expenses is the cost of paying employees when they are not productive.

Few people are productive 100% of the time. Attorneys, accountants and other professionals that bill by the hour usually figure they can bill about 75% of a person's time. That's six hours a day. Your situation is probably similar.

For an example, let's take a designer making $15 per hour. Taxes and minimal benefits will add 20% (or $3) for a total of $18 per hour. That means it will cost you $144 for an eight-hour day ($18 × 8 = $144).

If you only bill six of the eight hours, you will need to charge $24 per hour just to break even ($24 × 6 = $144).

But that's not all.

You have to cover the rest of the shop's overhead and make a profit. That's why it is not unreasonable to use a labor charge that doubles your actual wage cost.

In our example, $48 per hour for six hours would allow you to cover eight hours of pay, overhead and profit. (You can easily see how an automobile dealership comes up with $40 to $50 per hour—or more—for a service technician's time.)

Since your employees don't all earn the same wage, you will either have to calculate a separate rate for each individual or strike some average.

It is generally a better business practice to establish an individual rate for each employee. The customer will pay for the actual talent being used (more for an experienced designer and less for an assistant). Since this involves a lot of math (and you have plenty of other things to do), use the table at right. It will make your work easier.

The first column is the percentage of taxes and benefits for your shop. There's no shortcut on this one. You'll have to take the time to add up your shop's taxes and benefits to see where you fit.

The second column assumes your employee is productive all eight hours in a given day. Use this column as your multiplier when you only want to charge for the actual hours worked on the job.

Use the third column if you want to charge enough to cover two hours of down time in an eight-hour day. It's the full-blown rate.

HOURLY OR FIXED?

Some customers are uncomfortable being charged by the hour. They want to know their total cost up front—a fixed charge for the setup labor.

In this case, estimate how long you think the job will take and how many employees will be needed. If you plan to use one $45-per-hour employee and another $30-per-hour worker, that's a total of $75 per hour.

Federal unemployment insurance (FUTA) is 0.6% of the first $7,000 of wages in states that have a separate state unemployment charge.

If you estimate the setup will take two hours, you could quote a fixed fee of $150. If the job takes longer than two yours, you'll eat the additional cost. On the other hand, if your employees are more efficient than you estimated, you will make a little more than what you would have made charging by the hour.

LABOR RATE MULTIPLIERS

Calculate the cost of your payroll taxes and employee benefits as a percentage of your wage rates. Then, select either column B to charge for eight hours per day or column C for six hours per day. Finally, multiply each hourly wage by the multiplier in the column you selected to get the appropriate hourly charge for that employee's labor.

A	B	C
Percent Taxes & Benefits	Charging 8 Hours Per Day*	Charging 6 Hours Per Day*
10%	2.20	2.93
15	2.30	3.07
20	2.40	3.20
25	2.50	3.33
30	2.60	3.47
35	2.70	3.60
40	2.80	3.73
45	2.90	3.87
50	3.00	4.00

*Column B assumes your employees are productive all the time. Column C assumes you need to cover their eight-hour cost while only billing for six hours.

OUTGOING WIRE ORDERS

Help Yourself— & the Receiving Florist!

When it comes to profitability, a combination of controlling expenses and increasing sales is always the answer to a better outcome.

The number of flowers in each arrangement and the payroll are the biggest expense control challenges. However, small tweaks here and there can add significant dollars to your bottom line.

The outgoing wire order is one area that most definitely deserves your attention. Not only can you make an extra dollar or two on each order, you also can ensure your customers' satisfaction and help the receiving florist make more money.

Four elements combine to produce a profitable outgoing wire order.

ONE: THE ORDER ITSELF

Of course you want the recipient to be truly delighted with the product that is delivered. But you also must ensure the order price is sufficient to buy what the sender wants.

If an Oklahoma customer is sending an order to New York, how much will he or she need to spend to get an "average" arrangement?

The larger the city, the greater the price for an average order. Nationwide, the average order today (including delivery) is between $50 and $60. Use that as a benchmark. For orders going to high cost-of-living cities, it will take more than the average.

TWO: DELIVERY CHARGES

Always add a delivery charge on outgoing wire orders. If you don't, you're leaving money on the table and running the risk of disappointing your customer.

Today's shoppers are accustomed to delivery charges. They know this extra service costs money, and they are willing to pay for it.

Not only can you make an extra dollar or two on each [outgoing wire] order, you also can ensure your customers' satisfaction and help the receiving florist make more money.

If you don't add a delivery charge, you may think you are doing your customers a favor. But that's not true.

Wire service rules allow the delivering florist to first deduct the delivery charge from the gross order. Whatever is left goes into the arrangement.

As the sending florist, you can simply end the order process by saying, "The total, including tax, delivery and service charge is … ." Almost no one asks for the details or complains.

What about the rare customer who does complain?

Provide the facts. Tell the customer that the delivering florist will take a delivery charge out before filling the order. Adding a delivery charge ensures a better product.

How much should you add for delivery? In most markets, $9.95 or so is reasonable. If the order is destined to a larger city, charge $12.95 or $14.95.

THREE: YOUR SERVICE CHARGE

What is your service charge on an outgoing wire order? The average across North America is around $8.95.

National order gatherers are closer to $14.99. Does that tell you anything about what the market will bear for service charges?

Review your existing service charge and your local market conditions. Make any adjustment that is reasonable and will be well received by your customers.

FOUR: REBATES

Don't forget the Teleflora rebate when sending outgoing wire orders. It will add several dollars to the bottom line on every order you send. It's money you can use however you want.

THAT IS IT

Most florists know outgoing wire orders are profitable. And that is correct! (So are incoming wires . . . but that's another article.) However, not all florists are maximizing this profit opportunity.

By handling outgoing wire orders properly, you will ensure the highest level of both customer satisfaction and profitability.

Should You Be on the Payroll?

As the owner and operator of a retail flower shop, you have two options on how to pay yourself.

You can put yourself on the payroll, just like every other employee. Or you can wait until the end of the month and take out part of the business' profit.

In any group of 10 florists, you'll probably find five doing it one way and five doing it the other way.

So, which approach is better?

Before we get down to the pros and cons, let's consider how much money an owner should make.

HOW MUCH

Over the years, Floral Finance Business Services has reviewed hundreds of financial statements from retail florists. Although the numbers vary, owner compensation of 10% of annual sales (including payroll taxes and employee benefits) is a good target for shops doing up to $500,000.

For larger shops, the owner also should receive 5% of the sales above $500,000. So, for a shop with $1,000,000 in annual sales, that would be $50,000 for the first $500,000 and $25,000 for the second $500,000. A total of $75,000.

Remember, these figures are the owner's wages for managing the shop—for doing his or her job. Profit from the business is on top of this. A well-run shop should achieve a 10% net profit after paying the owner's salary.

OFF THE PAYROLL

Handling owner compensation outside the normal payroll process is simple. You take out cash as you need it and as it's available. Code the check as "owner's draw."

That's all there is to it. All, that is, until tax time hits. If you didn't withhold any federal or state taxes as you went along, you may be in for a shock.

Making the required quarterly estimated tax payments softens the blow. But if you don't set aside enough money to pay taxes, you might be caught short.

Among Floral Finance Business Services clients, on-payroll owners generally make more money.

Some owners think they can save on FICA and Medicaid taxes by keeping themselves off of the payroll. That is not true.

Off-payroll owners must pay self-employment taxes to the tune of 15.3% of compensation. This is exactly the same as the sum of the individual and company portions of FICA and Medicaid taxes.

ON THE PAYROLL

The second technique of owner compensation is just as simple. Set a reasonable salary for the services you render to the company. Then, cut yourself a payroll check along with those of your employees.

The benefit is that you pay your taxes as you go along. No surprises later. The negative is that the shop's larger payroll requires more cash each pay period. Of course, if you're short of cash, you can reduce your pay for that period.

WHO MAKES MORE?

Theoretically, the on-payroll owner should make the same amount as the off-payroll owner.

Owners on the payroll get their money in the form of wages and net profit draws. Owners not on the payroll should get the same amount through owner draws.

However, the reality often doesn't match that theory. Among Floral Finance Business Services clients, on-payroll owners generally make more money.

The reason appears to be that owners who are on the payroll see a lower net profit—maybe a 2% net profit instead of the 12% that owners not on the payroll might see.

The on-payroll owners get a clearer picture of how their businesses are doing month in and month out. That picture often leads them to be more proactive and to cut costs and manage more efficiently.

The off-payroll owners can be lulled into a sense of complacency. The natural perception is that business is great even if the reality is something less. Off-payroll owners may be less attentive to costs and efficiencies. As a result, the business may not do as well over time.

FAMOUS FINANCIAL WORDS
by Kin Hubbard

"When a fellow says, 'It ain't the money but the principle of the thing,' it's the money."

"The safe way to double your money is to fold it over once and put it in your pocket."

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NORMS
MILEAGE RATE

In case you haven't heard, 54.5¢ is the new federal mileage rate for 2018.

Does it really cost that much to drive a car or van? Yes, it really does. When you consider the total cost to own the vehicle—purchase price, gasoline, repairs, tires, maintenance and insurance—no one is making any money by getting 54.5¢ per mile.

This morning, I drove 4 miles to get a cup of coffee and return home. On the way back I was thinking, "This cup of coffee really cost me $3.28 not $1.10." Oh well, a little less money for retirement.

Good thing I didn't go to Starbucks.

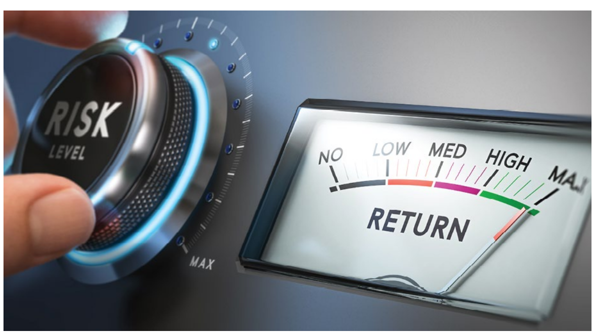
INQUIRIES & ANSWERS LETTERS

RISK VS. RETURN

"The other day I overheard a gentleman talking about 'deals he made' and the 'risk/return rule.' Please enlighten me. What is the 'risk/return rule'?"

Return is directly related to risk.

That's the rule. The greater the potential return, the greater the risk.



For example, suppose you put your money in a savings account at a bank that is insured by the FDIC. You'll get a modest rate of interest on your money. And your money is very safe. Because it's backed by the government, the odds of losing anything are almost nil.

On the other hand, take the stock market. For many years, people expected high returns on their stock investments. In the late '90s, a return of 20% a year was common.

Since then, stock market investors have discovered the amount of risk that went along with that high return. Most lost money during the 2008 – 2009 market sell-off. High return potential meant a higher risk. It still does.

DEDUCTIONS VS. CREDITS

"What is the difference between a tax deduction and a tax credit?"

The credit is much better.

A tax deduction is an amount of money you can deduct from income before calculating your income tax. Suppose, for example, you pay income tax at a 20% tax rate. The tax on $10,000 would be $2,000. If you got a $1,000 deduction, your taxable income would be $9,000 and your tax would be $1,800. The $1,000 deduction saved you $200.

However, a $1,000 tax credit lets you take $1,000 off of your $2,000 tax bill. A full $1,000 savings. Tax credits are definitely better.

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