Can Florists Ever Retire?
page 2

FINANCIAL INFORMATION, EDUCATION & CONTROL
42 YEARS

Floral Finance®

teleflora.

AUGUST 2023
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INSIDE THIS ISSUE

QuickTakes

Ideas You Can Put to Work Immediately

1 Leadership Test

Ask yourself these three questions to gauge how well you are leading your organization:

- How many times have you offered pats-on-the-back or said "thank you" today?
- How many customer contacts did you have today?
- Did you add energy and excitement to your team—or drain it away?

2 Goals

The old saying "Be careful for what you wish because you are likely to get it…" carries a lot of wisdom.

When you aspire to something, your conscious and subconscious mind will work together to get you there.

So, cultivate goals that will build your character, esteem and circumstances. Your mind will help you fulfill those wishes.

3 Expectations

It's human nature.

Employees rise (or fall) to meet your expectations. They become whom you expect them to become.

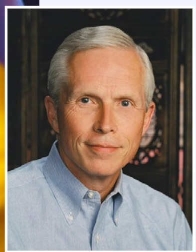
That's why you must keep your expectations positive and high.

Encourage your employees to stretch and learn. Give them guidance along the way.

They will accomplish more. Guaranteed.

FROM THE PUBLISHERS
OF FLORAL FINANCE®

BROADER THINKING



"You don't buy coal, you buy heat. You don't buy circus tickets, you buy thrills. You don't buy a paper, you buy news. You don't buy spectacles, you buy vision."

This anonymous quote reflects the kind of thinking retail florists need to apply to their advertising.

Too often, flower shops advertise product "qualities," not product "benefits." Product quality has to do with the physical characteristics and features:

My roses are redder.
My roses last longer.
My roses are less expensive.

All are true statements. Some might even entice a few customers to buy your roses.

However, people buy the benefits associated with the product—not the product's features.

What does that mean for your business? Why do your customers buy arrangements from you?

They want to convey an emotion of some kind. Love. Thankfulness. Sympathy. Congratulations.

Your products deliver all of these strong emotions. In fact, you are in the business of delivering emotions.

When was the last time you advertised that?

You'll get better results when you tout emotional benefits, not product qualities. Emotions are the real reason people want your products and services.

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On the cover: Teleflora's *Sweet Little Lamb—Baby Pink*

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Can Florists Ever

Planning Is Critical

Your vacation lasts two weeks. Your retirement could last 20 years or more. Which one will you spend more time planning this year?

Preparing for retirement is no day at the beach. It takes work.

Unless you've inherited a fortune or had enormous business success, you must plan now to keep your present standard of living during retirement.

WHERE WILL THE MONEY COME FROM?

Retirement income usually comes from four basic sources:

1. Social Security
2. Savings/investments
3. IRAs
4. Company pensions

If you're 40 years old or younger, don't count on Social Security in its present form. The Social Security program will run out of money unless big changes are made. And because none of the needed changes are popular, Congress continues to delay, thereby further jeopardizing the program's future.

Most florists have another retirement problem. They rarely have a company pension.

Don't panic. There's plenty you can do through savings, investments and IRAs.

Start with these steps.

BUILDING YOUR PLAN

1. Calculate Your Expenses.

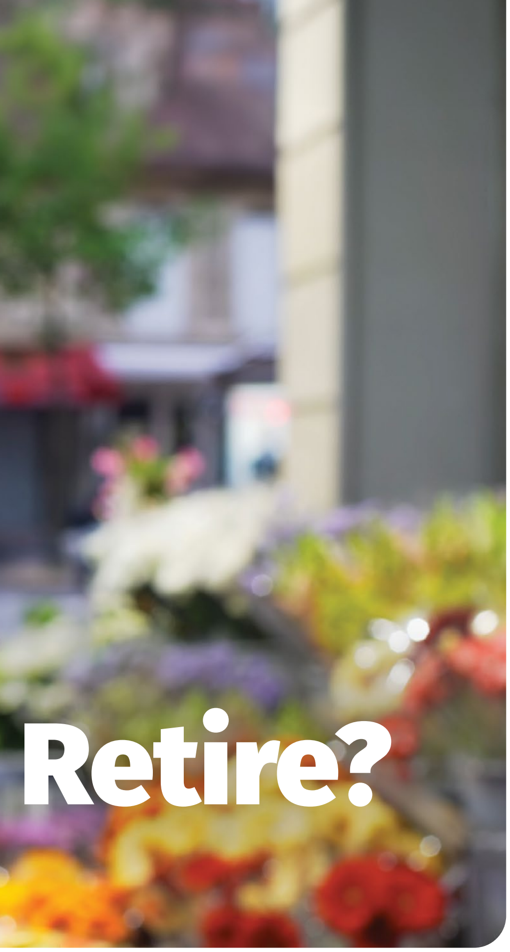
First, figure out how much money it will take to retire comfortably.

Most people need 60% to 80% of their pre-retirement expenses to maintain their lifestyle in retirement.

For example, a person who spends $50,000 a year now will need $30,000 to $40,000 (in today's dollars) to maintain a comparable lifestyle during retirement.

2. Factor in Inflation.

As prices go up, buying power goes down. Tomorrow's dollars won't be worth as much as today's dollars. To maintain your lifestyle, you must compensate for the changing value of money.



The "Rule of 72" will help you do so. Here's how it works:

Estimate what you think the inflation rate will average in the coming years. Then, divide that number into 72. The answer is the number of years it will take for prices to double under that scenario.

Example: If inflation averages 4% per year, it will take 18 years for prices to double (72 ÷ 4 = 18). If it averages 3% per year, prices will double in 24 years (72 ÷ 3 = 24).

No one can predict how the economy will evolve over the next 20 or 30 years. Planning for inflation helps you cover your bases. If the inflation rate falls below your expectations, you'll be even better off.

For purposes of your retirement plan, assume 3% to 4% inflation each year—a doubling of prices about every 20 years.

To see how this will affect you personally, divide the years until your retirement by 20. The answer is the number of times your expenses will double by the date you begin retirement. The $40,000 you might need today would be closer to $80,000 in 20 years.

And don't forget to consider the continuing effects of inflation after you retire. A written table will make this job easier. Start with your estimated expenses in the first year of retirement. For year two, multiply that estimate by one plus your estimated inflation percentage. For example, if you assume inflation will average 3%, multiply by 1.03.

For year three, use your multiplier times the answer for year two.

And so on.

Run the table out at least to your life expectancy. Add another ten years to see what your needs will be if you outlive the tables.

3. Estimate Retirement Income.

Once you know your needs, consider how you will meet those needs.

> **POSSIBLE SOCIAL SECURITY CHANGES**
>
> Social Security won't go away completely. The three most likely changes are:
>
> - Full retirement age will increase
> - FICA payroll taxes will rise
> - Means testing may lower benefits of asset-rich retirees

Although Social Security may change by the time you retire, you should at least understand your current situation. The Social Security Administration (SSA) website (www.ssa.gov) includes links to help you estimate your benefits. The site also discusses when you should start taking your benefits.

If you have a company pension plan, find out how much you can expect from that source.

Next, review your IRA and/or 401(k) plans. At your present contribution and earnings rates, how much money will you have when you retire? How much can you withdraw each year?

If your total retirement income is greater than your needs, you can relax. If not, subtract your expected income from your expected needs. The result is the amount of additional money needed to fully meet your expected retirement expenses.

HOW TO PREPARE

Money put into an IRA, 401(k) or qualified pension plans accumulates tax-free until you draw it out. That's an enormous advantage. Investments compound much more quickly when taxes are not a factor.

A Roth IRA is another good option. Although deposits are made with after-tax dollars, funds in a Roth IRA grow tax-free.

Whole-life insurance investments also compound tax-free. Upon your death, your beneficiaries receive the proceeds tax-free. And, if you die early, the insurance coverage helps protect your heirs.

Choose an insurance company that scores high with more than one rating agency. You want to be sure the funds will be there when you need them.

Finally, traditional investments that are taxed as you go are also part of most well-rounded retirement plans.

DON'T DELAY

Don't put off your retirement planning.

Set aside time to get started. The sooner, the better.

Consult all the experts you can. Your financial advisor. Your accountant. A qualified insurance expert.

And educate yourself through financial seminars, courses and online resources. Ramsey Solutions (ramseysolutions.com) is one example, among others.

Once you've done what you can, relax. Enjoy your two-week vacation, secure in the knowledge that your retirement plan is well underway.

Giftware Challenges

AVOID THE PITFALLS

It's obvious that giftware has a big position in the floral industry.

You see gifts at trade fairs. Not in the same quantities as flowers and supplies, but they are present.

You also see gifts when you casually skim online listings for florists.

And you see gifts most clearly when you walk into a flower shop. They are displayed throughout the store.

Experience and history show that flowers and gifts go hand in hand.

THE QUESTION

There's nothing wrong with a florist selling giftware. In fact, there are strong reasons to do so.

A nice line of gifts helps you broaden your reach. Suddenly, you can serve customers in more than one way. The store becomes multidimensional instead of one-dimensional. You have a chance to attract more December holiday gift business.

All are good reasons to diversify. In fact, the question is not whether you should sell gifts but how you should sell them. The common pattern of selling flowers over the phone and devoting most of the sales floor to gifts may not be the best way.

As you analyze how gifts fit into your operation, let the following principles be your guide.

MAKE IT PAY

The giftware side of your business must pay for itself.

That seems obvious, but it's not the way many florists operate.

They devote significant resources to giftware sales that are only marginally profitable.

If you find yourself in that position, step back and reevaluate your gift sales strategy. Are you getting a reasonable return for your investment on this side of the business?

Go with gifts that complement—rather than compete with—your flower sales.

TURNS MATTER

Begin the analysis by checking how often you are turning your gift inventory.

Let's say you have $30,000 in annual gift sales. If you use a double markup (2×), that represents $15,000 worth of merchandise at cost.

Next, check your monthly balance sheets. What is your average gift inventory balance?

If your average monthly gift inventory is $7,500, you are turning your inventory two times per year. If the average balance is $15,000, you are turning the inventory only once.

The greater the number of turns, the better. Why? Because that means less of your money is tied up in inventory.

NARROW & LEAN

A shop with only one turn per year (overall) on gifts needs to make some changes. You could be guilty of one or both of two common mistakes.

Too Many Lines

You might be carrying too many product lines—trying to be "all things to all people." Perhaps the summer gift shows were too enticing. Everything looked so good that you bought way too much. A little of this. A little of that.

Before long, your shelves were overflowing. Some of the products have sold well. But not enough to make up for all the merchandise that isn't moving at all.

The answer? Get rid of the slow movers. Instead of 100 different items, stock 50. It's called having a "narrow" inventory. Focus your efforts on the faster moving lines.

You'll tie up less money in inventory throughout the year.

Too Many Items

Some owners do a reasonable job of limiting product lines. However, the shop is overstocked on those lines it does carry.

Here again, the answer is clear: Cut back on your order quantities.

To do so, make your best estimate about how many of a given item you will need. Then, cut that number by 25% to 50%. Don't go as "deep" on each product as you might normally. Better to run short and have to steer a customer to an alternative selection than to carry unsold inventory.

Some shops will need to take both steps. Cutting the number of product lines. And reducing their buying on the items they do carry.

GIFTS SUPPORT FLOWERS

Customers usually need to see gift items before making a purchase. That's not always the case with flowers. Many flower sales are made over the phone.

However, when the showroom is given over largely to gifts, you are sending the wrong message to the public. And you could be hurting flower sales, which is your primary business.

People need to see that you are a florist the moment they walk in the door. Flowers are what sets you apart. They make you different from other specialty retailers.

Customers won't make an impulse floral purchase if they have to search for your flowers. So, make flowers more than barely visible on the sales floor. Flowers and gifts should both occupy a prominent position in the showroom.

MERCHANDISING 101

In principle, giving both flowers and gifts their rightful place in the shop sounds easy.

It's not so easy in practice.

You have to balance a number of different interests. Adequate visibility for the gifts. And a layout that will heighten interest in cash-and-carry flowers and give a true picture of your total business.

Three different elements will come into play.

1. The Exterior

The first task is to get people in the door.

If your store is primarily visible to vehicle (as opposed to foot) traffic, you'll have to think big. Drivers don't have much time to look. To grab their attention, you'll need to make a splash. They might completely miss a "subtle" storefront.

A mall, neighborhood center or other multi-tenant facility with lots of foot traffic will require a different approach—open doors, sidewalk flowers, a "special" sign or some other technique that will invite people in.

Display windows should be used to good effect in both types of environments. A "closed back" setup lets you present a powerful, dramatic image. An "open back" window is more subtle. Passersby can peer past the display to see the fresh products and gifts you carry.

2. In-Store Traffic Flow

The sales floor layout should encourage customers to check out both your giftware and your flowers.

Supermarkets have something to teach traditional florists here. They are masters at strategically routing in-store traffic.

Often a supermarket's floral area is just inside the front door on the main trafficway. Every customer has to go past the coolers. The goal is to encourage impulse sales. Someone who passes by beautiful flowers might remember a friend or loved one who could use a small bouquet or a few loose stems.

Reevaluate your gift sales strategy. Are you getting a reasonable return for your investment on this side of the business?

If your store has a rigid "grid" layout that routes everyone in a predetermined direction, you can do this just as easily.

A "free form" layout with scattered product groupings encourages customers to browse wherever they choose. That makes the routing job a little more challenging. Somehow, the fresh products must be commingled with the gift merchandise. Placing inexpensive stems or bouquets near the cash register also may nudge a gift buyer to add a small fresh purchase when checking out.

Easy-to-read signs and pricing are also important. Having to ask how much a flower costs is intimidating

to some customers. They don't want to appear ignorant, so they just don't ask—and you lose a potential sale.

3. Complementary Products

Careful product selection will help gift and floral offerings work together.

Go with gifts that complement—rather than compete with—your flower sales. Candles. Cards. Gourmet baskets. Permanents. A few decorator lines that you specialize in.

All will "fit" with your floral work and support fresh flower sales.

ONE FOR ALL

Should you be selling gifts?

Sure. They make a great deal of sense for the traditional retail florist.

Just don't go overboard. Flowers are by far the most important part of your business. Even if 80% to 90% of your floral sales come in over the phone, don't hide the flowers from walk-in customers.

In the products you stock and the merchandising you do, send customers a clear message. You sell some nice gifts. And you sell a lot of flowers.

Who's in Charge?

Who's in charge is the biggest succession issue you will face.

It will determine, to a large extent, the future success of the business.

Every organization needs a clear line of authority. The buck must stop somewhere. Only the "general" can make decisions in a timely fashion and maintain the company's direction.

ORGANIZATION

How is your shop structured? Most businesses are corporations. Officers run the operation. Stockholders own the business.

Even though the officers make the day-to-day decisions, the stockholders (owners) ultimately are in charge because they can fire the officers.

The larger your family, the more complicated the structure.

Ideally, the person who manages day-to-day operations also owns a controlling interest in the business.

If you have two children, never give half of the company to each child. That's a prescription for disaster. Because no one will have control, a nasty stalemate can occur.

In fact, votes can be split 50/50 whenever there is an even number of children (2, 4, 6,…).

Whenever a stalemate is possible, give at least one share of stock to a trusted family advisor—perhaps your CPA—who can break a tie vote. And have your lawyer draw up a document that holds this adviser harmless when he or she sides with one party over the other.

If you have an odd number of heirs and you give ownership equally, you can avoid the 50/50 problem.

ACTIVE VS. INACTIVE

Often, parents give stock equally to all siblings, including those who don't want to be active in the business.

Although this sounds fair, the inactive siblings will benefit from the work of the active siblings.

A better approach is to conduct a business valuation to determine what each child's share is worth. Then, as a part of the transition process, have the non-active children sell their shares back to the business.

> **If you have two children, never give half of the company to each child.**

The company can do the buyout over time or borrow money to purchase the shares immediately. Either way, the children are treated fairly at the point of transition. And each is free to go his or her own way, free of entanglements.

RESOLVING CONFLICT

All families have conflicts. Especially those that are in business together. So, you need a system for handling these conflicts.

A board of advisors can help make key operating decisions. However, ultimate control will rest with whoever owns the greatest share of the company. Ownership equals power.

Before you exit the business, conduct a training program to teach family members how to listen to each other and resolve conflicts without undue emotion. As the parents, you should model this kind of behavior during the training process.

The alternative to a conflict resolution plan? Anarchy or outright war. A business cannot survive either.

ACCOUNTABILITY

When multiple children are involved in the business, you need a clear system of accountability.

First, give each person specific, measurable goals to achieve.

Second, conduct regular performance appraisals to measure results.

The transition plan should detail who will do the performance appraisals.

TOUGH ISSUES

Passing along control is not an easy task. However, it is essential for long-term business survival and success.

As a parent, you probably have a good feel for your children's abilities and aptitudes. Make your decisions accordingly.

Explain to your children why you are making each decision. Be open. Be clear. Be transparent. You'll eliminate lots of confusion now and reduce the potential for future conflict.

Pricing for Shrink

Suppose your target cost of goods sold (COGS) for arrangements is 25% of an arrangement's retail price.

You have counted and recorded every item in every arrangement. You know your designers are following the rules and not adding extra flowers. You also know you have not had to throw away flowers in the receiving or selling coolers.

However, when your income statement arrives, your arrangement COGS is 28%.

What went wrong?

SHRINK HAPPENS

Some shrink is inevitable, no matter how well you control your flower care and design processes. Flowers get broken at various points during handling and delivery. Some just can't be used.

These lost flowers will show up as a higher cost for flowers and foliage for arrangements. To maximize your shop's profitability, you must plan and adjust for this shrink.

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

THE TRICK

Shrink should not exceed 10% under any normal circumstance. Realistically, it should be 5% or less.

Start by estimating your present level of shrink. If you don't know, be conservative. Assume 10%.

Next, add that same percentage to the cost of your perishable products before marking them up. This will compensate for your losses to shrink and help you meet your arrangements cost target.

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

Add 3¢ (0.10 × 0.30 = 0.03) to the cost of the carnation. This will give an adjusted cost (including shrink) of 33¢. You then apply your normal markup to the 33¢ cost to calculate your retail price.

This small adjustment will add dollars to your bottom line. The larger your shop, the greater the gains.

PROOF

Let's say your markup on fresh product is 3.5. Mathematically, that means the flowers & foliage cost should be 28.6%.

Keep your flowers & foliage cost where it belongs, even with shrink.

(Note: This percentage compares the flower's cost to its retail price. The 25% target mentioned earlier compares the arrangement's total cost—including container and supplies—to the arrangement's total price.)

You buy ten carnations at 30¢ (including freight). That means you paid $3 for the carnations.

After applying your markup, the retail price of these carnations is $1.05 (3.5 × 0.30 = 1.05). If you sell all ten at $1.05, you will have total sales of $10.50. Dividing your cost ($3.00) by the sales revenue ($10.50) puts you at 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. When you sell the other nine, you will have sales revenue of $9.45. Now, your cost 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¢ plus 3¢ equals 33¢. When you apply your markup, the new retail price is $1.16 (3.5 × 0.33 = 1.16).

Again, suppose you break one and sell the remaining nine. Your total carnation sales revenue will be $10.44 (9 × 1.16 = 10.44), and your cost is 28.7% (3.00 ÷ 10.44 = 0.287).

There you have it. The trick works. You kept your flowers & foliage cost where it belongs, even with shrink.

FAMOUS FINANCIAL WORDS

"I couldn't wait for success—so I went ahead without it."— *Jonathan Winters*

"I'm a self-made man, but I think if I had it to do over again, I'd call in someone else."—*Roland Young*

"Many persons have an idea that one cannot be in business and lead an upright life, whereas the truth is that no one succeeds in business to any great extent, who misleads or misrepresents."—*John Wanamaker*

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INQUIRIES & ANSWERS

Letters

A CLOSE LOOK

"We're looking at buying another shop in our town. What do we need to find out about the business?"

Everything.

There shouldn't be any surprises on the day you assume ownership. You need to know exactly what you are buying.

1. *History*. Where the business has been financially and physically.
2. *Reputation*. How other local florists and, even more important, the public at large view the shop.
3. *Competition*. What the shop sells and the potential market for those products in the future.
4. *Finances*. The "money questions"—what the balance sheet, profit and loss statement and other records reveal about the shop's financial health.
5. *Employees*. Who the key staff members are. Whether they will stay or leave. How the workflow is organized.

Deep dives into these areas will give you the information you need to make a sound decision.

THEIR VAN. YOUR RISK.

"We hire independent delivery contractors during busy holiday times. These drivers use their own vehicles. How concerned should we be about our potential liability?"

Very concerned.

The rule on liability insurance is a simple one. Assume that anyone can sue you at any time for any reason. As a result, good liability insurance is essential.

The fact that the drivers are delivering in their vehicles doesn't really help. Nor does the fact that you can classify them as independent contractors for tax purposes.

If any are involved in an accident that damages people or property, you will be brought into the dispute in some way. Because the driver was acting on your behalf.

A non-owned automobile liability policy is a must.

Umbrella liability policies also are helpful. Think big. Even a million dollars of insurance is not too expensive when you consider the potential benefits.

NORMS

TARGET PAYROLL

Payroll includes wages, company payroll taxes, workers' compensation and employee benefits. The 30% target also includes a reasonable wage for the owner/operator.

If your shop has multiple locations, the target increases to 35% of total sales.

Hitting the payroll target is essential if you want to maximize your shop's bottom line.

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