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QUICKTAKES

*Ideas You Can Put
to Work Immediately*

1 Integrity

As you face difficult decisions, a question to ask yourself is, “Would I want everyone to know what I am doing?” If not, think carefully.

Decisions made with a lack of integrity lead to secrecy.

When you have integrity, your private life and your public life match. No need for secrets. Life is less complicated and much less stressful.

2 Getting Paid

Instead of waiting until the end of the month to bill customers, send out invoices every week. This signals to customers that you are paying attention.

It is a fact that the faster you send out bills, the faster you will get paid. Remember, the sale is not really complete until you’ve collected your money.

3 Perception & Reality

If your actions are bothering other people, that is their reality.

You can try to explain the reasons behind what you are doing. However, words won’t be enough. The bottom line is that your behavior may have to change to alleviate the issue.

Be willing to understand how what you do affects others and to make changes—even when you think you are right.

REACHING YOUR GOAL



One summer, I climbed Mt. Yale, one of the 14ers (mountains over 14,000 feet tall) in Colorado.

It took almost three hours to go from the trailhead to the top. The

climb was much more intense than I had planned.

As I was enjoying the magnificent scenery from the summit, it struck me that climbing a mountain is like accomplishing any major goal.

You start with the end in mind. It's exciting to think about meeting the challenge and reaching your goal.

Then you head up the trail. It starts off pretty easily. You keep a steady pace, applying what you know. The woods are beautiful.

The farther you go, however, the steeper the climb gets. Your pace slows. Breathing is labored. You have to stop frequently.

It's during those stops that you realize you can't look at the scenery. You have to keep your focus on the path just ahead or you'll miss your footing.

Any big goal you accomplish—like getting through a major holiday—is an exciting undertaking. But you achieve the goal one step at a time.

The trek is long. You will sometimes find yourself tired and low on resources. You may wonder if you'll get everything done. Throughout the process, you must keep your head down and concentrate on the task at hand.

With perseverance, you will reach the summit. When you do, you can enjoy your accomplishment and once again look at the scenery.

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Increase Your Sales

Without Spending Anything!

No matter what time of year it is, adding sales is a good thing. Normally to accomplish that goal, you must put some resources into advertising or training.

Nothing will replace the benefits of good sales training and timely promotions. But one other tactic to increase sales costs nothing and involves very little preparation.

Too good to be true?

Not at all.

JOIN THE CROWD

Florists are the last retail holdouts against price barrier pricing. Almost all other retailers recognized the benefits long ago. It's about time florists jumped aboard.

What is a price barrier?

It's the price at which a customer will NOT buy your product. At any lower price they will buy, but at the price barrier, they say no.

Suppose a customer has a price barrier of \$45. This customer will spend any amount up to and including \$44.99. But that's the limit. She won't spend \$45—that's her personal price barrier for this purchase.

Many florists price their products at even dollar amounts. For examples, arrangements might be \$40, \$45 or \$50.

With those three options, how much will the customer mentioned above spend in your shop? The \$40 arrangement is the only acceptable

option because it's the only one under her \$45 price barrier.

However, if you offered an arrangement for \$44.95 or \$44.99, she would buy that one—a 17% increase on that sale just because you had a product available at a better price.

Most other retailers understand this principle. They price their products just under common price barriers. They don't use whole dollars. They use "something-.99."

Think about it. When was the last time you saw a television set advertised at \$500 instead of \$499.99? Can a penny really make that much difference? Believe it or not, it does.

COMMON BARRIERS

The floral business has both major and minor price barriers. The more products that are available in a particular price range, the more variations there will be. However, for florists, several barriers are particularly important.

COMMON BARRIER PRICES



See anything familiar? These are exactly the prices many florists charge. When was the last time you saw single stems priced at \$3? Probably not too long ago.

Almost any other retailer would charge \$2.99 for the same item. Would they sell more? You bet they would.

THE WAY WE WORK

You wouldn't think that a price difference of a penny or a nickel would induce someone to buy. However, sociologists who have studied the issue say it's true.

Individual customers will easily buy right up to their personal price barrier. In fact, if you use excellent sales techniques to "bump" your customers over their barriers, they won't stop at just a dollar or two extra. Studies show that customers will then go all the way up to their next price barrier.

Offer arrangements at prices just under the various barriers. You don't need—and shouldn't sell—arrangements at between-barrier prices.

For example, make arrangements available at \$44.95 and \$49.95 (or \$44.99 and \$49.99) to hit the \$45 and \$50 barriers. Do not offer options at \$47.50. A customer willing to spend \$47.50 could just as easily be "sold up" to \$49.95.

WHAT TO DO

If you currently price your arrangements and products at even dollar

amounts, drop the price by a penny or a nickel. Your sales will automatically increase.

Use this approach for all your products and services. Price loose flowers at \$0.99, \$1.49, \$1.99, \$2.49 or \$2.99. Bunches for \$5.99, \$6.99 or \$9.99.

Remember delivery and service charges. Don't charge \$9. If your

customers are willing to pay \$9, they will pay \$9.99 or \$9.95 without batting an eye.

INCIDENTALS

The price of the primary item is the only price that really counts. Delivery charges and sales tax can be added without losing the sale.

Think about the products you see on television. They all sell for \$19.95, \$29.95 and so forth. However, do consumers ever actually pay \$19.95 for a product? No. A shipping and handling charge is almost always added.

Florists who have adopted price barrier pricing report the same thing. It works.

Give your sales a boost. Start using price barrier pricing.

DESIGN ROOM CAVEAT

Price barrier prices work great for the customer, but not for your designers. Keep stems in the design room priced on the even dollar or quarter. It makes the math much easier. The designers can quickly calculate how much product should go into each arrangement. 🌸

It's Not What You Say... It's How You Say It.

This rule is as true in sales as it is in your personal relationships.

Most florists agree that giving customers several price options helps increase the average order amount.

A typical conversation might go something like this: "We have arrangements that will meet your needs available at \$49.95, \$69.95 and \$89.95."

Two small changes to that simple statement can increase your sales.

First, reverse the order. Start with the top price:

"We have arrangements that will meet your needs for \$89.95, \$69.95 and \$49.95."

Most customers will still buy the middle price point. Starting with the higher price, however, will cause the number who buy the lower price to diminish. The clients who buy the higher price will increase.

Second, you might also add some descriptive language.

"Let me suggest three options. We have an outstanding \$89.95 arrangement. We also have a nice one at \$69.95. And a good budget arrangement is available for \$49.95."

You'll be surprised how many of your customers will want the "outstanding" choice.

SHOP PROFILE:

TOUGH DECISIONS



This month's profiled flower shop was founded in 1981. The business added a second location in 1995. With \$711,664 in sales, the combined operation is almost twice as large as the average retail florist in the United States.

SECOND GENERATION

The current owner worked in the shop with his parents for many years. When his parents retired in 2012, he and his wife took over.

And when they did, one thing became immediately clear. If the business was going to be profitable, things had to change.

The owners looked for good information to help them understand their options and make plans. *Floral Finance* soon became their primary source for industry statistics, financial targets and sound advice.

PERSONNEL

The shop's payroll was their first obstacle to profitability. The owner's parents had heavily overstaffed the business. To bring payroll costs in line, staff reductions would be required.

The only questions were who and when.

When one designer left to have a baby, she was not replaced. That was easy enough.

As the owners put new design room controls into place, most of the designers embraced the changes. The one designer who did not also had to leave.

A well-paid sales employee posed another challenge. Despite being highly compensated, his sales figures were

stagnant and average order size below what it should have been. The family's long-term relationship with this individual made letting him go especially difficult. But it had to be done.

If you aren't making money at your present level of sales, you won't make money with more sales either.

The benefit of that difficult decision was quickly apparent. Sales began to increase and have continued to grow ever since.

For 2013, total payroll was 25.9% of sales. An improvement—but still too high. Since the owners did not take a salary, the profit target they needed to hit was 20% of sales.

As Mother's Day 2014 approached, the owners decided to cut summer staffing. That did the trick. Payroll for 2014 came in at 19.4% of sales. Just under the target.

COST OF GOODS SOLD

Better control of cost of goods sold (COGS) was another high priority. The

owners looked carefully at each arrangement to make sure their designers were not inserting too many flowers.

The design controls paid off immediately. Both 2013 and 2014 showed arrangement COGS (flowers and greens only) below 25% of arrangement sales.

That's one of the nice things about the flower business. COGS can be out of control today and right in line tomorrow. All it takes is a decision to implement and follow design room control procedures.

CUT & GROW

This shop shows that it is possible to both cut expenses and grow the business. Sales rose \$108,186 from 2013 to 2014. That's a 17.9% increase.

At the same time, payroll decreased by \$17,834. This means the staff's productivity increased by a whopping 33%. Sales per payroll dollar went from \$3.86 to \$5.14.

And even though total expenses grew by almost \$32,000, they dropped from 60.3% of sales to 55.6%.

NEW SALES ORIGIN

The new owners bumped up their advertising budget to allow more aggressive marketing of their products and services.

The increased marketing brought about significant increases in sales of loose flowers and blooming plants. Instead of offering these products sporadically, the owners decided to keep, promote and sell them consistently.

In addition, a new website helped boost online sales.

We've always said that controlling expenses is the key to profitability. If you aren't making money at your present level of sales, you won't make money with more sales either.

First, learn how to be profitable with your current sales. Once you've got things under control, focus on building your top line. Your increased profitability will follow right along.

NOT GOOD ENOUGH ... YET

Although net profit climbed from 4.4% of sales in 2013 to 9.8% in 2014,

that still wasn't good enough. When (as with this shop) the owner is not on the payroll, a 20% profit is a reasonable target.

It was puzzling. Although this shop had good control of the major areas that determine profitability, its profits were still too low.

Lowering facilities expenses seemed like a good place to look for a solution. This category rose significantly in 2014.

However, there were good reasons for the increase. In 2014, the owners moved the shop's second location. The new rent was higher. Repairs and maintenance added extra expense.

The owners believe that sales at the new location will grow sufficiently to cover the higher rent in the future.

Even after addressing payroll, COGS and facilities expenses, the owners have more work to do.

A quick analysis reveals one other trouble spot: interest expense. Interest is part of financing the business, not part of the operating results. Every dollar paid in interest means a dollar less in profits.

This shop's financial statements illustrate the principle. Start with the 2014 net profit of 9.8%. Then, add back the 2.8% in interest paid.

If facilities expenses could be brought into line, that would mean another 1.3% or more to the bottom line, bringing the shop's total profit to 13.9%.

Better. Much better. But still 6.1% short of the mark. So, where are the other leaks?

The shop's telephone/Dove expense—4.5% of sales—is too high, largely because of excessive telephone cost. The industry average is 1.5% of sales. Improvements here should yield a substantial benefit.

Carefully examining other expense areas will show where the rest of the money is going. The owners will have to shave off somewhere between \$21,000 and \$29,000 more.

Credit card fees and rebates are two good starting points. The shop's credit card fees are higher than they should be. And the owners could add several thousand dollars to their bottom line

SHOP PROFILE INCOME STATEMENT

	Year 1		Year 2	
	Dollars	Percent	Dollars	Percent
PRODUCT SALES				
Loose Flowers	\$ 78,578.86	13.0%	\$ 94,161.39	13.2%
Arrangements	326,181.12	54.1	405,647.71	57.0
Green Plants	18,214.48	3.0	15,160.77	2.1
Blooming Plants	50,548.40	8.4	72,933.17	10.2
Balloons	26,989.07	4.5	23,789.09	3.3
Fruit Baskets	2,362.40	0.4	3,635.36	0.5
Silks/Gifts	29,015.52	4.8	33,048.26	4.6
Returns	-1,188.37	-0.2	-276.64	0.0
Total Product Sales	\$530,701.49	87.9%	\$648,099.10	91.1%
NON-PRODUCT SALES				
Service Charge	\$ 29,564.72	4.9%	\$ 31,489.55	4.4%
Wire-Out Commission	36,934.78	6.1	40,729.46	5.7
Wire-In Commission	-34,091.01	-5.6	-51,085.01	-7.2
Rebates	4,404.96	0.7	1,465.12	0.2
Wires Total	36,813.46	6.1	\$ 22,599.12	3.2
Delivery	32,926.40	5.5	39,017.18	5.5
Miscellaneous	3,036.77	0.5	1,948.66	0.3
Total Non-Product Sales	\$ 72,776.62	12.1%	\$ 63,564.96	8.9%
TOTAL SALES	\$603,478.11	100.0%	\$711,664.06	100.0%
COST OF GOODS SOLD				
Loose Flowers	\$ 25,931.02	33.0%	\$ 31,073.22	33.0%
Arrangements	81,219.10	24.9	99,789.34	24.6
Green Plants	10,728.45	58.9	6,519.14	43.0
Blooming Plants	25,697.74	50.8	31,134.13	42.7
Balloons	7,394.74	27.4	8,326.21	35.0
Fruit Baskets	1,027.20	43.5	1,294.37	35.6
Silks/Gifts	19,525.38	67.3	16,212.69	49.1
Supplies	26,203.08	4.3	32,527.11	4.6
Discounts	15,426.62	2.6	19,396.35	2.7
Total Cost of Goods Sold	\$213,153.33	35.3%	\$246,272.54	34.6%
GROSS PROFIT	\$390,324.78	64.7%	\$465,391.52	65.4%
EXPENSES				
Advertising	\$ 7,758.80	1.3%	\$ 21,706.56	3.1%
Facilities	52,624.54	8.7	80,377.22	11.3
Telephone/Dove	33,956.19	5.6	31,738.27	4.5
Payroll	156,224.35	25.9	138,390.69	19.4
Interest	20,040.45	3.3	19,912.08	2.8
Vehicle Expense	9,341.52	1.5	15,015.62	2.1
All Other Expenses	83,764.26	13.9	88,547.42	12.4
Total Expenses	\$363,710.11	60.3%	\$395,687.86	55.6%
NET PROFIT	\$ 26,614.67	4.4%	\$ 69,703.66	9.8%
ADJUSTED NET PROFIT	\$ 46,655.12	7.7%	\$ 89,615.74	12.6%

1. Each COGS percentage is figured on the sales of that particular product, not on total sales. COGS percentages using total sales are misleading and do not give the information you are looking for.
2. Expenses are grouped by major category. A good income statement will show the subtotals and details for these major groups.
3. Adjusted net profit adds interest expense back for a better comparison to shops that haven't borrowed money for capital purposes.

by taking advantage of the Teleflora rebate program.

A GREAT JOB

These second generation owners are doing a great job of moving

toward profitability. A few more changes should put the business firmly on solid ground.

A commitment to profitability—combined with good information and procedures—will do the trick every time. 🌸



THE FAMILY BUSINESS

DOING IT THE RIGHT WAY

Last month, we looked at some of the common mistakes made by owners of family businesses. This month, we'll review seven cornerstones of a successful family business.

FAMILY VALUES

One purpose of a family business is to cultivate and pass along family values. The business becomes an extension of the family.

After all, stewardship, responsibility, accountability and discipline are important in our personal and professional lives.

In many respects, a business is the perfect environment for monitoring and promoting positive values. Most goals and responsibilities are quantifiable. You can measure your progress.

FAMILY GOALS

Owners of successful family businesses recognize that they are not in business only for business' sake. The ultimate purpose is to serve the family.

For example, suppose one of your goals is for every relative to spend enough time with their family.

If so, you should manage the business so that no one is required to be a workaholic—even if that means you have to hire extra people and reduce the earnings of the business.

COMMITMENT TO CHANGE

Any successful, ongoing enterprise experiences continuous change. Markets change, people change, supply chains change. To achieve long-term success, the business must constantly adjust, too.

However, change can be challenging.

Ask every family member to make a commitment that they will change when circumstances require it. When everyone knows up front that periodic



adjustments will be required, they will be more prepared when change comes.

COMMITMENT TO BUSINESS HEALTH

For the business to support the family's goals on a long-term basis, it must remain financially strong. That will take effort. Sometimes, extra effort and additional time.

All family members must recognize they will occasionally have to work a few extra hours. However, if those "few" extra hours begin occurring too frequently, the business can quickly harm, rather than help, your family values.

If that happens, make the tough decisions it will take to get back on track. Family values should come first, even if that means you have to sell or close the business.

CASH MANAGEMENT

One of the hallmarks of a successful family business is its ability to manage cash. Personal needs are separated from business needs.

Enough cash is left in the business to get through slow seasons. Reserves are available to make unexpected repairs or meet capital needs. Borrowing is kept to a minimum.

Business and personal finances are kept separate intentionally. Each family employee receives a regular salary rather than pulling money out in the form of draws.

Everyone lives within their income, just as they would if they were employed by someone else. No one is allowed to take out extra cash whenever they want to.

As a result, the business builds up its cash resources and other assets.

CHAIN OF COMMAND

In successful businesses, decisions are made in an orderly manner. Although every family member should feel free to give input, everyone must also understand who is ultimately in charge.

A proper chain of command will minimize unneeded conflict and help you better manage the unavoidable problems that do arise.

INDIVIDUAL POTENTIAL

To keep family members involved, the small family business must help all members meet their potential. If it doesn't, the most capable family members will naturally look for other opportunities that offer the experiences, compensation and responsibilities they deserve. And that will make the family less connected and the business weaker. 🌸



GIFT CARD ACCOUNTING FOR DONATIONS

FLORAL FINANCE

We reviewed the proper accounting for gift certificates last month. This month, we look at any differences for gift cards.

Basically, the accounting for gift cards when they are purchased by a customer is the same as it is for gift certificates. When the card is sold, you create a liability and add to your cash account. When it is redeemed, you remove the liability and indicate what was bought in the proper sales category. Simple. Straightforward.

However, what happens when you give someone a gift card as a donation? How do you properly account for it?

WHAT IS ACTUALLY HAPPENING?

To understand the gift card transaction, think of it as two separate steps.

First, suppose you wrote a check for \$50 as a donation to the local PTA. You would charge (debit) a \$50 expense to donation or promotion expense and you would lower (credit) your cash account by \$50.

Next, suppose the PTA bought a \$50 gift card from you. You would increase (credit) your gift card liability account by \$50 and increase (debit) your cash account by \$50.

Notice that in the first transaction you lowered your cash by \$50 and then in the second transaction you increased your cash account by the same \$50. The cash account ended up with the same balance it began with.

So, when you donate a gift card to the PTA, you can do it as one transaction by increasing (debiting) your donation or promotion expense and then increasing (crediting) your gift card liability account by \$50, thereby eliminating the two cash steps. Same result.

When the PTA uses the gift card, you lower (debit) your gift card liability account and increase (credit) the appropriate sales account.

UNREDEEMED GIFT CARDS

Here's where things get tricky. The IRS would not like you taking a donation expense for which you never gave out any cash or product. If the gift card

If you're giving gift cards, you most likely have a point-of-sale (POS) system like Dove or RTI from Teleflora to handle this process.

is never redeemed, you ultimately need to lower (debit) your gift card liability and lower (credit) your donation or promotion expenses to make everything correct for tax purposes.

To comply with this requirement, you must track each gift card that you give as a donation or promotion to see whether it is redeemed. This could be an accounting/administrative nightmare.

Of course, if you're giving gift cards, you most likely have a point-of-sale

(POS) system like Dove or RTI from Teleflora to handle this process.

Those systems track each gift card by number. You can get a report that tells you which cards have been redeemed. They also

track which cards were purchased by customers and which were used for promotion or donation purposes.

Set up a policy for how long you will wait for a card to be redeemed before you reverse the transaction for a donated card that is not redeemed.

You have to do a similar process for gift cards that are sold. Eventually, you need to take into income the cash you received for gift cards that were never redeemed.

Each state has different laws concerning the expiration of gift cards and when to take unredeemed gift card amounts into income. Be sure to check with your accountant for what your local laws are and then make sure you comply with them.

MARKETING TOOL

Don't let the accounting discourage you. Giving gift cards for donations or promotions is far better than giving cash or product. It invites customers to come into your shop and make a purchase. Exactly what you want to happen. And, usually, they will spend more than the amount on the card. 🌸

FAMOUS FINANCIAL WORDS

"The race is not always to the swift, nor the battle to the strong—but that's the way to bet."—Damon Runyon

"There is hardly anything in the world that some men cannot make a little worse and sell a little cheaper."
—John Ruskin

"We haven't the money, so we've got to think."
—Lord Rutherford

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NORMS

WAYS TO FIND YOUR WEBSITE



People can find your website in three different ways.

The first is through a search engine, such as Google or Yahoo. Users put in key words—maybe the name of your city and the word “florist.” The search engine returns a list of sites matching those terms.

The second way is through referrals. A referral doesn’t have to be one-to-one. With a quick mention on Facebook, a single endorsement can be shared with hundreds of others.

The third way is through links from other websites. A big part of marketing is getting others to link to your shop from their websites. A funeral home would be a perfect link for a retail florist.

INQUIRIES & ANSWERS LETTERS

UNSIGNED CHECKS

“If a customer sends us an unsigned check as payment, do we have to send it back for a valid signature?”

No.

If you try to deposit an unsigned check, it normally will be rejected. However, there is something you can do that will usually work.

On the blank signature line write the word “over.” Then, on the back of the check, write “Lack of signature guaranteed” followed by your shop name, account number, your name and your title. More than likely, the bank will clear the check.

The bank knows that if the customer objects, it can get the money back from you because you guaranteed it. This is really no riskier than any check you deposit. If the customer’s bank doesn’t honor the check for some reason and sends it back, the amount will be charged against your account.

HOLDING ONTO CASH

“What’s the rule for paying bills on time, while still keeping my cash as long as possible?”

Mail your payment on the due date.

If you date and mail your check on the date the invoice is due, most suppliers will credit the payment as being on time.



But watch for exceptions. Some creditors’ policies clearly state that payment must be received by the due date. In that case, follow their policy.

Two other steps will make stretching your cash easier.

First, use one of those expandable folders with a slot for each day of the month. File each invoice for the day it is to be paid. Process each day’s payables as they come due.

Second, for recurring bills, such as utilities, set up an automatic withdrawal from your checking account. You will be forewarned of the payment amount and due date to mark in your checkbook. And the money will be taken out precisely on the due date. No earlier. No later. And no hassles.

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