SHOP PROFILE
You've Gotta Do It All **PAGE 4**

FINANCIAL INFORMATION, EDUCATION AND CONTROL FOR THE RETAIL FLORIST

Floral® Finance

teleflora.

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INSIDE THIS ISSUE

QuickTakes

Ideas You Can Put to Work Immediately

1 Judge the Best

Use employees' best days to judge their work. Most managers do the opposite. They look at the worst day.

Your top employees will have other opportunities. If you want to keep them, they need to know how much you appreciate their work.

Evaluating employees' best efforts and skills, rather than their worst, will help you keep a strong, stable team.

2 It All Starts With Sales

It's natural in the floral business to focus on design. After all, isn't that what you're selling?

Maybe so. However, the first job in any business is sales. Without the sale, nothing else happens.

Make sure your sales team knows you value and respect what they do. Reward them. Compliment them. Most of all, train them with solid product information and good sales techniques.

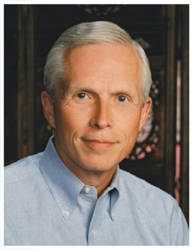
3 Clean House

September is the middle of a six-month period of low, non-holiday sales. Take advantage of the slower pace to clean house.

Go through your shop. Get rid of all the items you never use. Then organize what's left so that when the next holiday arrives, you'll be able to work more efficiently.

FROM THE PUBLISHERS
OF FLORAL FINANCE®

ARE THERE BENEFITS TO ANGER?



A good friend emailed me some thoughts the other day that got my attention. The email made several points about anger that we should all remember.

Anger is something we see every day in one form or another. It might be as dramatic as an explosive tirade, or as simple as inappropriate comments or gestures in traffic.

Rarely does anger achieve any worthy goal. In fact, it usually has the opposite effect.

When we get angry, we…

- demonstrate we can't control ourselves;
- harm relationships and damage team unity;
- push away good people;
- distract people from focusing on needed change because they can't quit thinking about the way we spoke;
- diminish our leadership potential;
- build walls rather than bridges.

Of course, we all lose our temper once in a while. When we do, we need to apologize quickly and try to learn from our mistake. Unchecked anger will destroy relationships—in marriage, with friends or with employees.

Don't accept failure in this area. It is far too important.

Are there benefits to anger? Not any that are worth the price.

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

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IT'S NEVER TOO EARLY RETIREMENT PL

During the prime of your life, you don't think much about retirement. It seems so far away. You also may have a hard enough time meeting today's obligations, let alone preparing for tomorrow's.

However, time has a funny way of sneaking up on you. When retirement arrives, no one will be there, waiting to ensure that your golden years are comfortable. Basically, your retirement is all up to you.

HOW MUCH IS ENOUGH?

To maintain your current lifestyle during retirement, you will need between 70% and 85% of your present income.

If you plan to fulfill lifelong dreams (such as traveling) during retirement, you'll probably need to continue—or even exceed—your present income level.

SIX FACTORS

Knowing how much you will need after you retire is only the first step to preparing for retirement. As you begin to plan, also consider these six factors.

1. You'll Probably Live Longer

When Social Security was created, few people were expected to live past age 65. Times have changed. Today, the average person will live into their late seventies or early eighties. Women, on average, live a few years longer than men.

By the time the last of the Baby Boomers reach retirement age, life expectancy will probably have moved to age 85 or so. That means a full 20 years of retirement—and 20 years to fund.

THE OLD ADAGE TO 'GIVE 10% OF YOUR INCOME AND SAVE 10%' IS A GOOD ONE.

For planning purposes, assume that you will live to at least age 90. Otherwise, you may run out of money before you run out of time.

Suppose you need $35,000 annually during retirement. If you stop working at 65 and live to 90, it will

take $875,000 to fund your lifestyle over that 25-year time span.

2. Expect More Inflation

Inflation has been part of our national experience for most of the last 100 years. During some periods, it has been rampant.

Assume inflation will continue to be a fact of life.

Inflation means your money won't buy as much tomorrow as it does today. Even a low rate of inflation adds up over time. For example, over 15 years, a 3% inflation rate will increase prices by 56%.

Inflation is bad enough when you are working and getting pay raises. When you retire on a fixed income, inflation really starts to bite.

3. Don't Count on the Government

People have come to depend on Social Security to provide a retirement base. These days, experts inside and outside the government are saying Social Security will not be around unless major changes are made.

4. Don't Count on Your Employer

In years past, people could count on generous retirement plans from their employers.

Today, companies are cutting costs to stay competitive. Pension plans are being trimmed or eliminated and replaced by 401(k) plans in which employees must put aside money for their own retirement.

Of course, few flower shops offer a 401(k) plan for employees, much less a full-blown pension plan. And shop owners are definitely on their own.

Even if your spouse participates in an employer-sponsored pension plan, don't rely on it to provide all you will need.

You Need an EXPERT

Retirement planning is a difficult task. Few laypeople know all the options or the best strategy for their unique circumstances.

Why do most of us spend more time planning for a two-week vacation than for a 20- to 25-year retirement? That's not a good allocation of time.

Seek out a financial professional who can help you plan for retirement. Perhaps your certified public accountant (CPA). Perhaps an estate and tax attorney.

Many insurance agents complete a Certified Financial Planner (CFP) course, so you might want to start there. Because insurance agents have a product to sell, they generally don't charge for their recommendations.

If the thought of listening to a sales pitch gives you pause, remember that when a bride comes to you for wedding advice, she knows you are trying to sell something. That doesn't mean you won't give her good counsel.

The same is generally true for insurance agents who are CFPs.

Whichever route you choose, get some help. Don't put it off. Your retirement is too important.

5. 'It's All Up To Me'

Say these words often. And believe them—because your retirement future probably is all up to you.

Through planning, saving and investing, you have the power to determine what your retirement will be like. The old adage to "give 10% of your income and save 10%" is a good one. Over 20, 30 or 40 years, you will build up a nice nest egg with this approach.

Investment counselors will tell you to take full advantage of tax-deferred savings methods, such as IRAs and 401(k)s. Each year, put in as much money as the law allows.

6. Set Up Your Own Retirement Plan

Once you have done all you can with IRAs and 401(k)s, figure out how you can save even more.

Tax-deferred annuities are one of the best strategies. Money you put into an annuity will be after taxes (i.e., the money represents income you've earned and paid taxes on). However, once in the annuity, your investment will grow tax-free until you take it out.

Life insurance that builds up cash value is another good planning vehicle. You get protection when you need it and cash value later on.

TOO GLOOMY?

From a financial standpoint, retirement can be a scary prospect.

One thing, however, is certain: The more you plan, the better off you will be. It's hard to investigate the future with your head buried in the sand.

Your planning may lead you to conclude that completely retiring at 65 is not possible. Many of today's seniors are reaching that conclusion.

Even so, planning can still make things easier. You may only have to work part time instead of full time.

Small business owners have another advantage. By managing your business properly, you can keep it going and earn a solid profit during retirement.

A small business can be the perfect retirement vehicle.

SHOP PROFILE

You've Gotta Do It All

This shop profile takes a different approach than those we've done in the past. Instead of reviewing two years of one shop's performance, we've compared three shops against each other.

EASY COMPARISON

Our profiled shops did between $500,000 and $800,000 in sales—substantially more than the industry average of $350,000.

To make the comparison easier, the tables to the right index the numbers to $700,000 in sales. In other words, we have set the total sales for each shop to $700,000 and then adjusted all the other numbers to keep the shop's original proportions.

For example, actual sales for Shop #1 were slightly more than $550,000. Silk and dried flowers were 6.7% of that figure. In the table, we've set the sales for Shop #1 to $700,000. But its silk and dried sales are still 6.7% of that figure.

Be forewarned: **There are a lot of numbers here.** However, if you follow this article step by step, you'll gain much insight.

SALES MIX

Although the three shops have markedly different sales patterns, they also have striking similarities.

Arrangement sales, for example. All three shops are within a few thousand dollars of each other.

Arrangements typically are 60% to 70% of total sales for the average retail florist. These three shops—at 62.9%, 63.9% and 64.8%—are right on target.

As usual, product sales make up the lion's share of total sales. The three shops vary widely, however, in just how large that lion's share is.

With product sales at 88.1% of total sales, Shop #3 is closest to the industry average of 87%.

Shops #1 and #2 show product sales at 94.3% and 93.3% of total sales, respectively, as a result of lower-than-expected non-product sales.

NET PROFIT

Let's skip to the bottom line: profit.

Shop #1 has net income before taxes of 5.4%. For Shop #2, that important number is 2.1%. And for Shop #3, it's 3.0%.

HAVE YOU REVIEWED YOUR DELIVERY FEES AND SERVICE CHARGES RECENTLY?

Not one of the three shops has achieved the *Floral Finance* target of 10%. However, the reasons vary. Their stories illustrate the importance of managing every aspect of a shop's operation.

A WORD ON REVENUE

Non-product sales tell part of the story.

All three shops do a similar amount of outgoing wire business. However, Shop #3 has a lower volume of incoming orders. In addition to the revenue these incoming orders would bring, Shop #3 is missing out on the opportunity to put arrangements in the homes and businesses of potential customers.

Shop #1 takes better advantage of rebates than the other two shops.

Shops #2 and #3 bring in substantially more delivery revenue than Shop #1—a problem Shop #1 could solve by raising its delivery charge. (What about you? Have you reviewed your delivery fees and service charges recently? Small charges can make a big difference to your bottom line.)

SHOP #1

With arrangements cost of goods sold (COGS) at 30.4% of arrangement sales, Shop #1 is right on target. *Floral Finance* recommends that arrangements COGS be kept at 33% or less (with fresh product costs at 25%).

At 4.6%, this shop's facilities expenses are well under the industry average of 8.5%. The florist owns the building, which helps keep costs low.

The shop's biggest problem area is payroll expenses. At 38.3%, they are well above the 30% target for shops that include the owner/manager on the payroll.

Were payroll expenses to drop to target levels, this shop's profitability would jump to 13.7%.

All other expenses, excluding facilities and payroll, total a respectable 17.9%.

Payroll is definitely the major area to work on for Shop #1.

SHOP #2

With arrangements COGS at 49.3% of arrangement sales, Shop #2 has a big problem. If the shop hit the 33% target, it would save $71,945 and take its net profit all the way up to 12.4%.

This shop's 2.8% facilities expense is impressive.

Once the building is paid off, facility costs can drop dramatically and have a very positive effect on profitability.

Payroll is another strong area. At 29.5%, it falls just below the 30% target. A job well done.

All other expenses come in at 13.2%. Also very well controlled.

SHOP #3

Shop #3's 31.9% arrangements COGS shows it is doing a good job of managing product costs. However, a facilities expenses figure of 10.7% is slightly over the 10% target.

Interestingly, this shop also owns its building. However, it's an older structure that requires a great deal of maintenance and has high utility costs. That keeps the owners from reaping the normal financial rewards of building ownership.

Payroll for Shop #3 could use a little improvement. Bringing payroll down from 34.0% to 30% would yield a nice improvement in their bottom line.

All other expenses for this shop total 22.7%. That's a little on the high side. With a careful review of all line items, they could easily shave a percentage point or two from this number.

MANAGING IT ALL

If each shop tackled the problems outlined in this article, what would happen? All three would approach or exceed the 10% profitability target.

Shop #1 would stand at 15.2%. Shop #2 at 12.9%. And Shop #3 would come in at 8.5%.

Different problems. Different solutions. Similar results.

To do well on the bottom line, you must manage every aspect of the business. Ignore just one major area, and you'll pay for your negligence.

	SHOP #1		SHOP #2		SHOP #3	
PRODUCT SALES	Dollars	Percent	Dollars	Percent	Dollars	Percent
Silk/Dried	$ 21,634.91	3.1%	$ 9,395.05	1.3%	$ 0.00	0.0%
Loose Flowers	4,315.92	0.6	19,749.96	2.8	45,026.30	6.4
Arrangements	453,621.18	64.8	440,496.53	62.9	447,626.59	63.9
Green Plants	77,612.78	11.1	74,163.85	10.6	62,435.19	8.9
Blooming Plants	73,672.85	10.5	59,940.00	8.6	54,496.41	7.8
Balloons	11,757.48	1.7	9,061.01	1.3	0.00	0.0
Fruit Baskets	4,537.22	0.6	7,580.67	1.1	0.00	0.0
Gifts	12,939.07	1.8	33,013.93	4.7	17,888.09	2.6
Returns/Allowances	–247.17	0.0	0.00	0.0	–10,852.80	–1.6
Total Product Sales	**$659,844.24**	**94.3%**	**$653,401.00**	**93.3%**	**$616,619.78**	**88.1%**
NON–PRODUCT SALES						
Service Charges	$ 11,967.53	1.7%	$ 8,093.41	1.2%	$ 8,986.49	1.3%
Wires–out Commission	28,140.80	4.0	21,787.30	3.1	21,479.36	3.1
Wires–in Commission	–46,155.69	–6.6	–35,261.84	–5.0	–2,751.17	–0.4
Rebates	13,191.40	1.9	4,127.63	0.6	5,379.29	0.8
Wire Order Revenue	7,144.04	1.0	–1,253.50	–0.2	33,093.97	4.7
Delivery	25,444.77	3.6	42,334.82	6.0	46,807.70	6.7
Misc. Income	7,566.95	1.1	5,517.68	0.8	3,478.55	0.5
Total Non–Product Sales	**$ 40,155.76**	**5.7%**	**$ 46,599.00**	**6.7%**	**$ 83,380.22**	**11.9%**
TOTAL SALES	**$700,000.00**	**100.0%**	**$700,000.00**	**100.0%**	**$700,000.00**	**100.0%**
COGS						
Silk/Dried	$ 14,923.23	69.0%	$ 27,197.55	289.5%	$ 0.00	0.0%
Loose Flowers	992.67	23.0	7,504.98	38.0	15,684.37	34.8
Arrangements	138,121.16	30.4	217,308.42	49.3	142,818.70	31.9
Green Plants	25,886.94	33.4	40,716.91	54.9	17,655.02	28.3
Blooming Plants	31,765.23	43.1	32,967.00	55.0	21,125.79	38.8
Balloons	4,703.02	40.0	3,443.19	38.0	0.00	0.0
Fruit Baskets	2,084.14	45.9	4,469.97	59.0	0.00	0.0
Gifts	4,948.88	38.2	16,561.38	50.2	5,903.08	33.0
Discounts	13,285.77	1.9	16,243.71	2.3	3,639.08	0.5
Total COGS	**$236,711.04**	**33.8%**	**$366,413.11**	**52.3%**	**$206,826.04**	**29.5%**
GROSS PROFIT	**$463,288.96**	**66.2%**	**$333,586.89**	**47.7%**	**$493,173.96**	**70.5%**
EXPENSES						
Advertising	$ 37,605.94	5.4%	$ 18,223.32	2.6%	$ 15,900.21	2.3%
Telephone/Dove	10,124.62	1.4	11,375.41	1.6	15,932.94	2.3
Interest	10,498.16	1.5	3,466.64	0.5	5,561.31	0.8
Facilities	32,142.99	4.6	19,472.47	2.8	74,978.01	10.7
Payroll	267,826.40	38.3	206,601.85	29.5	238,217.65	34.0
Vehicle	17,276.23	2.5	19,124.47	2.7	33,310.44	4.8
All Other Expenses	50,047.75	7.1	40,405.59	5.8	88,150.55	12.6
Total Expenses	**$425,522.09**	**60.8%**	**$318,669.75**	**45.5%**	**$472,051.11**	**67.4%**
NET PROFIT BEFORE TAX	**$ 37,766.87**	**5.4%**	**$ 14,917.14**	**2.1%**	**$ 21,122.85**	**3.0%**
SUGGESTED CHANGES						
Arrangements COGS	$ 0.00	0.0%	$ 71,944.57	10.3%	$ 0.00	0.0%
Facilities Expenses	0.00	0.0	0.00	0.0	4,978.01	0.7
Payroll Expenses	58,100.00	8.3	0.00	0.0	28,000.00	4.0
Interest Expenses	10,498.16	1.5	3,466.64	0.5	5,561.31	0.8
NET PROFIT AFTER CHANGES	**$106,365.03**	**15.2%**	**$ 90,328.35**	**12.9%**	**$ 59,662.17**	**8.5%**

Notes:

1. Each COGS percentage is figured on the actual sales of that particular product, not on total sales. COGS percentages based on total sales are misleading and do not provide useful information.
2. Expenses are shown grouped by major category. A good income statement will show both major group subtotals and details.
3. Interest expense is always added back for proper comparison purposes.

NO GUTS, NO GLORY

Traits of a Successful Entrepreneur

What characteristics help make an entrepreneur successful? If you are an entrepreneur, you may have a pretty good idea.

Every day, you probably see that some of your personal characteristics contribute more to your success than others. That's why taking time to assess your skills is a good practice.

In what ways do you excel? What areas could use some further attention? A little understanding about yourself and your role will take you a long way.

What makes a person an entrepreneur? A calling that can't be ignored? A drive to create something new? Temporary insanity?

Maybe all of the above! But one thing is certain: Successful entrepreneurs share some common traits.

INDEPENDENCE

Successful small business owners are comfortable working independently.

You must be able to set your own goals, create a strategy to reach them and then remain committed to follow the plan. There isn't always a ready-made pattern or formula. You have to create your own organization and motivation.

Remember, too, that small business owners often must work alone for many hours at a time. This can be difficult if you need the stimulation of other people to perform at your best.

ADVENTUROUS NATURE

Successful entrepreneurs are risk-takers. Building something from nothing takes money, time and energy. To succeed, you must be willing to put your financial security—and even your ego—on the line.

How comfortable are you without the protection of preconceived processes, defined roles and a guaranteed paycheck every other week? If the answer is "not very," entrepreneurship may not be right for you.

LONG-TERM PERSPECTIVE

Successful entrepreneurs wait for the right moment to launch their dream. They also have the wisdom to learn from the process and the patience to wait for the rewards.

Most success stories require time before they play out. You can't be too impulsive. You must be able to "stay the course." It may take a year or two to gain customers' loyalty or penetrate a new market niche.

PROMOTIONAL ABILITY

A successful salesperson, a skilled bookkeeper and an outstanding designer are all experts in one way or another.

It may seem natural for these people to assume that if they are thriving as an employee, they will do even better on their own.

But launching and sustaining a business takes more than those skills. Entrepreneurs have to get out there. They have to sell themselves and their business.

You have to be something of a promoter at heart. Without that, the business won't survive.

RESILIENCE

Entrepreneurs must be able to take setbacks, admit errors and learn from the whole experience.

Mistakes are part of the game. You can't hold on to them too long. If you make a bad decision or lose a sale, don't take it personally or get down on yourself. If you do, you'll cost yourself more than money and time. You'll also miss out on future opportunities.

FLEXIBILITY

Flower shop owners tackle many different jobs on any given day. You may be a designer one minute, a salesperson or bookkeeper the next.

You must be flexible enough and creative enough to enjoy this diversity. If you need more clearly defined roles, you're likely to be frustrated.

SELF-ASSESSMENT

Some of these traits may not be inherent in your personality. That's okay. No entrepreneur is equally gifted in each area.

A simple and honest assessment of your entrepreneurial skills and shortcomings is the place to start. Once you know your natural strengths, you can build on them. Just as important, once you know your weaknesses, you can work on improving them.

Why not get started today?

Writing Off Bad Debt

How long should you try to collect past-due accounts? Florists who stay on top of receivables usually work their late accounts for 90 days. After that, they send them to a collection agency.

If the agency can get anything back, so much the better. However, from a recordkeeping standpoint, these bad debts simply need to be written off.

GOOD NEWS

Writing off a bad debt is never pleasant. Fortunately, retail florists are fairly lucky in this area. Flower sales are personal in nature. You know who your customers are. You can easily track down and reach the individuals who don't pay their bills.

When a bad debt does occur, take the following steps:

1. Turn it over to a collection agency.
2. Write off the receivable. Get it off your books.
3. "Tag" the customer's record so he or she won't be able to charge again.

DEBITS & CREDITS

For most florists, it's that second step—writing off the bad debt—that causes the most confusion. To get a better understanding, let's look at the mechanics of receivables, good and bad.

- You make a sale and the customer charges it to a house account. Your point-of-sale (POS) system will credit the appropriate sales account and then debit accounts receivable for the amount that is owed. (The POS system also will make the necessary entries to cover the sales taxes.)
- When the customer pays the bill, your POS system will credit that amount to accounts receivable and increase your bank account by the same amount. Accounts receivable is lowered to indicate the money is no longer owed to you.
- If the customer doesn't pay for the sale after several attempts at collection, you need to write off the amount. The accounting is similar to when a payment is made except instead of increasing the cash account, the entry goes to bad debt expense. Once again, your POS system should do this for you.

When you write off a bad-debt transaction, the POS system will zero out the non-paying customer's balance so that you won't keep generating statements. This is why you turn the account over for collection. Let someone else spend the time and money to try and collect from the deadbeat.

DELETING THE CUSTOMER

What you don't want to do is delete these customers from your accounts receivable program altogether. Why? To make sure you don't extend credit to the nonpaying customers again. Keep them in your database, but code them as bad-debt accounts so your employees know not to accept any more charges.

Don't hesitate to allow these customers to pay for future orders with cash or credit cards. However, be wary of checks. Chances are that someone who fails to pay your shop once has other credit problems. You don't want to be stuck with a bad check.

NOT SO BAD

Florists incur less bad debt than other retailers. The vast majority of your customers—more than 99%—will pay what they owe.

When you are confronted with a customer who just won't pay, take the steps outlined here. And then move on, secure in the knowledge that at least you won't have too many of these situations.

FAMOUS FINANCIAL WORDS

"In business, the competition will bite you if you keep running; if you stand still, they will swallow you."
—Victor Kiam

"A rich man is one who isn't afraid to make the salesman show him something cheaper."—Jack Benny

"The human species, according to the best theory I can form of it, is composed of two distinct races, the men who borrow and the men who lend."—Charles Lamb

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teleflora.
3737 NW 34TH ST
OKLAHOMA CITY, OK 73112

INQUIRIES & ANSWERS LETTERS

PART-TIME EMPLOYEES

"Why are part-time employees so helpful in keeping payroll expenses under control?"

Let me count the ways.

First is flexibility. Part-time employees can fill in the gaps when you need some help but don't require another full-time employee. Many part-timers also can add a few extra hours during holiday periods. Assuming they are still working less than 40 hours each week, you won't have to pay overtime on those additional hours.

Second is benefits. Part-time workers usually do not qualify for all of the benefits full-time employees receive. Holiday and vacation pay, health insurance and retirement plans are typically not offered until workers reach a certain number of hours per year—usually at least 1,000.

Third is popularity. Many qualified workers prefer part-time employment. They like the flexibility and reduced time commitment.

Most retail florists would be well served by having more part-time than full-time employees.

POST-DATED CHECKS

"Is demanding post-dated checks from past-due accounts a good idea?"

There are both advantages and dangers.

The longer a house account goes without paying, the less likely you are to collect the debt. That's a fact. However, the post-dated check is a serious remedy that shouldn't be tried unless you have a serious problem.

Demanding a post-dated check from a past-due account shows you're serious about collecting what's due. It also gives the customer a chance to prove his good-faith intent to pay. If the customer says he will have money to pay the bill on the 15th, ask for a check now but with that date on it. When the 15th arrives, deposit the check. If the check clears, you've saved some collection hassles. If it doesn't, you can send it back through again later and hope to hit a day when the cash is there.

This collection technique also presents some very real dangers. A basically good customer who intends to pay may take offense. A positive relationship may be damaged. You lose the customer. Demanding a post-dated check shouldn't be your first move. It's more of a last resort. Use it if necessary, but be prepared to lose the customer.

NORMS

FRESH FLOWERS & GREENS COGS

This is the target number for COGS for fresh flowers and greens in arrangements. It's the new target *Floral Finance* is focused on.

In the past, we have always said the do-not-exceed target on COGS for arrangements is 33%. That was made up of 3% for supplies, 5% for the container and 25% for the fresh product.

Over the years we have seen that the cost for the supplies and container is not the problem. Good control of arrangements costs boils down to what you pay for fresh product. So, we have separated the two: fresh product COGS of 25% and supplies/containers COGS of 8%.

Target your fresh purchases at 25% of forecasted fresh product sales, and you'll have this important area of your business under control.

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