SHOP PROFILE page 4:
GOOD CHOICES

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 Do You Sell or Market?

Traditionally, selling was the way to fortune. "Good employees" were those who could convince customers to buy.

Today's customers are sophisticated. They won't be pressured into buying something they don't need. Business success today is about marketing. Customers want to be shown how your product or service meets their needs.

2 Value of Listening

At a time when competition is coming at you from all sides and margins are tight, knowing which products and services are most valued by your customers is imperative.

That's where listening comes in. Whether someone is sharing a compliment or a complaint, listen carefully. Does what you hear give you a clue about how to "plus" your offering?

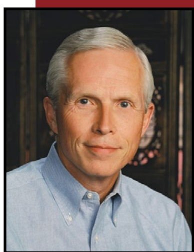
3 Highest and Best

What's the highest and best use of your time? Thinking strategically? Leading your team? Doing what no one else wants to do?

While all of these may have their own value, knowing your customers is your most important assignment. Don't bury yourself in tasks that keep you away from customers. Stay on the front line.

FROM THE PUBLISHERS
OF FLORAL FINANCE®

STEPPING OUT—AND UP



Are you a risk taker? Do you believe that those who risk the most usually achieve the most?

As I observe our society, it looks to me as though America—traditionally the land of the entrepreneur—is growing more and more risk-averse. If that is true, we will ultimately become a second-rate nation on the global scene.

High schools and colleges are practicing "grade inflation." They don't want anyone to fail. In fact, they want everyone to "achieve." So, they give out more As and Bs than in the past.

In youth sports, trophies are handed out to every kid who competes, rather than just to the winners.

When we reward non-achievement or make low-achievers think they are doing well, we stunt them for life. They will never climb as high as they could have if they had been challenged, stretched and held accountable.

The principle is also true in your business. You need to step out and take risks. You won't succeed every time. You may even produce some real goose eggs. But ultimately, you will do better, go further, achieve higher levels of performance and see more profit than if you always choose the safe path.

Don't take risks that could bankrupt you, but do take calculated risks with costs you can absorb if you fail. In the end, you will be glad you stepped out—and up.

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Editor
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Competing in a Low-Growth Market

Tips for Success!

A growing market allows all businesses, old and new, to increase sales without necessarily hurting each other.

A low- or no-growth market creates a different competitive environment. Competition is fierce, because everyone is going after the same customers.

It sounds like a pretty bleak picture. However, there is good news. Even no-growth markets present opportunities for increased sales. Some competitors will succeed, while others will flounder.

Your shop can be one of the winners.

REALITY CHECK

For the average retail florist, the sales future might look a bit grim.

Consider these market characteristics:

1. The population is growing more slowly than in the past.
2. The number of weddings is static, with older couples and those celebrating second marriages using fewer flowers.
3. The number of funerals is steady, while the amount spent on sympathy flowers continues to decline.
4. Holiday volume is still strong but orders are being placed later.
5. Hospital stays for births and surgeries are becoming shorter, leaving a smaller window for hospital deliveries.
6. Although birthday and non-occasion floral gifts are increasing, supermarkets are strong competitors for these sales.

COMPETITIVE EDGE

To succeed in this environment, you must excel. In the past, excellence was often defined by superior products. Today, having the "best" products won't ensure success. Your competitors may have similar products. Often at comparable prices.

Superiority can only come from the way in which you run your business. The difference between winning and losing is in the little things: how good you are at the details of running a retail flower shop. This is the way you gain the competitive advantage.

HOW TO GROW

To grow, you have to do two things. First, you must select the right markets. Second, you must increase your market share.

It takes planning and perseverance. And you have to master both parts of the equation. Doing one without the other won't bring the results you want.

The Right Markets

Your first task is to identify which groups in your area are increasing their

WHAT DO CUSTOMERS WANT?

Your best customers want:

- Time savings
- Value for money spent
- Feeling of importance
- Items to enhance leisure time
- Instant satisfaction
- Simplicity
- Stability
- Product Information

If your goal is competitive superiority, figure out how to meet these needs.

Source: Blackwell Associates

floral purchases. Even in a "down" economy, you will discover some bright spots.

This process is called market segmentation. There are several ways to segment a market. The main ones are:

Geographic (where people live);
Demographic (age, gender, income, etc.);
Behavioral (sports fans, theater fans, etc.);
Volume (how much they spend).

The easiest and best source for increased sales is your present customers. Don't neglect this source of added business. Figure out how to serve them better.

Who is buying from you right now? How old are they? What is their income level? Are they male or female? Where do they live? Do they have needs you are not yet meeting?

Understanding your customers—including what they are buying and for what occasions—will reveal quite a bit about your business. You may find things you are already doing that set you apart.

For example, the traditional retail florist virtually "owns" the sympathy market. True, this market is declining, but most sympathy flowers are bought from retail florists. Why?

Sympathy customers want full floral service. From design through delivery. What's more, they are not particularly price sensitive. They want something impressive and are willing to pay for it.

What other customers might be out there with similar needs and a similar willingness to pay you to meet those needs?

Attorneys are one group. Their clients celebrate or experience all of the occasions you service. Attorneys don't have the time to shop for gifts, but they do have money to pay you to do it right.

Once you've identified a target group (like attorneys), you must next figure out how to make them loyal customers.

Market Share

In a low-growth market, gaining market share means taking business away from other retailers. Floral and non-floral alike. Remember, your competition also includes non-floral gift retailers.

Determine how you can achieve a competitive advantage over other retailers. Can you give better service?

In many cases, flexibility is key. Mail order and online sellers provide a great example of the value of flexibility.

During the day, most people hold down jobs. This leaves few or no daytime hours during which to shop.

Mail-order and e-commerce businesses have responded by giving busy consumers what they need. Easy access. Flexible hours.

It works. The busiest time for mail-order and online sales is in the evening before 10 p.m.

Your website can provide the same flexibility. Customers can place orders with your shop 24/7.

As a retail florist, you also have other advantages. For example, you can promote and provide superior fresh product. With proper chain-of-life procedures,

SERVING YOUR CUSTOMERS

How does your service stack up?

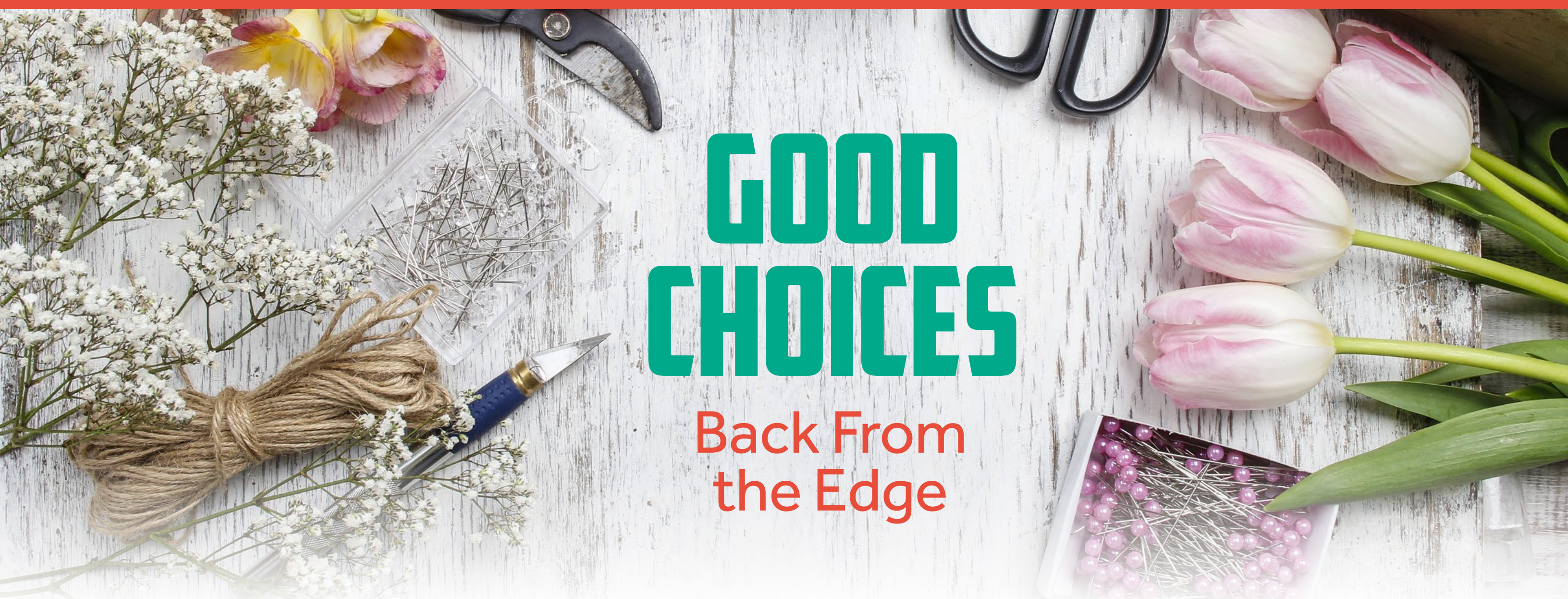
1. **Customers should be more than satisfied.** They should be delighted!
2. **Offer "perfectly outrageous service."** Outrageously good, that is. Identify your top 10 or 20 customers and figure out how to serve them better.
3. **Always say "yes" to customers.** Walmart employees are not allowed to say no to a customer. If they can't say yes to meet a need, they are instructed to take the customer to a manager. Not a bad policy. You should seek to similarly empower your staff to say yes.

you can consistently sell longer-lasting flowers than your non-traditional competitors. Your design skills can set you apart—giving your arrangements an unusually creative style or feel.

SUCCESS!

It is likely that competition will continue to get stiffer in the future. However, some florists will be serving customers' needs long after this generation retires.

Resolve to do whatever it takes to succeed.



GOOD CHOICES

Back From the Edge

Eighteen months passed between the time the owner of this shop gazed over the edge of a financial cliff and when he turned it around. He made some good decisions. And he made them quickly.

Take a moment to look at the shop's "Year 1" numbers on the next page. You'll get an idea of the problem the owner was facing.

His sales were near the magical million-dollar mark. However, a million in sales wasn't so magical in this case. The shop had lost $62,225 for the year.

After working hard all year managing this fairly large retail business, the owner had lost a sizable amount of money.

Clearly, things had to change if the business were to survive.

OUTWARD APPEARANCES

To the outside world, this floral business looked successful. Three locations in a large metropolitan area. A buzz of activity. Lots of employees. Things seemed to be humming.

However, outward appearances don't always tell the whole story. If signs of life—and even growth—abound, only the owner and the business' financial advisors may know that a cancer is eating away at the shop's financial health.

That was exactly the case here.

WHERE TO START

The owner knew his problems were on the expense side of the ledger. Clearly, the shop had plenty of sales. The answer had to lie in one of three areas:

1. **It was costing too much to get the sales.**
2. **Fulfilling the sales had become too expensive.**
3. **Money was seeping through the cracks. The shop's overhead was too high.**

The owner eliminated the first possibility right away. Advertising expense was a comfortable 2.9% of sales. Not at all exorbitant.

Closer examination showed that the shop's cost of goods sold (COGS) was also acceptable. The shop's overall gross profit was sitting at 73.6%. The design room was controlling costs well.

In fact, arrangement COGS was 24.3% for the year. If anything, that was a little low. When COGS for arrangements slips below 28%, you need to be careful. Unless you are buying extremely well, you probably are not giving your customer good value.

A PEOPLE PROBLEM

The main culprit was payroll expense. In Year 1, this shop spent $417,923 on payroll. A whopping 43.4% of every sales dollar.

Too many designers. Too many salespeople. Too many managers. Just plain too many people.

The industry target for payroll expenses (wages, payroll taxes and employee benefits) is 30% of sales. To hit this target, the shop's payroll needed to be lowered by almost a third.

The shop's facilities expense was the second area that was out of line. Facilities expense should not exceed 10% of sales. Most florists can keep it around 8.5%. This shop's facilities expense was at 15.1%. Another big item that needed to be cut by at least a third.

REVIEW EACH LOCATION

Because the owner kept separate financial statements for each of his three locations, he could tell exactly how each was performing.

One way for a multi-shop operation to cut expenses is to close one of the locations. However, that's not always an easy or even good decision.

First, the owner must determine whether shutting a particular location will help. If the location is making money, closing it will actually hurt the business.

To effect change for the better, the location to be shut down should be showing a net loss. In this case, one money-losing location was quickly identified.

SAMPLE INCOME STATEMENT FROM AN AVERAGE SHOP

	Year 1		Year 2		Difference	
PRODUCT SALES	Dollars	Percent	Dollars	Percent	Dollars	Percent
Loose Flowers	$ 20,633.44	2.1%	$ 33,354.43	4.8%	$ 12,720.9	61.7%
Arrangements	603,238.36	62.6	435,982.92	63.0	–167,255.44	–27.7
Green Plants	157,048.92	16.3	95,830.81	13.8	–61,218.11	–39.0
Blooming Plants	7,921.20	0.8	11,522.80	1.7	3,601.60	45.5
Balloons	15,287.60	1.6	8,716.04	1.3	–6,571.56	–43.0
Silks/Gifts	61,351.88	6.4	32,238.19	4.7	–29,113.69	–47.5
Returns	–929.68	–0.1	–1,279.07	–0.2	–349.39	37.6
Total Product Sales	**$864,551.72**	**89.7%**	**$616,366.12**	**89.0%**	**$ –248,185.60**	**–28.7%**
NON-PRODUCT SALES						
Service Charge	$ 25,876.43	2.7%	$ 12,207.07	1.8%	$ –13,6699.36	–52.8%
Wire-Out Commission	46,676.26	4.8	33,399.64	4.8	–13,276.62	–28.4
Wire-In Commission	–51,189.27	–5.3	–29,760.87	–4.3	21,428.40	–41.9
Rebates	6,689.43	0.7	9,933.92	1.4	3,244.49	48.5
Wires Total	**$ 28,052.85**	**2.99%**	**$ 25,779.76**	**3.7%**	**$ –2,273.09**	**–8.1%**
Delivery	$ 62,88.90	6.5%	$ 48,301.40	7.0%	$ –14,597.50	–23.2%
Miscellaneous	8,511.85	0.9	1,826.73	0.3	–6,685.12	–78.5
Total Non–Product Sales	**$ 99,463.60**	**10.3%**	**$ 75,907.89**	**11.0%**	**$ –23,555.71**	**–23.7%**
TOTAL SALES	**$964,015.32**	**100.0%**	**$692,274.01**	**100.0%**	**$ –271,741.31**	**–28.2%**
COST OF GOODS SOLD						
Loose Flowers	$ 10,316.72	50.0%	$ 16,677.22	50.0%	$ 6,360.50	61.7%
Arrangements	146,337.83	24.3	126,871.03	29.1	–19,466.80	–13.3
Green Plants	65,022.08	41.4	31,624.17	33.0	–33,397.91	–51.4
Blooming Plants	2,574.53	32.5	3,687.30	32.0	1,112.77	43.2
Balloons	2,394.20	15.7	2,614.81	30.0	220.61	9.2
Silks/Gifts	27,953.73	45.6	11,928.13	37.0	–16,025.60	–57.3
Total Cost of Goods Sold	**$254,599.09**	**26.4%**	**$193,402.66**	**27.9%**	**$ –61,196.43**	**–24.0%**
GROSS PROFIT	**$709,416.23**	**73.6%**	**$498,871.35**	**72.1%**	**$–210,544.88**	**–29.7%**
EXPENSES						
Advertising	$ 28,228.90	2.9%	$ 14,537.75	2.1%	$ –13,691.15	–48.5%
Facilities	145,144.04	15.1	94,149.27	13.6	–50,994.77	–35.1
Telephone/Dove	19,115.28	2.0	17,306.85	2.5	–1,808.43	–9.5
Payroll	417,923.60	43.4	233,988.62	33.8	–183,934.98	–44.0
Interest	10,414.31	1.1	15,922.30	2.3	5,507.99	52.9
All Other Expenses	150,815.32	15.6	98,302.91	14.2	–52,512.41	–34.8
Total Expenses	**$771,641.45**	**80.0%**	**$474,207.70**	**68.5%**	**$ –297,433.75**	**–38.5%**
NET PROFIT	**$–62,225.22**	**–6.5%**	**$ 24,663.65**	**3.6%**	**$ 86,888.87**	

COMMIT TO MAKING MONEY

The owner decided to get serious about making the business profitable.

We all know you can't have a bottom line without a top line. Sales are important. Revenue is where profit starts.

Sometimes, however, the revenue comes at too high a cost. It is better to forgo it and save even more expense.

This owner decided he would rather have a profitable operation with $700,000 in sales than an unprofitable one doing more than $1 million. So he closed the unprofitable location.

The decision to make money—regardless—was the turning point. From then on, all of his decisions were based on what was good for the financial health of the business.

DRAMATIC RESULTS

To become profitable, shops must:

- Control arrangement COGS;
- Increase productivity and cut unnecessary payroll;
- Close losing locations or operations;
- Trim overhead expenses;
- Focus on increasing profitable business, rather than just getting any sale.

The financial statement shows what happened once this owner decided to be profitable.

In Year 2, the shop realized a profit of $24,663. An $86,889 increase in the bottom line despite a $271,741 decrease in sales. That's an A+ performance.

continued on next page

 continued from page 5

LET'S BACK UP A MINUTE

With all of this talk about closing a losing location, sometimes there's another option. Turning a losing location into a profitable one.

Begin by figuring out what is causing the loss.

Is it a structural issue—like a declining neighborhood or exorbitant rent? If so, you may not be able to salvage the location.

If it is an operational issue—like overly high labor or COGS—the fix could be relatively easy.

Make sure you've covered all the bases before you make your move.

GOOD FORECASTING REQUIRED

When a retail location or greenhouse is closed, one thing is certain: Sales will fall.

It is essential to estimate, as closely as possible, the size of that decrease because expenses must be cut by that much—and more—to see positive results.

When you close a location, some expenses disappear automatically. You'll no longer have the rent, utilities, product costs and other overhead items associated with the closed location.

Labor is another matter. Employees from the closed location can't just be shuffled to other parts of the business. You will have to let some people go.

You must also determine the impact of the closing on the rest of the business.

For example, this owner had been fulfilling incoming wire orders for all three locations at the main store. When he closed the shop in a neighboring town, he had to adjust for fewer incoming wire orders being filled at the main store.

However, the owner also took steps to maintain as much of the volume of the closed shop as possible. This included rerouting the closed shop's phone numbers and continuing to market to good customers from that location.

DON'T STOP THERE

Closing one location and making initial adjustments was only one race won. For this (and every) shop, the game continues!

Don't slow down before the job is done. Other areas probably need attention. Analyze what changes you can make to maximize productivity in every facet of your business.

Check design room process and procedures. Look at your delivery efficiency. Office help. Sales staffing. And last but not least, review the management structure.

TO BE CONTINUED

Even though this shop staged a dramatic turnaround, there is more to do. The business' profitability is still not up to industry standards.

Payroll and facilities expenses remain too high.

Profitability in Year 2 was 3.6% of sales. If facility costs could come down to the industry standard of 10%, the shop would add another 3.6% to the bottom line. Another 3.8% would come from getting payroll down to the 30% goal. The result of both changes? A net profit of 11%. A very respectable figure.

FACTORS TO CONSIDER

We present shop profiles to show how certain owners tackle and solve common operational problems.

The problems florists face are common to all. Even though the particulars of your situation may differ, the same principles apply.

ANALYZE WHAT CHANGES YOU CAN MAKE TO MAXIMIZE PRODUCTIVITY IN EVERY FACET OF YOUR BUSINESS.

This shop is the perfect example. Poor profitability is almost always linked to one or more of the three items:

1. **Excessive arrangements COGS;**
2. **Payroll that is higher than necessary;**
3. **Out-of-control facilities expense.**

If you are facing profitability problems, analyze these three items first. Take the action necessary to get them in line. Then, you'll have a strong base to work from.

FAMOUS FINANCIAL WORDS

"A budget is a method of worrying before you spend instead of afterwards."—Anonymous

"At some time in the life cycle of virtually every organization, its ability to succeed in spite of itself runs out."—Richard H. Brien

"Money doesn't always bring happiness. People with 10 million dollars are no happier than people with 9 million dollars."—Hobart Brown

SUCCESSION SERIES

KEY ISSUES IN SUCCESSION PLANNING

Passing your business along to your child(ren) may seem like a natural thing to do.

It may be natural—but it isn't necessarily easy.

Once you've settled on the goals you hope to accomplish in the transition, you need to address several critical factors that will determine the business' future success.

THE FUTURE OF THE BUSINESS

It's a harsh world out there. Markets are continually evolving. Competitors come and go. The speed of change is faster than ever. The factors you need to consider include:

1. **How effectively you are competing.**
2. **Whether anything on the horizon threatens the shop's survival.**
3. **How you can better employ technology to protect and grow your position in the marketplace.**

Fortunately, family businesses have the benefit of being small and autonomous. They can be nimble. Changes can be made with little, if any, red tape.

THE WHO OF SUCCESSION

Successfully transitioning the business to your children requires, first, that the children actually want to run the business. However, desire alone is not enough. They also must be capable of assuming the leadership.

Make a plan to develop your children's skills to a level that will be equal to the management needs of your business.

You also need to consider timing. Do your retirement timeline and the growth of your children's leadership abilities line up?

THE WHO OF DECISION-MAKING

How will decisions be made in the future? You must set up the organization in such a way that the new leaders will be accountable for their actions.

In a business, it's usually the lack of money that brings stress. As a result, money can easily become the focal point of many succession plans.

If the business is large enough and several family members are involved, establish a system for resolving conflict. Who has final authority? Without a mechanism for making decisions, anarchy or civil war can easily break out. An inability to resolve conflicts may doom the business to failure and the family to dysfunctional relationships.

FAMILY HARMONY

Ideally, all family members should be moving along together toward the same goals and objectives.

However, even in a loving family and well-organized family business, conflicts are inevitable. It's human nature. Every family is dysfunctional to some extent. There are no perfect children, and there are no perfect parents.

Agreeing in advance on family/business values, purposes and goals will go a long way toward reducing potential points of conflict. So will understanding and forgiveness when mistakes are made.

MONEY, MONEY, MONEY

The Bible does not say that money is evil; it suggests that the love of money is the root of the problem for most individuals.

In a business, it's usually the lack of money that brings stress. As a result, money can easily become the focal point of many succession plans.

What sums will the parents get? How much will the children be paid? How much will actually be passed along after paying the required taxes? How much money does the business need to succeed and grow? To deal with all of these money issues, you need to develop a detailed plan in advance.

Succession planning is not an easy task. The necessary planning and training will require time. You can't skip anything. Each step is an important part of the process.

The next five articles in this series on succession will look at the various issues in more detail. We will start next month with the initial challenge of building a business that is worth passing along—a business that meets your objectives and creates the desired opportunities for your children.

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Inquiries & Answers
LETTERS

MEETING EXPENSES

"When I attend industry meetings or conventions, what charges can I deduct legally as business expenses?"

Most of them.

You are entitled to claim all travel, lodging and meal expenses for business-related meetings or conventions. You can also claim incidentals, such as tips and cab fares.

Be aware, however, that while all meal and entertainment expenses can be claimed, only 50% of their value can be deducted for tax purposes. And you'll want to keep your receipts. They are required for anything over $25.

A spouse's expenses also can be deducted, provided he or she is an employee of the company or on your board of directors. In some cases, the extra charge for a spouse will be nothing. Most hotels, for example, charge the same for single and double occupancy.

Adding a few days on the front or back end or taking side trips is a different matter. Those costs are not deductible. And if the trip is more for pleasure than for business, you'll fall under a different set of rules. In that case, you will have to pick up a portion of the transportation as well. Check with your accountant if there's any question about your particular situation.

DELIVERY VEHICLES

"What's the best type of delivery vehicle for florists?"

That depends on your needs.

The marketplace is full of different vehicle options. Fuel-efficient minivans are a good choice for many retail florists, although some still prefer the flexibility and space of a traditional full-sized delivery van.

Our most recent analysis shows that the cost of fuel can be higher than the cost of the van when calculated on a per-delivery basis. Consequently, fuel efficiency is an extremely important consideration.

But you need to consider all of the variables, including price, fuel economy, operating costs, load requirements and vehicle warranties.

Though the United States and Canada have experienced low gasoline prices recently, that won't last forever. Buy your vehicle with the idea that fuel costs will go back up to where they have been.

NORMS

INTERNET USE

As of the end of 2014, nearly 87% of American adults used the internet. That's up from 14% in 1995 when the Pew Research Center first began conducting research on the adoption of new communication technologies.

Furthermore, in 1995, 42% of American adults said they had never even heard of the internet. Today, the vast majority enjoy the benefits of the internet on a daily basis. That's a significant change in a relatively short period of time.

Source: Pew Research Center

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