COMPETING IN A LOW-GROWTH MARKET
SUCCESS IS POSSIBLE page 2

FINANCIAL INFORMATION, EDUCATION & CONTROL

Floral Finance®

teleflora®

MAY 2023
VOLUME 42, ISSUE 5

INSIDE THIS ISSUE

QuickTakes

Ideas You Can Put to Work Immediately

1 Sell or Market

Today's customers are sophisticated. They won't be pressured into buying something they don't need from a salesperson. (Just think of how quickly you—and most people—hang up on sales calls!)

However, customers love to see how your product or service meets their needs. Indeed, florists have a unique value proposition.

That's what marketing is all about. Be a marketer, not a salesperson.

2 Listening

When the competition is coming at you from all sides—and margins are deteriorating—you must focus on the products and services your customers most value.

That's where listening comes in. Whether it is a compliment or a complaint, listen carefully to each customer. What point is she trying to make? Do his words give you a clue on how to "plus" your offerings?

Your customers will tell you what they want. Listen to them.

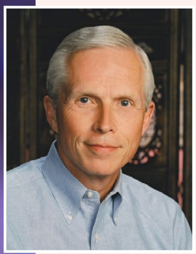
3 Highest & Best

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

All are important. But knowing your customers is the most important job of all. Don't bury yourself in work that takes you away from customers. Stay on the front line. At least part of every day.

FROM THE PUBLISHERS
OF FLORAL FINANCE®

MISTAKES ARE GOOD FOR YOU



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

I think America—historically, the land of entrepreneurs—is becoming more risk averse. If that is true, we ultimately will be a second-rate nation.

High schools and colleges too often practice “grade inflation.” They don’t want anyone to feel like they are failing or feel left behind. They want everyone to achieve. So, they give out more As and Bs than they used to. Whether the student really earned that grade or not.

A similar principle prevails in youth sports. Everyone who competes gets a trophy. Not just the winners.

When we reward and make low achievers think they are doing well, we cripple them for life. They will never climb as high as they could have.

Resist succumbing to the tendency to let things be status quo. Don’t settle for a “participation trophy.”

As a business owner, you need to set high standards. Step out of your comfort zone and take risks.

You won’t succeed every time. But you will go further, perform better and achieve higher returns than you would if you took the safe path.

Of course, don’t take crazy risks that could bankrupt your company. Do take calculated risks with costs you can absorb should you fail.

In the end you will be glad you did.

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On the cover: Teleflora’s *Colors of the Rainbow*

COMPETING IN A LOW-GROWTH MARKET

SUCCESS IS POSSIBLE

Looking ahead, retail florists may see a grim future for sales. Consider these six market realities:

1. The population is growing more slowly.
2. The number of weddings is flat, with second marriages and older couples using fewer flowers.
3. The number of funerals is flat, and the amount spent on sympathy flowers continues to decline.
4. Holiday volume remains strong, but customers are placing their orders later.
5. Hospital stays for births and surgeries are shorter, leaving a smaller window for hospital deliveries.
6. Although birthday and non-occasion floral gifts are increasing, supermarkets have captured a good share of this market.

COMPETITIVE EDGE

In a growing marketplace, all businesses—old and new—can increase sales without necessarily hurting each other.

A low- or no-growth marketplace creates a different environment. Competition between outlets is stronger. Everyone is going after the same customers.

However, there is good news.

YOU COMPETE WITH ALL GIFT RETAILERS, NOT JUST OTHER FLORISTS.

YOU CAN SUCCEED

Even no-growth markets present opportunities. Some competitors will succeed, while others will flounder.

To succeed, you must excel. In the past, excellence was often defined by superior products or lower prices.

Today, having the “best” products doesn’t ensure success. Your competitors probably have similar products. Often at comparable prices.

Superiority comes from the way you run your business. In today's world, the difference between winning and losing is in the little things. How well you manage the details of running a retail flower business.

HOW TO GROW

Two essentials will enable your business to grow.

First, targeting the right customers.

Second, increasing your market share.

It's a tall order. Both steps take planning and perseverance. And doing one without the other won't produce the desired results.

TARGET PRACTICE

The goal here is to identify which groups in your area are increasing their floral purchases. Even in a "down" economy, there will be some bright spots.

It's called market segmentation. The primary ways to segment a market are:

- **Demographic**—Age, gender, income, etc.
- **Geographic**—Where people live.
- **Behavioral**—Sports fans, theater fans, etc.
- **Volume**—How much they buy from you.

Look at your present customer base. For example:

- Who is buying right now?
- How old are they?
- What is their income level?
- Are they male or female?
- Where do they live?

Targeting present customers is the easiest and best way to increase sales. Determine how you can serve them better. What needs are you presently not meeting?

Understanding your customers will tell you quite a bit about your business. What unique needs are you meeting? What sets you apart?

One area traditional retail florists virtually "own" is the sympathy market. True, sympathy sales are declining, but florists still sell almost all sympathy flowers.

Sympathy customers have so many things on their mind. They need full-service assistance. From design through delivery. What's more, they are not particularly price sensitive. They want something impressive, and they are willing to pay for it.

What other customer types have a similar profile?

Attorneys are one group. Their clients celebrate and experience all the occasions you service. Lawyers don't have the time to shop for gifts. But they do have money to pay you to do the work for them.

> IN TODAY'S WORLD, THE DIFFERENCE BETWEEN WINNING AND LOSING IS IN THE LITTLE THINGS.

Once you've identified a promising market segment, your next task is to turn them into loyal customers.

INCREASING MARKET SHARE

This means taking business away from other retailers. Floral and non-floral, alike. After all, you compete with all gift retailers, not just other florists.

WHAT DO CUSTOMERS WANT?

- ✔ Time savings
- ✔ Good value for the money
- ✔ Feelings of importance
- ✔ Solutions to enhance their leisure time
- ✔ Instant satisfaction
- ✔ Simplicity
- ✔ Stability
- ✔ Product information

Source: Blackwell Associates

How can you achieve a competitive advantage? Better service and greater flexibility are often the answer.

Online sales are a great example.

During the day, most people hold down jobs. This leaves few daytime hours in which to shop.

Online ordering gives these busy consumers what they need. Easy access. Twenty-four hours a day.

For non-floral marketers, competitive superiority rarely involves product superiority. However, retail florists have an opportunity here.

Proper chain-of-life procedures mean a longer-lasting product. Plus, your design creativity can set you apart with an appealing style or feel.

'YOU KNOW IT DON'T COME EASY'

In the future, competition will only get stiffer. However, retail florists will be serving customers' needs for generations to come.

Resolve to do whatever it takes to be successful. It will require hard work and planning. But that won't matter. Winners love to work hard.

SERVING YOUR CUSTOMERS

How does your service stack up against these standards?

- Customers should not just be satisfied. They should be delighted!
- Give customers "perfectly outrageous service." Outrageously good, that is.
- Identify your top 10 or 20 customers and figure out how to serve them better.

Always say "yes" to customers. Walmart employees are instructed to never say "no" to a customer. If they can't personally meet a need, they take the customer to a manager who can. Not a bad policy.

Shop Profile

Tough Choices

Back From the Dead

It took 18 months for this owner to turn his business around. There's still work to do. But he is no longer gazing over the edge of a financial cliff.

To get to this point, he made a bunch of good decisions. And he made them quickly.

The "Year 1" numbers on the table at right give an idea of what he was facing. Sales were near the magic million-dollar mark. However, the business had lost $62,225. If things didn't change, the business would fail.

OUTWARD APPEARANCES

To the outside world, this business looked successful. Three retail locations in a large metropolitan area. Lots of activity. Lots of employees.

But outward appearances don't always tell the whole story. Certainly not in this case.

> Deciding to do whatever it takes to make money is a turning point for most florists.

WHERE TO START

The owner knew expenses were his biggest problem. He had plenty of sales.

To be more specific, the trouble had to lie in one of three areas:

1. They were spending too much to get the sales.
2. Fulfilling sales had become too expensive.
3. Money was seeping through the cracks due to excessive overhead.

The owner eliminated the first problem right away. The shop's advertising expense was a comfortable 2.9% of sales. Not at all exorbitant.

Nor was cost of goods sold (COGS) out of whack.

Overall gross profit was at 73.6%. The design team was controlling arrangement costs well. In fact, arrangement COGS (including containers and supplies) was only 24.3% for the year—if anything, a little lower than it might have been. (If Arrangement COGS slips below 28%, you need to be careful. Unless you are buying extremely well, you probably are not giving customers good value.)

A PEOPLE PROBLEM

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

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

The industry target for payroll expenses (wages, payroll taxes and employee benefits) is 30%. To hit the target, the owner needed to cut payroll by almost a third.

Facilities expense was the second problem area. This category should not exceed 10% of sales, and most successful shops keep the number around 8.5%. So, with a 15.1% facilities expense, the owner also had to make substantial cuts in this area.

REVIEW EACH LOCATION

Because the business kept separate financial statements for each location, it could tell exactly how each one was doing.

One option was to close a location. However, that's not always an easy or good decision.

The first question is whether shutting a particular location will help. If the location is profitable, closing it will be counterproductive.

To effect a change for the better, any location selected to be shut down should be losing money.

In this case, the owner quickly saw he had one money-losing location.

DETERMINING TO MAKE MONEY

Revenue is where profit starts. To put it another way, you can't have a bottom line without a top line.

Sometimes, however, that revenue comes at too high a cost.

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

Deciding to do whatever it takes to make money is a turning point for most florists. From that point on, the owner can base all decisions on what will improve the business' financial health.

DRAMATIC RESULTS

To become profitable, an owner must:

- Control COGS for arrangements
- Increase productivity and cut unnecessary payroll
- Close losing locations or operations
- Trim unnecessary overhead expenses
- Work to increase profitable sales, not just any sales

This shop's results show what can happen when an owner gets serious about profitability.

In Year 2, profits rose to $24,663. That's an $86,889 increase in the bottom line, despite a $271,741 decrease in sales.

An A+ performance.

GOOD FORECASTING IS A MUST

Sales inevitably fall when you close a retail location or greenhouse operation.

To see positive bottom-line results, the owner must reduce expenses by

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%	$ 12,720.99	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%	$ -13,669.36	-52.8%
Wires-Out Commission	46,676.26	4.8	33,399.64	4.8	-13,276.62	-28.4
Wires-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**	**2.9%**	**$ 25,779.76**	**3.7%**	**$ -2,273.09**	**-8.1%**
Delivery	62,898.90	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 COGS	**$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 Oher 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**	**-298.3%**

more than the amount of the lost revenue.

Some expense reductions (rent, utilities, product costs and overhead) will be automatic.

Reducing labor is essential. Employees who have been working at the closed location shouldn't just be shuffled to another part of the business.

And watch for other unintended effects.

For example, this owner fulfilled incoming wire orders for all three locations at the main store. Because the closed location was in a neighboring town he could no longer serve, he had to plan for fewer incoming wire orders being filled at the main store.

It's always smart to try to maintain at least some of a closed shop's sales. Perhaps by capturing the shop's online customers or forwarding the shop's phone number to another location. Or continuing to market to that location's best customers.

DON'T STOP

This operation's excessive payroll wasn't limited to one location.

Completing the expense reductions will require action in every part of the business: design, delivery, office, sales and even the business' management structure.

TO BE CONTINUED

Although this operation has made a dramatic turnaround, its profitability is still not up to industry standards.

Facility costs and payroll remain too high.

Year 2 profitability was 3.6% of sales. If the owner can reduce facility costs to the 10% industry standard, that will add another 3.6% to the bottom line. Another 3.8% could come from getting payroll down to 30%.

Result? A net profit of 11%. A very respectable figure.

WHAT TO CONSIDER

Floral Finance presents shop profiles to show how certain owners approach key operational issues.

These shops' problems are common to all florists. Although your situation will differ in certain respects, the same principles apply.

Poor profitability is almost always linked to one or more of three items:

1. Excessive arrangement COGS
2. Higher-than-necessary payroll
3. Out-of-control facility expenses

If you are having profitability problems, check these areas first. Then, take the actions necessary to get them in line.

Let's Back It Up a Minute

Before closing a losing location, try to turn it into a profitable one.

Start by figuring out what is causing the loss. Is it a structural issue—such as a declining neighborhood or exorbitant rent? Or do you have an operational problem—too much labor or out-of-control COGS?

Operational issues may be easy to fix. Structural? Not so much. Just remember, "surgery" may not be the best answer. Consider all the bases before you close a location.

Key Issues in Succession Planning

Passing a family business on to your children might seem like a natural and easy "next step." However, success is far from guaranteed.

Family businesses are small and autonomous. They can be "quick on their feet"—making needed changes without delay or red tape.

However, it's a harsh world out there. Markets grow and evolve. Competitors come and go. The speed of change is faster than ever.

Before you pass the business down, consider how well you are currently competing and any risks on the horizon that threaten your survival.

THE 'WHO' OF SUCCESSION

For a successful intergenerational transition, the children must want to inherit the business. But desire is not enough. They also must be capable of assuming leadership.

Your succession plan must prepare and develop your children to lead. It must help them build skills that are equal to the management needs of your business.

And don't forget the timing factor. Does your planned retirement date align well with the children's leadership abilities?

WHO'S IN CHARGE?

How will decisions be made in the future?

If several family members are involved in the business, your plan should include a system for resolving conflicts. The alternative is anarchy or family warfare.

Unresolved conflicts can doom the business to failure and the family to dysfunctional relationships.

KEEPING THE FAMILY HARMONIOUS

You also want all family members moving together toward shared goals and objectives.

There are no perfect families. No perfect children. No perfect parents. Conflict between family members is unavoidable. And every family is dysfunctional to one degree or another.

Agreeing in advance on values, purposes and goals will go a long way toward promoting harmony and ensuring success.

MONEY, MONEY, MONEY

The Bible does not say that money is evil. It's the **love** of money that is the root of the problem.

In a business, the **lack** of money brings stress. Family money matters can be especially complicated.

How much money will the parents get? What will the children be paid? How will taxes disrupt your plans? How much capital does the business need to succeed and grow?

Again, having an understanding and agreement in advance is crucial.

Succession planning is not easy. It takes planning, training and time.

In the next five months, we will look at all the issues in detail, starting with the challenge of building a successful business. One that can meet your objectives and create opportunities for your children.

Handling an Audit | Keep Your Cool

You go out to your mailbox. You see an official-looking letter. The return address says "INTERNAL REVENUE SERVICE." Inside, the letter informs you that the IRS has scheduled an audit of your tax return.

The letter gives the audit's date, time and location (usually your business address), along with the name of the agent and the areas that will be audited.

You feel like you've been called to the principal's office. Or that you are guilty until you can prove your innocence.

WHAT'S INVOLVED

An audit could focus on your personal tax return, your business return or even that of a qualified profit-sharing plan you have.

The letter will list the items the auditor wants to see. The good news is that the list is probably a generic, computer-generated form. Not all the items will apply to you. However, it will outline the scope of the records you will have to dig up.

WHY ME? WHY THAT YEAR?

Although some audits are done by random selection, most are the result of a computer "seeing" something questionable on your return. An entry that is out of the norm. Or a dramatic change from your previous returns.

For example, suppose that you have always given little or nothing to charity. Then, one year you donate 10% of your income. That might raise a flag.

Same result if your business travel expenses triple from one year to the next. The IRS may want to know why.

Whatever the reason, once you are selected, there's nothing you can do about it.

GET HELP

Get your CPA involved in the audit. The cost will probably be less than if you do it yourself.

Audits often expand beyond the original issue. For example, an auditor may request a business' tax returns for the previous two years plus the owner's personal tax returns for the same periods.

You might call it a fishing expedition. The IRS would say it is just trying to establish "trends and consistency." Either way, the audit will be much broader than you first think.

"I know more about the business than my CPA does. Doesn't it make more sense for me to meet with the auditor and answer any questions?"

The auditor would answer yes.

And that is precisely why you should enlist your CPA's services. You know too much. You aren't experienced in sticking to the issue. You'll undoubtedly open more doors than you should.

Let your CPA do the talking. You probably shouldn't even be there. Request that the location of the meeting be changed from your business to the IRS local office or the CPA's conference room.

You want to cooperate, but you don't want to inadvertently bring up other non-related issues.

Your CPA has been through this many times with other clients. Tap into all that experience and expertise. It could save you a lot of time trouble and money in the long run.

GOOD PEOPLE … BAD PEOPLE

Most IRS agents do not sport a tail or carry a pitchfork. They are employees. They might live in your neighborhood. Their children might be your kids' classmates.

The real villain is the IRS Code. Congress is responsible. The agent can't change a thing. So, treat the agent with respect.

If you say anything negative about the audit or tax code, make sure the agent knows it's nothing personal. You are venting your frustration at the system.

Be prepared. Be smart. And be pleasant. You'll feel better, and the process will go much more smoothly.

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 ten million dollars are no happier than people with nine million dollars. —*Hobart Brown*

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INQUIRIES & ANSWERS

Letters

MEETING EXPENSES

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

Most of them.

You are entitled to claim all travel, lodging and meal expenses for business-related meetings or conventions. You also can claim incidentals such as tips, shuttles, ridesharing charges and cab fares. Receipts are required for any expense over $75.

Adding a few days at the front or back end of the meeting or taking side trips are different. Those costs are not deductible. And if you spend more time on pleasure than on business, you'll fall under a different set of rules that requires you to pick up a portion of the transportation as well.

A spouse's expenses can be deducted if he or she is an employee of the company or on the board of directors. If not, you'll have to cover your spouse's charges personally. Fortunately, many hotels charge the same rate for single and double occupancy. So, the hit may not be too bad.

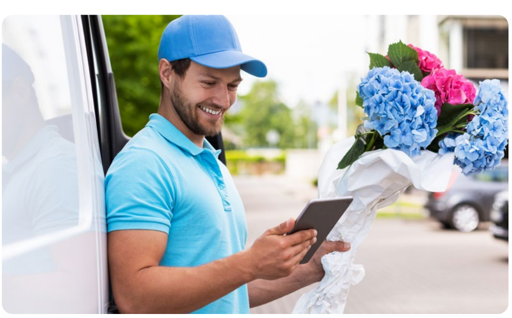
Check with your accountant if you have any specific questions.

DELIVERY VEHICLES

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

That depends on your needs.

The marketplace is full of delivery vehicle options. As you make your choice, factor in all the variables—price range, fuel economy and load requirements.



Fuel-efficient minivans are a good choice for most retail florists (although many still prefer traditional, full-size delivery vans).

Our most recent delivery cost analysis shows that fuel costs are higher than the cost of the van on a per-delivery basis. Consequently, fuel efficiency is an especially important consideration.

NORMS

INTERNET USE

By the end of 2022, nearly 93% of American adults were using the internet. That's up from 14% in 1995, when the Pew Research Center began public opinion polling on the adoption of new communication technologies.

While 42% of American adults in 1995 said they had never even heard of the internet, Pew's analysis shows that the vast majority now enjoy its benefits on a daily basis.

Source: Pew Research Center

FLORAL FINANCE is published 12 times a year by Teleflora LLC

Annual subscription rate is $89.95 domestic and $129.00 (Canadian) in Canada.

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