Paying Yourself
HOW? HOW MUCH? page 2

41 YEARS
FINANCIAL INFORMATION, EDUCATION & CONTROL

Floral Finance®

teleflora®

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INSIDE THIS ISSUE

QuickTakes

Ideas You Can Put to Work Immediately

1 Sell Your Holiday Specials

The best way to get your Thanksgiving and Christmas specials moving is to put samples within your phone salespeople's view. They'll be able to describe each design more colorfully.

Another idea: Set up an incentive program. Give the sales staff a 50¢ bonus for every special arrangement sold.

2 Steal & Improve

Stealing competitors' ideas? Sounds crass, doesn't it?

But that was a regular tactic for Sam Walton, founder of Walmart.

Walton regularly visited competitors' stores. He walked the aisles looking for anything those stores were doing better than his. Merchandising. Pricing. Processes.

When he saw a good practice, he took the idea, improved on it and put it into place in his stores.

Visit your competition and other retailers. Learn and improve.

3 Your Brand

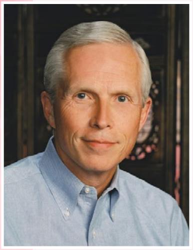
A good brand image helps you build loyal customers.

Think of your shop as a brand you need to promote. The more your products and services meet customers' needs, the stronger your brand will be.

With a strong brand, you can compete effectively, even if your prices are higher than other shops.

FROM THE PUBLISHERS
OF FLORAL FINANCE®

RESPONSIBILITY



Are you a responsible person and business owner? Do you have employees who are responsible people and workers?

Responsibility is a choice. By choosing it, you proactively commit to live and work by two principles:

1. I am accountable for my behavior.
2. I can make my life—and the lives of others—better today and in the future by being responsible and making good decisions.

Seems simple enough. But responsibility has intricate dimensions that define it. In practice, responsible people must answer two questions:

1. To whom am I responsible?
2. For what am I responsible?

Answers to these questions boil down even further to more fundamental questions. Why am I here? What am I trying to accomplish?

Owners and employees have responsibilities to themselves, their loved ones, each other, the shop's customers and to the shop itself. Conflicts are likely to arise when trying to balance all these responsibilities.

You are the leader. Lead by example. Let employees know they have a choice about how they will act, work and treat people. You may not be able to help them in every avenue of their lives, but you can assist when it comes to their work.

Spreading the message of responsibility will take a load off your shoulders. You'll build an enlightened team that is motivated to work with a sense of pride and responsibility.

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On the cover: Teleflora's *Gleaming Autumn Bouquet*

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PAYING YOURSELF

Flower shop owners must answer many questions. Two of the most important involve their own compensation:

1. **How should I pay myself?**
2. **How much should I earn?**

There are basically two approaches to owner compensation: owner's draw and as an employee. Each has its pluses and minuses.

OWNER'S DRAW

The first option—an "owner's draw"—is a pretty simple system. That's its major attraction.

Whenever you need or want money, you write yourself a check and code it to an owner's draw account in the capital section of the balance sheet. No deductions are required for taxes, benefits or anything else.

In a small business (whether a sole proprietorship, partnership, LLC or Sub-S corporation), all profits are passed on to you as the owner as income at the end of the year. You include that income on your tax return. The business itself is not taxed on the profits.

An owner's draw allows the owner to take a portion of the anticipated profits before year-end.

AS AN EMPLOYEE

The second compensation option also is simple. Put yourself on the payroll. Set your salary. Cut yourself a paycheck every pay period. Just as you do for the other employees.

With this approach, you withhold the appropriate payroll taxes from each check. At the end of the year, you issue yourself a W-2 along with the rest of your employees.

The owner's salary and payroll taxes are expenses that reduce the company's profit for the year.

Any remaining profit is passed on to you at year-end for inclusion on your individual tax return.

Although the owner's total "take" is virtually identical with each system, some differences in the two methods exist—both monetary and practical.

PAYROLL TAXES

When a company owner is on a salary, required payroll taxes are deducted:

- 7.65% for FICA and Medicaid for the employer
- 7.65% for FICA and Medicaid for the employee

That's 15.3% in total employee and employer payroll taxes. The

company can deduct its 7.65% share as an expense.

Self-employed owners who take draws instead of a salary must report and pay the same 15.3% in FICA and Medicaid on their personal income tax returns. And they can deduct half of that total as an expense.

Bottom line? No difference in payroll taxes.

RETIREMENT & MEDICAL BENEFITS

Not much difference here either. Although the formats differ, qualified retirement plan options are available to all owners, no matter which payment method they choose.

On the medical front, all owners can expense and deduct insurance premiums also from income, regardless of how the business is organized.

UNEMPLOYMENT INSURANCE

Here's the first meaningful difference between being paid by an owner's draw versus as an employee.

Neither states nor the federal government require unemployment insurance on owners who are not salaried employees.

If the owner does take a salary, the company must pay his/her unemployment insurance premiums—the same as for any other employee.

How much?

At the federal level, unemployment insurance is 0.8% per employee on the first $7,000 in income if the state also has an unemployment insurance plan. That's a federal maximum of $56 per year. Not much.

State unemployment insurance premiums vary greatly. Usually, the amount is a percentage of a predetermined amount of income. The percentage declines for companies that don't lay off employees who claim unemployment compensation.

So, shops with the owner on the payroll will pay a little more in unemployment insurance. On the other hand, the owner can claim unemployment benefits if the business fails.

PAPERWORK & CASH FLOW

An owner who is on the payroll is treated just like any other employee. The company deducts federal and state income taxes from each paycheck. The owner pays any additional taxes due when filing his or her annual tax return.

Owners who take a draw have more paperwork. Instead of fitting in to the shop's regular payroll routine, these owners must file estimated tax returns and pay estimated taxes each quarter.

Which approach is better?

Again, it's a matter of personal preference. The payroll route is more routine. The owner's draw lets you delay your tax payments—but requires more forms and more hassle.

> All things considered, most people need the discipline of regular withholding. If you don't have to pay a portion of your taxes once or twice a month, it is too easy to spend the money for other things.
>
> When the time to pay finally arrives, the money you should have set aside for taxes is long gone. You may have to borrow the money or face late payment penalties—neither of which is an attractive alternative.

INCOME VS. PROFIT

One other issue should be considered.

A flower shop owner ought to see two different types of return.

One is compensation for services rendered to the shop. You deserve to be paid for your time and effort. The same as your employees.

The other is profit generated by the business. Remember, your flower shop is an investment. It ought to generate earnings in the same way stocks, real estate, a certificate of deposit or any other investment would.

Putting the owner on the payroll creates a clear distinction between these two types of income. Too often, owners who are not on the payroll think the business is doing better than it is.

They look at the bottom line and think they had a great year. But if they had paid themselves a reasonable wage for their services, there might have been no "profit" at all. The shop did enough business to pay a fair wage but not to produce any real return on the business investment.

HOW MUCH?

This question is much easier.

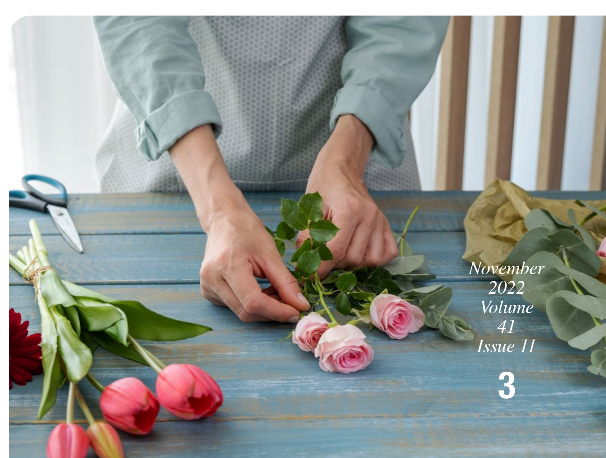
The owner-operator of a typical flower shop doing $500,000 or less in sales should expect a salary (including taxes and benefits) equal to 10% of the shop's annual sales. In addition, a well-run shop ought to produce a 10% pre-tax profit on top of that salary.

That gives the owner-operator total earnings of 20% of sales.

If you're an employee, take approximately 10% of sales out as salary. The business still ought to show a 10% pre-tax profit.

In shops doing more than $500,000, the owner can expect an additional 5% of the volume above $500,000 in salary. And the shop should still target a 10% net profit after paying that salary.

If you use owner's draws instead of a salary, the shop's profit and loss statement should show a pretax profit of 20% of sales.



Your 2023 Payroll

Establishing a Budget

Setting a payroll budget probably sounds complicated. And boring.

However, two considerations should put the task in a different light and give you a little more motivation.

First: You can't make money as a retail florist if your payroll is out of line.

Second: Crafting a workable payroll budget that will keep you on track is not really that hard. With a few shortcuts, you can make the process both manageable and fast.

PAYROLL OVERVIEW

What sort of labor costs should a well-run shop experience?

In recent years, wages have grown faster than other expenses. Although cost of goods sold (COGS) still usually is greater than payroll, the two areas are much closer than they used to be. Wages have kept pace with inflation. The cost of flowers has not. In fact, flowers are cheaper today, relatively speaking, than they were 15 years ago.

Total payroll, including taxes and benefits, should not exceed 30% of sales. (For multi-location operations, the target is 35%.) In *Floral Finance*'s experience, flower retailers that exceed these targets seldom make a decent profit.

The 30% goal assumes the owner/manager is on the payroll. If not, the goal is 20% for shops with less than $500,000 in annual sales and slightly higher for larger shops.

How should you allocate total payroll budget among design, sales, delivery and office personnel? Your business mix will have some impact. So will the way you generate sales (in-shop versus phone and internet). However, the following percentages are a good starting point.

- **Owner/manager:** 10% of sales up to $500,000 plus 5% of sales above $500,000.
- **Design:** 10% (or less) of design sales.
- **Sales:** 6% of sales.
- **Delivery/office:** 4.575% of sales.

(Note: All percentages include payroll taxes and other employee benefits.)

PEAKS & VALLEYS

The sales peaks and valleys you encounter throughout the year are another complication.

Every florist knows that February (Valentine's Day), April (Easter and Secretary's Week), May (Mother's Day) and December (Christmas) bring bigger volumes.

That's the problem. If you staff to handle the peaks, you end up with too many employees the rest of the year. Staff for the valleys, and you have too few employees to cover the peaks.

There is, however, a solution.

Even during peak sales months, the busy times are concentrated. In fact, all the busy periods from January through December represent only 30 to 45 business days. Each peak, in other words, is short-lived. Sales are largely stable throughout the year, with just a few surges here and there.

For staffing purposes, you don't have to cover four or five months of huge sales. Staff appropriately for your non-holiday sales levels. Then add extra help to cover the peaks.

ESTABLISHING MONTHLY PAYROLL

Should you just divide 30% of annual sales by 12 to get your monthly payroll budget? No. Although simple, that would be inaccurate.

The better approach is to base your staffing plan on monthly sales. Determine non-holiday sales for each month. Staff for that level. Then, add extra hours for the busier days.

A spreadsheet using the steps on page 5 will help you make these calculations.

Table 1. Monthly Payroll Example Calculation for $400,000 Shop

Month	Regular Sales	Holiday Sales	Owner Wage	Design Regular	Design Holiday	Sales Wages	Other Wages	Total Wages	% of Sales
January	$ 24,800	$ 0	$ 3,334	$ 2,480	$ 0	$ 1,488	$ 1,135	$ 8,437	34.0%
February	21,200	18,400	3,334	2,120	1,380	2,376	1,812	11,022	27.8
March	27,200	0	3,334	2,720	0	1,632	1,244	8,930	32.8
April	21,200	15,200	3,334	2,120	1,140	2,184	1,665	10,443	28.7
May	21,200	26,800	3,334	2,120	2,010	2,880	2,196	12,540	26.1
June	29,200	0	3,334	2,920	0	1,752	1,336	9,342	32.0
July	22,400	0	3,334	2,240	0	1,344	1,025	7,943	35.5
August	27,600	0	3,334	2,760	0	1,656	1,263	9,013	32.7
September	31,600	0	3,332	3,160	0	1,896	1,446	9,834	31.1
October	30,400	0	3,332	3,040	0	1,824	1,391	9,587	31.5
November	30,000	0	3,332	3,000	0	1,800	1,373	9,505	31.7
December	21,200	31,600	3,332	2,120	2,370	3,168	2,416	13,406	25.4
Total	**$308,000**	**$92,000**	**$40,000**	**$30,800**	**$6,900**	**$24,000**	**$18,300**	**$120,000**	**30.0%**

Step 1. Owner/Manager

Give the owner/manager 10% of sales up to $500,000 plus 5% of sales above that. Divide that total by 12 to get the monthly owner/manager wages. (For shops with more than $500,000 in sales, the additional 5% for wages above $500,000 will be used to pay other managers.)

Step 2. Design

The design room should be more efficient during holidays, thanks to high-volume production design techniques. Consequently, design wages will be lower as a percentage of design sales during these times.

Target 10% of design sales for normal non-holiday times. Shoot for additional holiday design wages equal to 7.5% of holiday design sales.

Step 3. Sales

Total sales staff wages will run 6% of sales—for holiday and non-holiday times alike. Easy.

Step 4. Other Wages

Delivery and office wages are also fairly static. Use 4.575% of sales year-round. No big difference here between holiday and non-holiday periods.

THAT'S IT

Table 1 shows how these calculations work out for a typical $400,000 shop. (These figures assume this florist's monthly sales reflect the percentages in Table 2.)

To see how these results translate to your shop (assuming similar monthly sales patterns), divide your annual sales by $400,000. Then, apply that multiplier to the numbers in the table.

Example 1: If you have $800,000 of annual sales, multiply every number by 2. (800,000/400,000 = 2)

Example 2: If your sales are $300,000, your multiplier would be 0.75. (300,000/400,000 = 0.75)

If your monthly sales differ from the national patterns in Table 1, base your staffing levels on your own patterns.

If your annual sales exceed $500,000, remember that the extra 5% allocated to the owner column actually will be used to pay an additional manager.

MAKING IT EASIER

An even easier approach is to begin with your payroll figures for last year. If total payroll, including taxes and benefits, was more than 30% of total sales, you need to make some cuts.

Base monthly payroll on your monthly sales. A few calculations will show how many hours you need to cut each month.

If you can't decide which employees to take hours from, explain the situation to your team. Ask if anyone might like some extra time off.

Table 2. Monthly Floral Sales

Month	Regular Sales
January	6.2%
February	9.9
March	6.8
April	9.1
May	12.0
June	7.3
July	5.6
August	6.9
September	7.9
October	7.6
November	7.5
December	13.2
Total	**100.0%**

MAKING IT TOUGHER

For shops selling gifts and other non-floral products, the payroll budget will have more personnel categories.

Sales and office payroll for the other categories most likely will use the same percentages as floral sales. Garden centers will require a higher percentage to account for off-season help.

If you sell a lot of gifts, the shop's total payroll will be less than 30% of sales because gifts don't have a design component.

NO MATTER WHAT YOU DO

Controlling payroll is crucial to your financial health and profitability.

So, develop a payroll budget. Then stick to it.

LIFE INSURANCE MISTAKES

Don't Let This Happen to You

The two most common life insurance mistakes are improper policy ownership and failing to name the right beneficiaries.

Either mistake can lead to unnecessary taxes and undesired consequences.

OWNERSHIP

Any person or legal entity can own a life insurance policy. Typically, an individual will purchase a policy on their life, retain the ownership and pay the premiums. The goal is to protect loved ones in the case of death.

However, if you own the policy and your estate is the beneficiary, the proceeds will go into your estate (or your spouse's estate) and be taxed accordingly.

With better planning, those benefits could be passed along tax-free. It would be a shame to lose a large portion of the proceeds to taxes because you structured the ownership incorrectly.

For favorable tax treatment, place the policy in an insurance trust or give the ownership to someone else. Then, provide the trust or new owner with money to pay the premiums. Normally, you can do so without incurring a gift tax.

Just be careful about transferring an existing policy with a substantial cash value. That could trigger a large gift tax liability. As a workaround, consider replacing the old policy with a new one. If that's not possible, do the math. It still might be better to transfer ownership of the policy and incur the gift tax than have the entire policy's death benefit taxed.

BENEFICIARIES

As mentioned, if you name your estate as the beneficiary, the proceeds are taxed, assuming the value of your estate is above the allowed tax-free amount.

Naming your spouse as beneficiary may delay the pain. However, any money not spent in the spouse's lifetime will go into his/her estate and be taxed when it passes to the children.

If you have a large estate, you can bypass one or two levels of taxation by making your children or grandchildren the beneficiaries.

Of course, naming minors as direct beneficiaries is rarely wise. Depending upon the state, children are considered of legal age at 18 or 21. Until then, the insurance proceeds must be managed by a guardian. The surviving spouse will not have access to the funds to spend on the children's living expenses.

For most children who gain a large sum of money, the minute they come of age, they lose the motivation to start a career and earn a living. They never realize their potential to accomplish things in life.

A better option than granting children the funds is to set up a trust to receive the insurance proceeds. The creator of the trust can set rules on when and how the money will be distributed to the children.

Be careful about naming just one beneficiary. If that person predeceases you, the proceeds go back into your estate by default—and you're back to square one.

To guard against this problem and keep the money out of your estate, name one or two backup (contingent) beneficiaries.

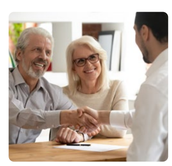
COUNSEL

The bottom line? Insurance is complicated. You probably need help in planning the purchase and deciding on the structure that will best meet your intended objectives. Investing the time and effort to do it right can mean thousands or tens of thousands of dollars more for your beneficiaries. And fewer dollars for the government.

Your life insurance agent is the most likely expert. Just remember that he or she has a financial stake in what you buy. For extra protection, run your plan by a tax specialist before making the final decision.

A lawyer or accountant who specializes in estate planning also can refer you to a specialist. Given the stakes, spending a few hundred dollars on professional fees to help you make the best decision is a bargain.

Finally, remember that times change, people change, circumstances change and the law changes. So, it's smart to periodically review your life insurance plans and make any necessary adjustments. What you need tomorrow may not be what you need today.



For favorable tax treatment, place the policy in an insurance trust or give the ownership to someone else.

Simplify Year-End Inventory

You know it's coming.

And it might be one of your least favorite tasks.

What is it?

Taking a physical inventory at the end of the year.

That's the only way to know your actual cost of goods sold (COGS) for 2022.

By planning ahead and reducing the number of items you have to count, you can make the job as easy as possible.

TAKING STOCK

Taking stock—getting a rough idea of what's on display, on the shelves or in storage—is a good first step. One that will help guide your inventory reduction plan.

By this time of year, you've already done most of your Christmas buying. However, you may be able to adjust your order quantities for containers and other supplies.

DEPLENISH INVENTORY

Delay ordering new or replacement items until you've cleared out as much of your old stock as possible.

The holidays are the perfect time to move out old containers. Granted, you won't be able to sell Easter containers at Christmas. However, you can move other old containers. All it takes is a little creativity.

Spread the containers out on a table. Some of these "beauties" will make you laugh. Others will make you cry. Don't get discouraged; most can be used, one way or another.

Work with your designers to identify color schemes that will make the containers suitable for holiday themes. If you have a big stock of one item, create a special arrangement using that container.

INCENTIVIZE WORK

Create incentives to encourage your designers and sales staff to use the old containers. Maybe a 50¢ or $1 bonus each time one is sold.

Have some fun. How about a weekly contest offering theater tickets to the designer and salesperson who move the most containers? Ring a bell for each sale. Anything to get everyone excited.

Pretty soon, you will see the old containers "walking out the door."

MORE THAN CONTAINERS

Containers aren't the only old items to sell. What else is there? Plush animals, balloons or other gift items purchased for design arrangements. If you are really creative, you might be able to include more than one such item in a single arrangement.

DON'T FORGET THE TRASH

Some items won't sell—no matter how hard you try. This is the perfect time to donate or recycle those items or throw them away. You won't have to count them any more.

Throw away what you can't use. And use what you can. Your year-end inventory will be much easier.

FAMOUS FINANCIAL WORDS

"There is only one success—to be able to spend your life in your own way." —*Christopher Morley*

"An executive is a (person) who is always annoying the hired help by asking them to do something." —*Elting E. Morison*

"The executive exists to make sensible exceptions to general rules." —*Elting E. Morison*

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INQUIRIES & ANSWERS

Letters

PRICING WEEKLY SPECIALS

"Should I use my normal pricing formula for our weekly specials?"

That's not what is most important.

A weekly special is designed to bring existing customers into your shop more frequently and to encourage new customers to give you a try. Neither will happen if the special isn't special.

Each week's special should be inexpensive and give extra value for the price. To do so, you can either build the special around discounted merchandise or apply a smaller markup. A combination of both is probably most practical.

Ask your wholesaler or grower to let you know whenever they are clearing out overstocked items or leftovers. You'll get a good price and be able to pass the savings along to your customers.

If discounted merchandise is not available, you will have to use a lower markup on your regularly purchased product.

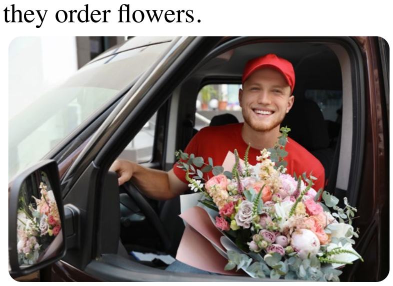
LONG-DISTANCE DELIVERIES

"How far out from our store should I make deliveries?"

Everywhere, but only locally.

As a retail florist, you can have product delivered anyplace in the world where there is a fellow florist who can fulfill the order. However, when it comes to your own local orders, a neighborhood flower shop generally should not deliver outside of its area.

If your goal is to gain a new customer, that probably won't happen with deliveries that are a long distance from your shop. Recipients likely will go to a local florist when they order flowers.



Delivery is expensive, and most florists do not charge enough to cover their costs. The driver and vehicle cost about $1.32 per mile for a round trip. Be sure to charge enough to make the trip worthwhile.

Serve your local area. Don't try to serve someone else's area for customers you will likely never see again.

NORMS

NUMBER OF EMPLOYEES

Most retail flower shops have four or fewer employees. To be specific, of the retail flower shops that report a payroll and withhold payroll taxes, about two-thirds have no more than four employees. Only a couple report 100 or more employees.

So, the next time you think you alone represent the small retail florist, think again. The industry is comprised largely of small retailers. You are not alone.

Source: U.S. Statistics on Business by County

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