



Getting the Best Lease  
Negotiate Smart page 2

FINANCIAL INFORMATION,  
EDUCATION AND CONTROL  
FOR THE RETAIL FLORIST

# Floral Finance®

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## QUICK TAKES

**Ideas You Can Put  
to Work Immediately**

### 1 Activities Vs. Results

Some people work to complete assigned activities. Others work to get results.

The best employees take responsibility for results, not just activities. They take pride in what they can contribute.

Keep this in mind as you manage your staff. Recognize effort, but reward results.

### 2 Praise Publicly

Ensure that your shop's culture applauds and encourages your employees' success.

Give copious amounts of praise each day for big and small victories. Pass the praise around. Your employees will begin to anticipate and work for it.

Most people rise to expectations. If your expectation is success, that's where they'll go.

### 3 Hire Winners

Don't just settle for warm bodies. Look for employees who are confident and want to accomplish something for themselves and for the business.

Zig Ziglar said, "You can't consistently perform at a level that is inconsistent with the way you see yourself."

Hire people who see themselves as achievers and winners. They will be.

## SUCCESS & SIGNIFICANCE



Success usually is defined as attaining a desired outcome or goal. For most people, that means money, recognition, achievement or fame.

Other people see success differently. They want to be significant. Significance normally focuses on the journey rather than the destination. It has to do with meaning and value.

Some people who achieve financial success by midlife work to build a life of significance in the second half of their lives. (A great book on this topic is *Halftime* by Bob Buford.)

However, few of us will achieve enough material success to be able to focus solely on significance in the second half of life. That's why it is important to incorporate significance into our everyday lives.

You run a business. By definition, you must make enough money to keep your doors open. That is not an option. No profit, no business.

On the other hand, you don't have to focus entirely on the financial success of the business. You can, and should, add significance to your daily routine.

Are the people around you just employees and customers? Or are they fellow human beings who are worth getting to know, care for and share a bit of life with?

Bring your values into your work. Significance is so much more fun and fulfilling than mere success.

Paul Goodman  
Editor

Paul Goodman can be reached at  
[plgoodman@aol.com](mailto:plgoodman@aol.com).

# Getting the Best Lease

What You  
Need to Know  
to Negotiate Smart



Retail florists are not usually real estate experts. The language in lease agreements is not part of your everyday vernacular. The terms and concepts can be confusing.

Consequently, negotiating a lease can be a serious challenge. The process can be uncomfortable and unfamiliar. If you aren't careful, you can end up with a much higher monthly expense than you could have negotiated.

### FIRST, SOME TERMS ON SPACE

The first concept you need to understand is the difference between useable space and rentable space. These terms are not the same.

Many buildings have hallways, restrooms, lobbies and other public areas. These are called common areas. The cost for the common areas is divided among the tenants.

*Useable* space is the actual square footage that you can use for your shop. *Rentable* space is the useable space plus your proportionate share of the common areas. For example, if you lease 1,800 square feet of useable space, the rentable space could be 2,000 square feet when your share of the common area is added in.

Tenants pay based on the rentable space, not the useable space. So,

always ask what the common area allocation is and how that affects your total cost.

Only when you know how common areas are handled can you compare rents between two different locations.

### ESCALATION CLAUSES

Most leases allow increases in the rent over the period of the lease. This allows the landlord to cover costs that may increase during the term of the agreement. There are three common types of escalation clauses.

#### 1. CPI Adjustment

CPI stands for the Consumer Price Index. It is a measure of inflation (or occasionally deflation). Many leases

increase the rent each year to keep pace with the increase in the CPI.

## 2. Operating Expense Adjustment

This adjustment is tied directly to increases in the building's operating costs. For example, if utility rates rise, that additional cost can be passed along to the tenants. Operating costs also could include items such as cleaning expenses, parking lot maintenance, trash and security.

## 3. Percentage Rent Adjustment

Some leases charge tenants a base rate or a percentage of their sales, whichever is higher. The logic is that if the location allows the tenant to generate a significant amount of business, the landlord should benefit.

These leases are most common in malls or shopping centers. If you have a percentage rent lease, be sure the terms exclude wire orders from the sales calculation. It is industry practice to do so, and most landlords will not argue the point.

## OTHER ADD-ONS

If you have a straight lease, you will only pay the rent. However, some commercial leases impose other costs in addition to the rent. These are called *net leases*. There are three different types.

### 1. Net Lease

In addition to the rent, you will pay your share of the building's operating expenses.

### 2. Net Net Lease

In addition to the building's operating expenses, you will pay your share of the landlord's insurance expense on the building.

### 3. Triple Net Lease

For this one, you add your share of the property taxes.

Some leases also include the cost of repairs to the building. These extras can add up quickly, so make sure you know exactly what you are getting into.

## OTHER TERMS

As a retail florist, you have many other concerns about how the lease will affect the way you operate your

business. Make sure you cover each one of these areas before signing your lease.

## Building Services

The electrical service to your space must be adequate to support your refrigeration needs. In addition, you will want to check the plans for water and sinks, and any drainage required by the cooler.

Some buildings turn off the air conditioning at night. That might be okay for an office building; however, it is not best for a business like yours that leaves perishable product out at night.

Be sure your lease states the hours air conditioning will be available.

## Fixtures & Improvements

Many leases require that any improvements made by the tenant be left when the lease terminates. That's understandable for normal fixtures

**Always ask what the common area allocation is and how that affects your total cost.**

like lights and shelves. However, a retail florist has unusual and expensive improvements that need special consideration. Your cooler, for instance. That's something you probably don't want to give away.

Make sure your lease states exactly what rights you have to your coolers, fixtures and other improvements.

## Other Tenants

If you are in a strip center or larger building, you aren't the only business that is leasing space. Protection from unwanted neighbors is a good idea.

At a minimum, the lease should include a clause that prohibits the landlord from leasing space to another flower shop. Your business would be harmed by such an event and, thus, make your space much less valuable.

## Subleasing

You never know what the future will bring. Your business might grow

beyond your wildest dreams and outgrow the space before the lease is up.

On the other hand, you could fail and need to close down.

Regardless, the lease will require you to keep making payments until the end of the term. So, it is a good idea to retain the right to sublease to another qualified business.

Of course, the landlord's interests need to be protected. You should not be able to sublease to a business that would compete with another tenant or diminish the image of the complex. However, beyond those few issues, it is reasonable for you to have the right to sublease.

In most cases, the following three conditions would strike the right balance:

1. You have the right to sublease.
2. The landlord must give consent to the proposed subtenant.
3. Consent will not be unreasonably withheld.

## Non-disturbance

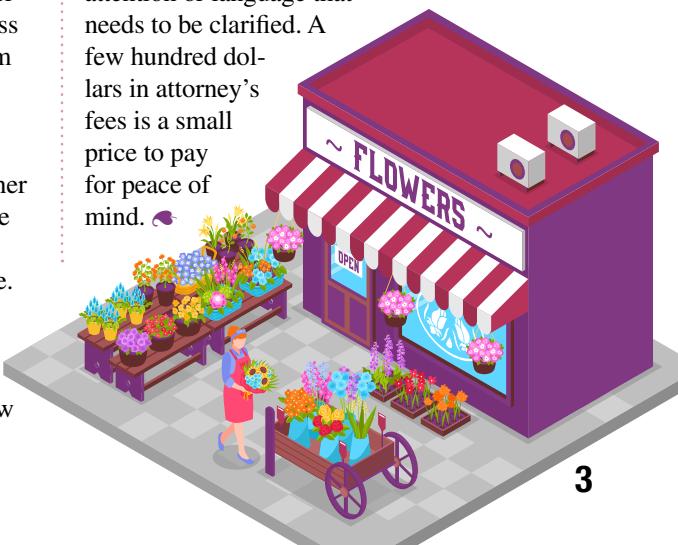
Make sure that if the owner sells the building, the new landlord cannot come in and renegotiate your lease or change the terms. The new landlord needs to be bound by the terms of your lease, just like the original landlord.

## UNCERTAINTIES

It is hard to address all potential uncertainties. However, try your best.

The time to deal with issues is before the lease is signed, not after. It is much better to deal with issues up front than to discover a problem later.

That brings up the final and probably most important point about negotiating a lease: Make sure your attorney reviews the lease before you sign. He or she may uncover issues that need attention or language that needs to be clarified. A few hundred dollars in attorney's fees is a small price to pay for peace of mind.



# MANAGEMENT ESSENTIALS

## Controlling Payroll

**C**ost of goods sold (COGS) and payroll are the two largest expenses in a retail flower shop. When they are both controlled properly, COGS will be slightly higher than payroll expense.

However, most florists do a better job of controlling COGS than they do payroll. So it is not unusual to find payroll expenses greater than COGS.

We discussed COGS and how to control them in the January 2019 issue of *Floral Finance*. This month, let's take a look at controlling payroll.

### HIDDEN NUMBERS

One of the problems is that payroll can be understated. You look at your financial statement. Payroll appears to be okay. What's more, you're profitable on the bottom line.

If there's a profit on the bottom line, payroll can't be too far off, right?

Wrong!

This is a common situation. Payroll often is understated when the owner/manager does not take a salary. In many shops, if the owner had been paid a fair salary for the services rendered to the business, all the shop's profit would have disappeared.

Here's the standard. If the owner/manager does not take a salary, total payroll (including wages, contract labor, payroll taxes, workers' compensation premiums and employee benefits) should not exceed 20% of sales. If the owner/manager does take a salary, total payroll should not exceed 30%. Add 5% to those numbers if you have multiple locations or also operate a garden center.

Following this standard will show how well you are controlling payroll.

### SALES FLUCTUATIONS?

Controlling payroll seems fairly straightforward. What makes it so hard to manage?

The answer is in sales fluctuations. Monthly sales for the average retail

florist peak in May and December (around 13% of annual sales in each month). February also is a good month. January and July are only 5% or 6% of annual sales.

How can a florist staff for those great fluctuations? Don't you have to keep extra help on hand to cover the peaks?

In a word, no.

### THE REAL PATTERN OF SALES

Although on the surface it might appear that sales fluctuate dramatically for the retail florist, causing significant staffing problems, that really is not the case. A closer look at the shop's sales patterns presents a very different picture.

Monthly sales spike upward in February (Valentine's Day), May (Mother's Day) and December (Christmas).

However, Valentine's Day creates only 3 to 5 very busy days. The rest of February brings normal, non-holiday sales. Similarly, Mother's Day produces only 7 to 10 busy days in May. Even in December, 20 to 25 days are above non-holiday sales (not quite the entire month).

The bottom line? Only 30 to 40 days of the year are unusually busy. The rest run at a non-holiday sales volume.

Even better, those non-holiday sales are normally very predictable. You will do approximately the same volume of business on a non-holiday week in March as you will on a non-holiday week in September or June.

To be profitable, you must base your everyday staff on your non-holiday level of sales and no more. Add personnel to handle the busy periods. Then, as soon as the holiday ends, cut back to your non-holiday staffing level.

### The Numbers

The average retail flower shop does approximately 23% of its annual volume in holiday sales. The other 77% comes from regular non-holiday sales.

If you divide that 77% of non-holiday business across 52 weeks, you get approximately 1.5% of your annual sales in a typical non-holiday week. To put it another way, each non-holiday week will have \$1,500 of sales for every \$100,000 of annual sales.

In other words, a \$330,000 shop will have about \$5,000 per week in non-holiday sales ( $1,500 \times 3.33 = 5,000$ ).

Apply this formula to your own sales volume to see just how close it is.

### Weekly Pattern

Although it is helpful to know your weekly non-holiday sales, you need to know and do more to control your payroll effectively

Every florist knows his or her busiest day of the week. Generally, it is Friday.

To keep your payroll as low as possible, you must staff by day of the week. Have

**When this staffing analysis is followed, the average retail florist will save from 40 to 80 hours of payroll in a typical week.**

enough staff to handle your busiest days, but cut back on the other days.

### Non-Holiday Staffing Analysis

To staff your shop properly, do a non-holiday staffing analysis.

Create a form with the seven days of the week down the left side of the page. Then, put six columns across the top.

The first four columns are for weeks 1 through 4. The fifth column is for “Total Sales,” and the sixth column is for the “Average.”

Start with your design room. Take all of your design sales for a consecutive four-week non-holiday period—perhaps September or October or late February through early March.

Put the design sales for each day of week one in the appropriate spot in the first column. Do the same for weeks two through four.

Next, total the sales for all four Mondays. Then, do the same thing for every other day of the week.

Finally, divide each day’s total by four to get the average design sales for that day. Then you will know your approximate daily design sales during the typical non-holiday week.

### Designer Productivity

Once you know your design sales volume for a given day, staff to design that amount and no more. To do so, you must know how productive your designers are.

The average designer can produce four standard arrangements per hour.

If your typical arrangement is \$50, each designer should be able to produce \$200 per hour of design time.

Of course, no one designs non-stop, all day long. For analysis purposes, plan on six productive hours out of eight. Multiply your hourly production by six to get the expected production in a full, eight-hour day. Using the \$50 average order, you could reasonably expect a designer to produce \$1,200 per day, or an average of \$150 per hour.

The final step is to divide your daily design sales by your expected hourly production. The answer is the number of daily design hours you need.

In small- and medium-sized shops, employees rarely do one task all day long. So, divide the number of design

hours needed by the number of hours your staff has available for designing. Once you’ve covered your sales volume, you don’t need anyone else to design that day.

### Staff Analysis for the Entire Shop

Do a similar analysis for your other major operational areas. Delivery, by the number of deliveries each day of the week. Sales, by the amount of sales each day of the week.

## Payroll often is understated when the owner/manager does not take a salary.

When this staffing analysis is followed, the average retail florist will save from 40 to 80 hours of payroll in a typical week. That adds up to a lot of money over the course of a year.

### Productivity Enhancers

If you have enough volume and want to maximize your bottom line, use production design techniques to increase output per hour.

A designer can produce a lot more volume at holiday times by making multiple copies of the same arrangement. Do the same during non-holiday periods with standard arrangements.

Change your standard arrangements periodically to keep a fresh look, but try to fill 40% to 60% of your volume with standard recipe arrangements.

Even if your volume doesn’t allow for many standard arrangements, you can still increase productivity by having your designers make at least two of every design.

Of course, you have to be able to sell the additional copies. Don’t put extra arrangements in the cooler if you can’t sell them.

### GREAT REWARDS

Effectively controlling payroll should allow the owner/manager to make a decent wage. In addition, you should see a bottom-line profit of around 10% if you are controlling the rest of the operation.

The ultimate reward for effective payroll control will show up in your bank account. ☺



# LIFE INSURANCE

## THE BEST GIFT FOR YOUR KIDS (OR GRANDKIDS)

It's been called the gift of a lifetime. It's not something your children will appreciate when they are young. In fact, they may not even appreciate it when they are in college or beginning their first jobs.

However, they will love it as soon as they start their own family. What is it? Life insurance.

### DON'T STOP READING

We're not trying to sell you anything, so you're not under any pressure. The idea of life insurance for children is just something most people should consider but many do not.

(Note: There are many different types of insurance products. The following numbers are given only as representative samples.)

If you get insurance when your child is young, the premiums will be very low relative to the amount of insurance. A good "paid-up-at-65" policy purchased when your child is 5 years old will cost about \$500 per year.

The policy will start with about \$70,000 worth of life insurance and build each year as you invest the dividends in additional insurance.

By the time your child graduates from high school, you'll have more than \$100,000 worth of life insurance and \$9,000 of cash value. That may not seem like much yet, but just wait.

From that point on, the cash value will increase by over \$1,000 per year. By the time your child is 30, you will have paid about \$12,500 in premiums. However, look at the benefits:

Insurance	\$170,000
Paid-Up Insurance	\$140,000
Cash Value	\$ 30,000

### THE POWER OF COMPOUNDING

Insurance illustrates the power of compounding interest. The longer the money is invested, the greater the growth.

By the time the child reaches age 65, you will have paid \$30,000 in premiums. The total amount of insurance will be slightly more than \$1,000,000, and the cash value will be over \$600,000.

**Insurance illustrates the power of compounding interest.  
The longer the money is invested,  
the greater the growth.**

At that point, the child (now retired) could cash the policy in and take an income stream for life or let the policy continue to build.

At age 70, the cash value would be over \$900,000 or the income stream would be providing a nice monthly retirement supplement.

### SOLID VALUE, ALL ALONG

When your children are young, insurance provides you a small amount of life insurance should something tragic happen.

As the children reach adulthood, this policy can form the foundation for their own insurance planning. They could add supplemental, inexpensive term insurance to protect their own family. As the cash values increase, money will be available to borrow if needed.

In middle age—the empty-nest stage of life—

your children's need for life insurance will decline. The policy you bought long ago might be all they need. When their supplemental term insurance begins to get expensive, it simply can be dropped.

By the time they retire, the original policy can form the basis of a very solid retirement income if the insurance is no longer needed.

That's why life insurance for children is called the gift of a lifetime. It is helpful at all phases.

Most children wait until they are in their thirties or forties to get life insurance. By then, whole-life insurance is expensive, so they settle for term insurance with no long-term benefits.

### OTHER CONSIDERATIONS

For a small additional premium, you can get the ability to increase coverage at certain specified ages, regardless of the insured's physical condition.

You, as the parent or grandparent, should retain ownership of the policy. Although you will eventually transfer ownership to the child, you don't want to do so before they are old enough to truly appreciate the value.

If ownership is transferred too soon, children often just cash the policy in, take the cash and lose the long-term benefits.

### PART OF FAMILY BUSINESS PLANNING

One of the goals of a family business is to ensure the financial well-being of your family members.

Life insurance can be an important part of that secure financial future. You can get things started when the benefits are great and the rates are low. ↗



# BANK RECONCILIATION

You'll never really know your cash position until you reconcile your bank statement with your check register. Here's why.

At the end of the month, you make the last entry in your check register. A week later, your bank statement arrives. The bank's ending balance is not the same as the one in your check register.

What's wrong? Who made a mistake?

Most likely, neither you nor the bank made a mistake. Both balances are probably correct.

To confirm that everything is okay, you need to "reconcile" the bank's month-ending balance with the balance in your check register.

## FOLLOW THE MONEY

A simple example will show how reconciliation works and why it's so important.

Suppose you open a new bank account. You deposit \$1,000 into the account and record a \$1,000 deposit in your check register. The two balances (yours and the banks) would look like this:

Bank Balance	\$1,000
Check Register Balance	\$1,000

The amounts are equal. No problem.

Now, you receive a \$100 check for a sale you made. At the end of the day, you write down a \$100 deposit in your check register but hold the deposit until the next morning. Now what do the two balances look like?

Bank Balance	\$1,000
Check Register Balance	\$1,100

They're different. Is one of the numbers wrong? No, both are correct. The difference is that your check register

shows the \$100 deposit that the bank has not yet received.

To reconcile the two balances, you have to subtract from your check register the deposit that hasn't cleared the bank. The accounting would look like this:

Check Register Balance	\$1,100
Deposits in Transit	-\$100
Reconciled Balance	\$1,000
Bank Balance	\$1,000

The two totals balance again.

When the deposit hits the bank, the bank balance and the check register balance will both equal \$1,100.

Next, you write a \$75 check to your wholesaler and record it in your check register. The check register balance is now \$1,025. However, since the check is in the mail to the wholesaler, the bank still shows a balance of \$1,100.

To reconcile the two balances, you would add the outstanding check back to your check register.

Check Register Balance	\$1,025
Check in Transit	+\$75
Reconciled Balance	\$1,100
Bank Balance	\$1,100

## A LITTLE MORE COMPLICATED

An actual month-end bank reconciliation is a little more complicated

because you normally will have several deposits and several checks that are in transit. But the process is the same as in the example here.

First, mark all the checks and deposits in your check register that also appear on the bank statement

Next, add to your check register balance all checks that are in transit. Then, subtract from your check register balance all deposits in transit. The result should match the bank balance.

If the two balances still don't match, someone (probably you) has made a subtraction or addition error. Or perhaps some other entry, like a bank service charge, is included in one balance but not the other.

**You'll never really know your cash position until you reconcile your bank statement.**

Check until you find the discrepancies. Make the necessary adjustments.

## THERE'S HELP

These days, there's little need to reconcile your bank statement manually. Computerized and online tools (QuickBooks is one example) are easy to use and make reconciliation a breeze.

## FAMOUS FINANCIAL WORDS

"Meetings are indispensable when you don't want to do anything."—John Kenneth Galbraith

"Money is a singular thing. It ranks with love as man's greatest source of joy. And with his death as his greatest source of anxiety."—John Kenneth Galbraith

# LETTERS

I N Q U I R I E S & A N S W E R S

## CONTRIBUTIONS

*"How can I decide which charitable contributions to make?"*

### Loyalty.

There are two types of contributions. One involves gifts to a cause you personally support. For contributions in the form of cash (not floral products), giving personally and taking the deduction off your personal income taxes is best.

The other kind of contribution is strictly business. You are doing it because you want to support your community as a whole, perhaps with the added benefit of visibility. Assuming the cause is worthwhile, the most important questions are whether the individual or organization is your customer and how much they buy from you.

Help good customers. Don't bother with someone whom you have never seen before and most likely won't see again.

## PRICING MULTIPLE DELIVERIES

*"We deliver quite a few arrangements to our local hospital.  
Shouldn't I give a break on the delivery charge?"*

### You don't need to.

On an outgoing wire order to a hospital, it's not uncommon for filling florists to charge only a nominal delivery fee. The logic is that multiple deliveries to the same place at the same time cost less than the same number of deliveries to multiple locations. Consequently, the delivery charge can be less. Low competitor prices often are seen as a factor in this decision.

Delivery is arguably the most valuable service a florist offers. It makes sense that you should make money on your most valuable service.

Many florists don't charge enough for fear that the customer will go elsewhere. The evidence doesn't support that fear. Florist after florist has raised delivery rates, only to discover that it was a non-event in the customers' eyes.

Your customers don't come to you because of your low delivery charge. The odds are they won't stop using your services if you make a full charge for hospital delivery.

The question to ask is, "Will I gain more money than I will lose by raising this charge?" If the answer is "yes," and it usually is, you probably should make the change and charge.

## NORMS

### MILEAGE RATE



This is the new Internal Revenue Service (IRS) mileage rate for 2019—up from 54.5¢ in 2018.

The IRS allows you to deduct all mileage driven on behalf of a business at the rate of 58¢ per mile. That's the IRS estimate of what it actually costs to operate a vehicle, be it a car, van, pickup or panel truck. This is calculated to include depreciation, insurance, repairs, tires, maintenance, gas and oil.

For florists who use a vehicle for business and personal use, make sure you keep good records for tracking purposes.

Another mileage rate you might find interesting: 20¢ per mile driven for medical or moving purposes.

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*Please address your inquiries to the Editors of *Floral Finance*®,  
Teleflora LLC, 3737 NW 34th St.,  
Oklahoma City, OK 73112.*