



FINANCIAL INFORMATION,
 EDUCATION AND CONTROL
 FOR THE RETAIL FLORIST

Floral[®] Finance

teleflora[®]

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QUICKTAKES

*Ideas You Can Put
 to Work Immediately*

1 Assign an Owner

For every shop project, make sure one person takes the lead. These project owners should know and feel that if they don't do the job, it won't get done.

Too often, managers who don't assign clear areas of responsibility still expect everyone to pull together to complete the task. That might work once in a while, but it's not the best way to ensure success.

Every project needs an owner.

2 Conquer the Computer

Those of us who weren't born into the computer age may be at risk of missing out on some powerful business tools. If that sounds like you, it's time to take a spreadsheet, word or social media program class.

Once you know how to use these tools, you'll be amazed at how they can improve your efficiency.

3 Greeting Customers

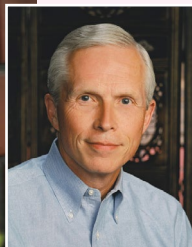
What's the best way to welcome a customer into your shop? It's not "Can I help you?" With that kind of greeting, your customers will think, "She's trying to sell me something." Their defenses will go up. You'll be off to a bad start.

A better greeting is "Thanks for coming in. I'm here to help if you need it." Then, back away but remain available.

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ARE YOU HAVING FUN?



Katharine Graham, the longtime publisher of *The Washington Post*, once said, "To love what you do and feel as though it matters—could anything be more fun?"

Is that how you view your work? Do you look forward to going to work each day?

Granted, not every day is perfect. Whether you're having a bad hair day, the dog chewed up your favorite shoes or you're just off your stride, bad days are a part of life.

However, it shouldn't be that way all the time. On balance, life should be more of a joy than a burden.

If you're not as enthusiastic as you used to be, take a step back. Try to figure out why. What is causing the downdraft?

Maybe work conditions have changed for the worse. The economy may be causing you headaches. A new employee may be proving to be a negative influence in the shop.

If you can fix the problem, perfect. If you can't, you must figure out a way to rise above it.

Creativity has a lot to do with enjoyment. So, get your juices flowing. A little exercise (the last thing you may want to do) can energize you and boost your spirits.

Put a smile on your face. Find a few creative things to do today that will bring back the fun. Choose to have a brighter attitude.

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2019 Shop Profile



Our featured shop is located in a small- to medium-sized town on the West Coast with a population of less than 75,000. The area is a year-round tourist destination.

The shop's 2017 sales were just under \$635,000. Half of its gift business comes from tourist traffic. The rest of the sales are predominantly to local customers.

Competitors include several traditional retail florists, four supermarkets with substantial floral departments and two general merchandise chain stores that offer some floral.

PERFORMANCE

The shop clearly is "doing it right"—putting 13% to the bottom line. Net profit before taxes was \$82,483 for the 12 months ending in December 2017. That's after paying the owners a salary.

Floral Finance recommends a net profit target of 10% when the owner/manager is on the payroll. This shop is beating that target handily.

A quick look at cost of goods sold (COGS) for arrangements, facilities expense and payroll shows why this shop is doing so well. When these three areas are controlled

properly, a shop will almost always have a healthy bottom line.

COGS FOR ARRANGEMENTS

The shop's total COGS is 32.7%, which is very good.

The most important COGS component, COGS for arrangements, is nicely controlled at 31.4% of arrangement sales. *Floral Finance* recommends that COGS for arrangements, including flowers and greens, container and supplies, not exceed 33%. The flowers and greens portion should not exceed 25% of the retail price.

Doing It Right

FACILITIES EXPENSE

Rent, utilities, maintenance, repairs and facility insurance make up facilities expense. The recommended target is no more than 10% of sales.

With an average of about 8.5%, most retail florists in North America do not have a problem with facilities expense.

Our shop here is doing slightly better than the average, with total facilities expense running only 6.2% of sales.

PAYROLL

When the owner/manager is on the payroll, payroll expense, including wages, payroll taxes, workers' comp insurance and employee benefits, should not exceed 30% of sales.

This shop is right on target, at 29.8% total payroll expense.

ALL OTHER EXPENSES

All other expenses should run between 18% and 22% of sales. Our profile shop is at the low end of that range, with all other expenses running only 18.3% of sales.

The chart summarizes the various major expense categories. Advertising is 4.4% of sales. Telephone expense (not counting wire-order transmission services) is less than 1%.

WIRE-ORDER BUSINESS

Wires-out commissions are 20% of gross outgoing wire orders, which means this shop did slightly more than \$122,000 in outgoing wires.

Wires-in commissions represent the 27% of incoming wire orders the receiving florist does not get. This shop did in excess of \$225,000 in incoming wire orders. Those sales are included in total sales under their respective sales categories.

Although wire orders, both in and out, are incrementally profitable for the retail florist, many florists believe otherwise. This is an example of a shop that receives twice as much wire-order volume as it sends and is still showing a very healthy profit.

MANAGING EVERYTHING

To make a 10% net profit after paying the owner/manager a decent wage, you must control the three major expense areas. There's no way around it.

However, to beat that target, as our profile shop has done, you must manage everything well. Other expenses, including advertising, operating supplies, telephone and vehicle expense, have to be monitored and kept as low as possible.

When you do that successfully, the results show on the bottom line. And, although most retail florists are not in business only for the money, a solid financial return is proof of a job well done. 🌸

12 MONTHS ENDING DECEMBER 2017

PRODUCT SALES	Dollars	Percent
Silk & Dried	\$ 11,063.29	1.7%
Loose Flowers	41,703.18	6.6
Arranged Flowers	393,054.15	61.9
Green Plants	39,203.44	6.2
Blooming Plants	36,827.26	5.8
Balloons	8,223.26	1.3
Fruit Baskets	4,757.61	0.7
Gifts	49,891.62	7.9
Plush	7,503.59	1.2
Returns	-302.28	0.0
Total Product Sales	\$591,925.12	93.3%
NON-PRODUCT SALES		
Service Charges	\$ 13,084.74	2.1%
Wires-Out Commission	24,418.77	3.8
Wires-In Commission	-60,785.69	-9.6
Rebates	9,326.63	1.5
Delivery	55,264.71	8.7
Misc.	1,514.58	0.2
Total Non-Product Sales	\$ 42,823.74	6.7%
TOTAL SALES	\$634,748.86	100.0%
COST OF GOODS SOLD		
Silk & Dried	\$ 4,757.65	43.0%
Loose Flowers	14,596.13	35.0
Arranged Flowers	123,560.66	31.4
Green Plants	15,798.99	40.3
Blooming Plants	12,421.76	33.7
Balloons	3,783.57	46.0
Fruit Baskets	2,169.47	45.6
Gifts	26,642.13	53.4
Plush	3,954.39	52.7
Total Cost of Goods Sold	\$207,684.75	32.7%
GROSS INCOME	\$427,064.11	67.3%
EXPENSES		
Advertising	\$ 27,855.67	4.4%
Facilities	39,599.66	6.2
Payroll	188,908.33	29.8
Telephone	4,504.97	0.7
Other	83,712.31	13.2
Total Operating Expenses	\$344,580.94	54.3%
NET INCOME	\$ 82,483.17	13.0%

MANAGEMENT ESSENTIALS

PRICING

IT'S UP TO YOU ...

... to determine what you will charge for your products. Retail florists have the right and responsibility to set their own prices. Any attempt to tell you what to charge would be called "price fixing," and that would be illegal. The material in this article is meant to familiarize you with the basics of setting prices, as well as give you an idea of how other retail florists are setting their prices across the country. Use it to intelligently set your own prices.



Setting prices is one of the more important tasks a business owner does. Your goal is to maximize your profitability. You don't want to leave any money on the table by charging a lower price than the market will bear. You also don't want to charge a higher price that will drive your customers away. In one sense, pricing is a "defensive" ball game. Ultimately, the market sets the price.

Over time, competitors adjust their prices in an attempt to win more customers. If prices are higher than what is necessary to make a decent profit, one or more competitors will cut them back.

If prices are too low, some competitors will go out of business or lose their profitability. Those remaining in business will adjust the prices up.

Eventually, a reasonable price level is reached. The price is maintained at a fairly stable level until some new factor enters the marketplace. One of the competitors, for example, discovers a new technique or buying source that lowers her costs. She can now cut prices and still make a good profit.

By lowering prices, she attempts to attract more customers and make even more profit. Everyone else has to follow suit or run the risk of losing customers. Any business that fails to respond either to upward or downward price pressure will probably not be around too long.

THE MECHANICS

Setting a price is a matter of taking the cost of the product you are going to sell and marking it up to adequately cover your labor and overhead—and leave enough to make a reasonable profit.

Most non-floral retailers use a formula close to a double markup. If a shirt cost \$10.00, they try to sell it for \$20.00.

A double markup is called a "key-stone" markup.

However, retail florists are different from other retailers. Most retailers buy products that are already made – called "finished goods." They simply put them on the shelf, mark them up and sell them.

Retail florists take raw products, manufacture (design) the finished arrangement and then sell it.

Consequently, retail florists must mark up their products more than the regular retailer in order to cover the extra cost of designing.

WHAT'S YOUR MARKET?

Determining what market you are going to serve is the primary question when initially setting a pricing formula. You must price your products in order to be competitive with other businesses that serve the same market.

Of course, there can be reasons for variations. A higher or lower level of service could justify a slightly higher or lower price.

If the market you want to serve demands a great deal of personalized service, you can reasonably charge a higher price than another florist who is seeking a loose-flower or low-service arrangement business.

Your location also will be critical in determining the type of customers you will serve.

Once you've determined your market, you can see who is competing for that same business. Is there enough potential business to

BEST
PRICE
\$39⁹⁸
SPECIAL
OFFER

justify your presence? Can you compete? How can you differentiate yourself in the market? And what kind of pricing formula will maximize your profitability?

MOST COMMON FORMULA

The floral industry has no single industry standard for pricing. There are simply too many different types and sizes of operations.

Some shops offer high-priced, high-serviced products. Others are “bucket shops” trying to give the most value for the lowest price. Different markets. Different COGS standards. And, as a result, different pricing structures.

There is no right or wrong formula. The correct pricing structure depends on the market being served.

For retail florists, the most common pricing formula charges for four items: labor, container, supplies, and flowers and foliage. Three different pricing markups are normally used in this formula.

The charge for labor is set at 20% of the retail price. The container and supplies are marked up double. Finally, flowers and foliage are marked up 3.5 times.

MOST COMMON PRICING FORMULA

Retail Price = \$49.95

	Total Cost	Markup	Retail Price
Labor (20%)			\$10.00
Container & Supplies	\$ 4.50	2.0×	9.00
Flowers & Foliage	8.84	3.5×	30.95
Total	\$13.34		\$49.95

Cost of Goods Sold = 27% ($13.34 / 49.95 = 0.27$)

WHY SO COMPLEX?

Some might argue simply to mark up the flowers and foliage by a multiple of 5.6 and be done with it. “After all,” they say, “the end price will be the same.”

Although that might be true in many cases, it is not always so.

The reason for dividing up the formula into its various parts is to account for varying amounts of each product

type. For example, many florists use a variety of containers. Some are expensive. Some are not.

To make sure all containers are properly priced, they must be priced separately.

In addition, the prices of various items may shift over time. By having separate categories, you can easily adjust for any changes.

Another benefit of properly dividing each category is the ability to change your formula easily for different kinds of arrangements.

There is a great deal of difference in the labor cost associated with a standard arrangement and the labor that goes into a bride’s bouquet or something that is hand-wired and taped, like a corsage.

The formula for a bride’s bouquet that uses a pre-made floral foam holder can be adjusted to 35% for labor instead of the usual 20%.

Labor can be upped to 50% for items that are hand-wired and taped. This easy change ensures you get the proper amount to cover the varying amounts of labor.

TARGET COGS

At the bottom of the table for the most common pricing formula, you see the cost of goods sold (COGS) total. In addition, the amount that it represents as a percentage of the retail price is shown.

One of the most important numbers you will control in a flower shop is your arrangements COGS. As a rule of thumb, *Floral Finance* says it should not exceed 33%, and is better kept around 28%, if you want consistent and solid profitability.

Be sure to calculate the COGS percentage for your own pricing formula by following the example given. The resulting percentage is the target you will be shooting for.

How will you know if you are hitting your target? If your financial statements are set up properly and you get a separate breakout for your arrangements COGS, each month’s statement will show you how you are doing compared to your target. 🌸

OTHER PRODUCTS & SERVICES

Although arrangements constitute approximately two-thirds of the total sales of the average retail florist, there are many other items that must be priced as well. Here are samples of the kinds of pricing used on those other items.

Green/Blooming Plants

Markups between 2.5×

 and 3.0× are the most common, giving a COGS of 40% down to 33%. Once you have factored in the cost of supplies (foil, etc.) that are used, total COGS for plants usually ends up between 38% and 45%.

Gifts

Most hard goods in retail flower shops will get a 2×

 markup. After accounting for breakage and theft, an ending COGS of 53% is common. This formula applies to plush, cards, candles and supply items that are sold.

Balloons

Balloons are normally marked up 3.0×

 to cover the cost of supplies – gas and clips. The end result is COGS of approximately 43%.

Gift Baskets

A double markup is the most common when gift baskets are pre-made. Most retail florists find that making up their own baskets is not worth the effort.

Service Charges

It is common to see \$6.95 to \$9.95. Order gatherers charge from \$13.99 to \$14.99. Of course,

they offer 24/7 service, which allows them to charge a bit more. Any service charge of \$6.95 or more will be profitable for the retail florist.

Delivery Charges

Entire articles have been written about delivery charges. On average it costs \$5.00 to \$6.00 to make a delivery, depending upon the size of the market you serve. Larger cities are more expensive due to higher labor rates and further distances.

The most common delivery charge today is \$9.95.

FAMILY BUSINESS RELATIONSHIPS

A BLESSING AND/OR A CHALLENGE?



If you talk to many retail florists who own and operate their shop as a family business, you are likely to quickly run across two opposing points of view on family relationships.

First is the couple that loves working together. They believe they have been blessed by the opportunity to spend their working days with each other.

Second is the family owner/operator whose spouse is employed elsewhere. They can't imagine working side-by-side every day and still maintaining a solid marriage.

Which one is right?

Of course, the answer is "both" and "neither." Just as there are many individual personalities, there are many "couple" personalities.

What is right for one couple (or family) can be the undoing of another. Different personalities bring different expectations, abilities and baggage to every circumstance.

However, there are some general insights that can guide you through the maze of family relationships.

LEADER/FOLLOWER(S)

When a couple (or family) has a clear understanding of who's in charge, things usually go much easier. We're not talking about one person playing the role of a tyrant who forces the other family members to submit.

Rather, it is a situation in which one person has a leader-oriented personality and other family members are more naturally followers. The leader doesn't have to force his/her way.

The opposite is true of two individuals who are both leaders with strong personalities trying to work together. Clash is inevitable. If they want to keep their marriage viable, they probably have to fulfill their leadership skills in different ways.

TWO DIFFERENT TALENTS

Often, when you see a couple that is working well together, you find two complementary skill sets.

One might be the creative designer. The other is the office manager/book-keeper type.

Together, they form a perfect team to run a flower shop. Both skills are

needed to run an efficient and profitable retail flower operation.

Each sees the value of the other person and allows him/her to direct his/her segment of the business without interference. Harmony is maintained.



Often, when you see a couple that is working well together, you find two complementary skill sets.

However, in the case where both spouses have the same talent, sparks are just waiting to fly. Take two designers. They both have ideas on how the design operation should be run. They both know what style of design is best for the success of the shop.

MULTIPLE LOCATIONS

For larger operations with multiple shops, similar personalities and skills can survive because spouses can be at different shops. Size allows opportunities for both to flourish.

Smaller shops with only one location don't have the ability to spread the talent around like the larger shops do.

BASIC RULES HELP

Although some individuals are more prone to a happy working relationship, they still need to have some basic guidelines within which to operate. Long-term camaraderie is a function of more than just compatible personalities with complementary skills.

First and foremost, keep the home lives and the work lives separated. When you get to the shop, talk business. As much as possible, leave the home problems at home until you return in the evening.

Similarly, when you return home after a long day at the shop, don't continue to try to solve the business problems throughout the evening. Focus on family and family activities.

Everyone needs a break from work. Home is the place to refresh and recreate yourself.

DON'T PUSH IT

It's often thought of as an ideal situation: Have a small business and work together. With the right couple, it is.

If you fit the guidelines of what makes it work, go for it. If you weren't made for such closeness, don't fight your grain.

Remember that tigers don't change their stripes, and the majority of people can't change who they are. Little adjustments? Yes. Major ones? Probably not. There's too much at stake. 🐾

BUYING FOR PROFIT

Smart buying is valuable. Individuals who run very profitable businesses often say they make as much money by buying right as they do by selling right. It's an interesting statement. How can that be?

Think about it. You go to your local wholesaler and buy a stuffed animal for \$5.00. You apply your normal markup for gifts (double) and sell it at retail for \$9.99.

Now, suppose, by looking around or negotiating, you could buy that same stuffed animal for \$4.50, \$4.00 or even \$2.50. What would you do?

If that plush is generally being sold by other retailers in your market for \$9.99, you could still mark yours at \$9.99 and substantially increase your margin. Another choice would be to stick with your normal markup and reduce the retail price accordingly.

You would be undercutting your competition and hopefully would attract more customers.

A third alternative would be to do something in the middle. Get a better margin and still offer a better price than your competition.

Your decision should be based upon how fast the item is moving. If you can sell it quickly and keep your normal retail price, go for the largest margin.

HOW TO BUY RIGHT

First, make sure you are checking all the available sources for the products you are buying. Check all your local suppliers. Attend gifts shows. Read catalogues.

Of course, don't forget the Internet. You can quickly search through many wholesalers or manufacturers for the products you want. You never know when you'll come across a great

opportunity, and usually Internet prices are very competitive.

Check for volume discounts. Often you can shave 15% to 30% off the price by buying in quantity. But don't buy quantity you can't sell. You'll end up paying more for your products, not less.

If you can sell it quickly and keep your normal retail price, go for the largest margin.



Also, make sure you consider freight and handling charges. Remember that your local supplier has already added freight into prices, so the price may appear higher at first glance. However, when you add all the extra charges, the savings dwindle.

LOOK FOR SPECIALS

Another good way to buy right is to talk to your suppliers in advance

about buying discounted merchandise from them.

Suppliers run their businesses just like you do. They estimate what their sales of a particular item will be, purchase that amount and then hope to sell it all. But it doesn't always work out that way.

Offer to buy leftover product at their cost or lower. You could get some great deals.

Buying closeouts from your supplier has two hooks. First, usually you must be able to step up to the plate on a moment's notice.

Second, you must be able to move the product out yourself while it is still in good shape. If you don't have the customer base to move the product, you certainly don't want to buy it.

BETTER BUYING = FLEXIBILITY

By buying better, you have the flexibility to increase your margins by lowering your cost of goods sold (COGS) or to offer your customers a better value by lowering the price, or you can do some of both. It's a great way to do business. 🍀

FAMOUS FINANCIAL WORDS

"Few rich men own their own property. The property owns them."—Robert G. Ingersoll

"A company with internal dissension is drained of energy before it has a chance to devote it to its proper purpose."—J.C. Penney

"Money swore an oath that nobody who did not love it should ever have it."—Irish Proverb

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NORMS

DELIVERY CHARGE MINIMUM



This is the lowest delivery fee charged by an individual retail florist attending a recent financial seminar. Seventy percent of the florists had delivery charges above their cost of making deliveries.

Retail florists have traditionally not charged enough to cover their delivery costs, let alone make a profit.

Finally, florists are realizing that they should charge for what is undoubtedly their most valuable service. And not only charge enough to cover the cost but charge enough to make a reasonable profit on delivery service.

Is your delivery charge high enough to be profitable?

INQUIRIES & ANSWERS LETTERS

SKIMMING

"Is it true that some florists don't report all their sales?"

Probably, but don't do it.

The only reason you would not want to report sales is because you wanted to cheat on your taxes. Although the desire to pay less taxes is understandable, breaking the law is a high-risk solution that also has moral implications.

Although you might save a few dollars in taxes, if you didn't get caught, you lose on a couple of other very important fronts.

First, you will never know exactly how well you are doing when you have unreported sales. You'll never know exactly what your cost of goods sold (COGS) is either. That usually means you will operate less profitably than you could if you had better information. You could actually end up with less in your pocket because of poor performance.

Second, when it comes time to sell your shop, you'll have a hard time getting the buyer to pay you for those unreported sales.

ADVERTISING WOES

"Why don't my ads bring in the business I expect?"

It's all in the numbers.

Most flower buyers make purchases less than three times per year. In other words, there are only certain very narrow time slots during the year when your ad will match up with an individual's floral need. In addition, research shows that most consumers must see an ad five to seven times before they will respond. It is hard to get that kind of repetition into short time frames.

These are the major reasons why most retail florists advertise on major holidays. Those are the most likely times when customers are going to buy. The time frame is right. It's also why many florists are using email and social media as their primary advertising vehicles. They get repetitions to customers that they know will eventually make a purchase at a very reasonable cost.



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