



Keeping Your
Books
What's Necessary?
What's Nice? page 2



FINANCIAL
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EDUCATION
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QuickTakes

*Ideas You Can Put
to Work Immediately*

1 Breaking the Roadblock

Ever struggle to get going? Feel like your to-do list is too long? The tasks are insurmountable? Here's a tip from Mark Twain:

"The secret of getting ahead is getting started. The secret of getting started is breaking your complex, overwhelming tasks into small manageable ones, and then starting on the first one."



2 Getting Where You Want to Go

Vision leads to mission, which leads to goals.

Understand the progression:

- Your vision is where you want to be in three to five years.
- Your mission is what you want to accomplish in the next 12 months.
- Goals are what you want to do in the next two to three weeks.

Start with the vision. Make it bold. Move forward from there.



3 Leadership

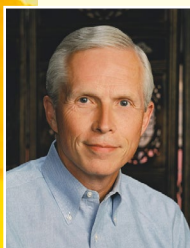
What comes to mind when you receive a call from a customer who is unhappy?

"This customer just wants to yell at me." ... *or* ... "This customer thinks I can solve a problem."

If you adopt the first mindset, you are on the defensive, unhappy and almost certainly unprepared to serve.

With the second approach, you will see yourself as a hero ready to save the day with a smile. It's your choice.

GUILT BY ASSOCIATION



Occasionally, a florist who is turned down for a loan will complain of unfair treatment: "I know why we were turned down. That bank had bad loans with two other local florists. They just

don't want to lend to florists anymore."

Is it true? Do banks practice guilt by association?

Almost never.

A bad experience with one shop won't prejudice a bank against others in the industry. It simply makes them more wary. More careful.

Florists struggling to get a bank loan generally just haven't proven their creditworthiness.

The key is to provide detailed documentation of your financial condition.

For starters, you'll need good financial statements. Both substance and form are important. The lender will want to see your data in a familiar format. No shoeboxes of receipts. No unorthodox recordkeeping systems.

Check your receivables as well. Are you conservative in estimating which outstanding accounts you will collect? A bank is likely to discount any accounts older than 60 or 90 days.

Your shop's financial history is also important. Has your borrowing increased in the past three years? If so, be prepared to explain why. Otherwise, the bank will assume—perhaps correctly—that your cash position is deteriorating. That's a problem for the bank because cash is what will repay the loan.

Having trouble getting a loan? Work a little harder to prove your creditworthiness to the lender.

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On the cover: Teleflora's
Sunny Day Pitcher of Cheer

Keeping Your Books

What's Necessary? What's Nice?

Managing a flower shop involves many responsibilities. Delivery. Buying. Inventory. Design.

To keep the shop running smoothly, each area needs a well-organized system. A sound plan.

You also need a good system for managing the shop's financial affairs.

Finding the "best" financial recordkeeping system is a delicate balancing act. How accurate do your records need to be? And how complicated a system are you willing to accept? The answers won't be the same in every shop.

TWO REASONS FOR GOOD BOOKKEEPING

Why bother to keep good books, anyway? Two reasons.

First, you must meet the business' tax obligations. Bookkeeping for tax purposes does not require a lot of detail.

Second, you need to properly manage your business. This is a more complex task.

PAYROLL

To manage your payroll, you not only have to track each employee's earnings, you also must withhold the appropriate taxes.

Because payroll is so complicated, it's often best left to a specialist.

Outside payroll options range from local CPAs to national payroll firms such as ADP or Paychex. Fees are nominal and usually well worth the expense.

If you do decide to "go it alone," the payroll process involves four steps:

1. Calculating each employee's gross and net pay.
2. Writing the checks.
3. Making withholding and tax deposits on time.
4. Filling out all necessary tax forms and reports as they come due.

Fortunately, you don't have to do all of this with pencil and paper. Accounting software can perform the most tedious tasks for you.



DAILY SALES

Daily sales records help you make good buying decisions and focus your marketing efforts.

It's best to break your sales down into a few major categories—instead of a bunch of little ones. For the average retail florist, the minimum would be:

- Silk & Dried
- Cut Flowers
- Arrangements
- Green Plants
- Blooming Plants
- Balloons
- Gifts
- Service Charges
- Wires Out
- Delivery Charges

Bigger shops might add a few more categories.

Both your point-of-sale (POS) system and general ledger (GL) program (for example, QuickBooks) should use the same sales categories. Otherwise, you will have conflicting, or at least confusing, information. Once set up properly, your POS will track your sales by day or any time frame you want.

DAILY CASH CONTROL

Making a sale is a good start, but you also want to get paid. That's where daily cash control comes in.

Start with your total sales for the day. Then, add sales taxes collected and house charge payments (also called ROAs—payments received on account). This is the total amount of cash you need to account for.

Sales, taxes and ROAs are paid for in a variety of ways. The top six are:

1. Cash/Checks
2. Credit Cards
3. Gift Certificates
4. Discounts
5. House Charges
6. Incoming Wire Orders

The total for all payment types should match the day's sales, tax receipts and ROAs. If the two totals don't match, find out why. Did you take money from the register to buy something for the shop? If so, add a seventh category—paid outs—to account for cash taken from the drawer.

If your totals still don't balance after including the paid outs, you may have made a mistake—for example, giving someone too much or too little change. Or, you might have a thief in your midst. Either way, you need to know.

CHECK REGISTER

Your check register is the shop's most important bookkeeping tool. Each monthly bank statement must balance to the penny with your check register's ending balance.

Proper check register entries are critical.

CHECKS

When you set up your shop's books, decide which sales, expense and other categories you will track. Each category will be assigned a number and/or a name (the GL code). You will debit or credit all transactions to at least one GL code.

For example, a check to a local discount store for pens, note paper and staples would reflect the GL code for office supplies.

If you also used that check to purchase shears, smocks or floral tape, you would allocate the total to two GL codes. One for office supplies and another for design supplies.

DEPOSITS

Deposits also must be noted and coded in your check register.

A wire-service rebate would be credited to rebate income.

Checks from customers who are paying on their accounts would be credited to accounts receivable.

ACCOUNTS RECEIVABLE

Unlike other retailers, most florists extend credit to customers through house accounts.

Keeping track of accounts receivable is no easy task. Each day, you will enter charges and payments. You'll also have to generate invoices and statements.

And periodically, you must print a list of current and past-due accounts to see how much your customers owe and identify past-due amounts.



OTHER TASKS

Three other financial tasks are also essential in a well-managed flower shop:

1. **Wire-Order Accounting.** This involves correctly logging each incoming and outgoing order. You also must record the proper GL codes when you receive your monthly wire-service statement.
2. **Inventory.** Once or twice a year, take a physical inventory of merchandise on the shelves. You'll quickly see whether you have expensed the correct amount of product to your cost of goods sold (COGS) categories and have the right amount remaining in your inventory categories.
3. **Financial Statements.** Most florists hire a professional to prepare their financial statements. However, if you do your own statements, this is another monthly task. 🌀

Setting Flower Prices



What About Seasonal Fluctuations?

On June 25, Sam planned and priced his July featured arrangements. On July 1, Sam's wholesaler dropped the prices on several of the flowers in those arrangements. However, the wholesaler also said prices on other flowers would rise in August.

How should Sam respond?

Should he charge less for a few weeks? And then bump his retail prices back up if the expected August increases materialize?

Should he keep his July retail prices the same and pocket the extra profit—and worry about August later?

Wholesale price fluctuations raise complex issues for retail florists.

SUPPLY & DEMAND

The principle of supply and demand is central to a free-market economy:

- **Supply:** The more of a product that is available, the lower the retail price for that product.
- **Demand:** The greater the demand for an item, the higher the price.

The two variables work together to establish price.

When the supply of and demand for a product rise at roughly the same rate, the price will remain the same.

If supply increases and demand remains constant or falls, the price will fall. If supply is steady or falling while demand increases, the price will rise.

In our industry, Valentine's Day shows the principle in action. Consumer floral demand increases dramatically. If retail prices remained at their January levels, there would not be enough product to satisfy the marketplace.

To bring equilibrium to the market, retail flower prices rise. The higher prices discourage some customers from buying—thereby lowering demand.

Prices will continue to rise until consumer demand and available supply are roughly the same.

A predictable and reliable benchmark price reduces anxiety and makes buying decisions easier.

The opposite effect happens during the summer. Supply exceeds demand. So, retail florists lower prices to encourage more buyers.

COMPETITION: THE DRIVING FORCE

Competition keeps the free market moving.

One shop lowers prices to attract more potential buyers. A competitor doesn't want to lose customers. So, it drops its prices as well. The price savings push demand up.

What happens in a monopolistic environment where there is no competition? The monopolist can set the price as high as it wants.

The only constraint is what consumers will stomach.

Competition makes markets work by producing low prices for the consumer.

WHAT ABOUT QUALITY?

Free and competitive markets also foster higher quality.

To keep or increase their share of the market, each supplier tries to differentiate its product with higher quality or additional features. All to gain more customers.

Again, the floral industry is a perfect example. In our industry, competition drives creative design, great service and chain-of-life procedures that enhance product quality. And those variables differentiate one seller from another.

Once again, the free market serves the customer well.

WHAT'S A FLORIST TO DO?

So that's enough about the theory behind free markets and competition. Now let's talk about how a retail florist should respond to fluctuating wholesale costs.

Most florists use pricing formulas—applying multiples to an item's wholesale cost to arrive at the retail price. For example, doubling the cost of a container or putting a 3.5× markup on fresh flowers.

Rigidly applying the formula year 'round would make retail prices go up and down like a yoyo.

Summer Specials

Use low summertime wholesale prices to create targeted summer specials.

Rose Specials



Wholesale rose costs plummet in the summer. Shorts may be as low as \$7.50 per bunch (30¢ per stem). A \$14.95 retail price on a full bunch of 25 roses would still yield a double markup.

One florist we know ran a summer 1¢ Sale. “Buy a dozen roses for \$14.99. Get a second dozen for 1¢, and we’ll throw in an extra rose to show our appreciation.”

The shop simply recut the stems on the full bunch of 25 before putting them in the cooler. They sold hundreds each summer at a double markup. And the customers couldn’t have been happier.

Bunch Specials



Publicize a special bunch of flowers for a special price.

For a successful campaign, follow these guidelines:

- Rotate the products you select so there is a noticeable change from week to week.
- Use the best priced product from your wholesaler each week to ensure variety for the customer and keep your profit margins high.
- Talk to your wholesaler about overstocked flowers. You get an extra special price. The customer gets a real deal.

Special Arrangements



Tap your designers’ creativity to discover an inexpensive but attractive weekly special featuring low-cost flowers. Don’t lower all your arrangement prices. Just the featured one.

Sure, a few customers will switch from a full-priced arrangement to the special. However, others who come in for the special will decide to buy something more expensive that fits their needs. As long as the gains offset the losses, you win.

CUSTOMERS LIKE CONSISTENCY

Before you raise or lower prices, always consider what customers will think. Will they buy more or less? Will they go to a competitor to find a better price?

As a rule, customers do not like surprises. They like knowing that they can expect a certain number of flowers for a certain price.

They also like the assurance that they can always find a nice arrangement for \$49.95. A predictable and reliable benchmark price reduces anxiety and makes buying decisions easier.

PRICES TOO HIGH

One more element also favors stable flower prices.

At certain times of the year—most notably Valentine’s Day—florists cannot pass on all of their increased wholesale flower costs to customers. Few customers would accept the dramatically higher prices that such a strategy would produce.

How can you stay in the game at Valentine’s while maintaining your profitability?

Here’s one idea.

Take a smaller markup in February when your costs are high and compensate with a slightly larger markup in the summer when wholesale prices fall. In other words, apply the multiple to your “average” wholesale prices. Don’t recalculate retail prices every time your costs move up or down.

You’ll make a little less in some months and a little more in others. But customers will gain the predictability they seek.

COMPETITION

Ultimately, you don’t set the prices for your arrangements.

Your customers do.

They won’t buy an item that is priced too high.

If competitors lower prices on their summer arrangements, you may have to follow suit. You can’t

keep your prices up when the competition’s are going down.

One caveat: Many supermarkets directly follow wholesale price fluctuations. As a result, they can offer dramatically lower summer prices.

So, if supermarkets are a real threat to your business, you might want to be more aggressive. Always offer several flower bunches that are priced competitively with the local supermarket. But maintain your regular pricing strategy on arrangements and other products.

IT’S UP TO YOU

Although maintaining consistent retail prices is normally a sound policy, unique considerations in your market or business strategy may point you in a different direction.

Use good judgment and take advantage of favorable wholesale prices when appropriate. See the box above for more ideas. 🌻



Before turning your business over to the next generation, you must make sure they are up to the task.

Much of the preparation takes place outside the shop. In fact, it starts years before the formal succession process begins. Children form many core attitudes and habits at a young age through everyday life.

You can teach many business basics at the dinner table. It's simple. Just talk about what's happening at the shop.

Slowly but surely, your children will be exposed to management essentials: inventory, buying, care and handling, cost controls and profitability.

They will also learn about people: hiring, firing, training, motivation and the characteristics of good employees.

Of course, all the training in the world won't matter if you don't convey a positive picture of the business.

So, watch the tone of your conversations. If all you do is grumble about the shop, no kid in their right mind would ever want to get involved.

Stress how much you enjoy the challenges. Share why you got into the floral industry in the first place. Real enthusiasm is caught as much as it is taught.

Finally, expose your children to various leadership opportunities through sports, school, church or other community organizations. When the time comes to lead the business, they will be much more comfortable in that role.

Training the Heirs

BUSINESS TRAINING

While your children are still in school, part-time employment at the shop will be a big win. A source of income for them. A source of labor for you. And a great opportunity to begin the training process.

Move them around from job to job. Let them experience every aspect of the business. But start them at the bottom.

Reward good performance with increasing responsibilities. And hold them accountable for subpar perfor-

Expose your children to various leadership opportunities through sports, school, church or other community organizations.

mance. You want them to learn the importance of a strong work ethic. As an added benefit, the child also will be earning other employees' respect.

An owner who hands the business to an unprepared child will create resentment among the staff. The flip side is also true. An heir who works hard and isn't given special advantages will build goodwill with his or her co-workers. Strong internal relation-

ships will already be in place when the succession occurs.

OUTSIDE EXPERIENCE

In addition to formal business or floriculture education, it's often a

good idea for children to gain real-life experience outside the family business.

Work requirements and rules that might seem onerous when imposed by a parent will seem natural in a different context. A child's natural need to gain independence doesn't get mixed up with job requirements.

When the child returns to the family business, he or she will do so with a deeper level of maturity and an enhanced skill set.

TRAINING ATTITUDES

As your child begins to take on real management responsibilities, the goal is to maximize learning and minimize contention.

Don't go around your children to fix problems that are in their area of responsibility. If extra coaching and correction are required, talk to them in private, not in public.

Hold regular meetings to review progress on both strategic and tactical matters. And when an issue arises, respond only to that issue. Don't expand the problem by bringing up other past errors.

Finally, remember that the best teachers are known more for the success of their students than for their own contributions. Take the time to do it right. Prepare your children to succeed. 🌸

Handling an Audit | Keep Your Cool

The return address in the upper left-hand corner of the envelope says “Internal Revenue Service.”

The letter inside addressed “Dear Sir or Madam” says that your tax return is being audited.

Skimming the letter, you quickly see the audit’s date, time and location (usually your business address), the agent who will do the work and the focus of the investigations.

You feel like you’ve been called to the principal’s office. Or that you are guilty until you can prove your innocence. It’s not a very happy day.

WHAT’S INVOLVED

The audit could cover your personal tax return, your shop’s return or even that of your qualified profit-sharing plan if you have one.

You will receive a list of items the auditor might review. The bad news is that the list might include 30 or more items. The good news is that not all will apply to you. However, you at least will have an idea of the documents you will need to locate.

WHY ME? WHY THAT YEAR?

Although some audit candidates are selected at random, most are the result of a computer seeing a questionable entry on a return. Something that deviates from the norm. Or marks a dramatic departure from the taxpayer’s history.

For example, suppose you typically donate little or nothing to charity. Then, one year you give away 10% of your income. That could raise a red flag.

Same thing if your business travel expenses double or triple from one year to the next.

GET HELP

If you are audited, enlist your CPA’s help. Don’t do it alone. The fees you pay will be well worth every penny.

Why?

Audits often expand in scope. For example, if an audit is planned for a single year, it is not uncommon for the auditor to request the previous two years’ tax returns plus the owner’s personal tax returns for the same periods. Those returns could raise additional questions.

You might call this a fishing expedition. The auditor would say he/she is just trying to establish “baseline trends and consistency.” Either way, the inquiry will be much broader than you first think.

“But I know more about the business than my CPA. Doesn’t it make more sense for me to answer the auditor’s questions?”

No. You know too much. You are too emotionally invested. As you try to explain your situation, you’ll undoubtedly open more doors than you should.

Let your CPA do the talking. And ask that the meeting location be changed to the IRS office or the CPA’s conference room. You probably shouldn’t even be present.

Your CPA has been through many audits. His/her expertise will save you a lot of time, trouble and, yes, money.

The goal is to cooperate without inadvertently introducing other



non-related issues. A CPA can protect your interests.

IT’S JUST THEIR JOB

Despite what you might have been led to believe, IRS agents do not sport a tail or carry a pitchfork. They are government employees. They might live in your neighborhood. Their children might be classmates of your children. And they get a paycheck, not commissions.

If you say anything negative during the audit, make sure the agent knows you are just frustrated with the system; it’s nothing personal.

The villain is the IRS Code created by Congress. The agents can’t change a thing in the Code. So, treat them with respect.

Be pleasant. You’ll feel better. And the audit will go more smoothly. 🌸

FAMOUS FINANCIAL WORDS

“Though mothers and fathers give us life, it is money alone which preserves it.”—Ihara Saikaku

“If making money is a slow process, losing it is quickly done.”—Ihara Saikaku

“We at Chrysler borrow money the old-fashioned way. We pay it back.”—Lee Iacocca

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INQUIRIES & ANSWERS Letters

DIRECT MAIL

“What’s the best and least expensive source for prospect direct-mail and email lists?”

Your own customer base.

There is no better source than your own customer list. Keep the names on your computer. Pull them out for email and direct-mail campaigns whenever you want.

Include both flower purchasers and flower delivery recipients. Both groups are better prospects than names on a pricey list obtained from a broker. They obviously are flower lovers. They are in the right part of town. They know your products and services. They are—in a word—perfect.

To grow your list, keep a form at the front counter. Ask walk-in customers to give you their email and mailing addresses.

IN BALANCE

“Does a balance sheet always balance?”

Always.

This is often confusing to non-accountants. What about a shop that owns more than it owes? Or another that owes more than it owns? It’s natural to question how either could possibly be in balance.

If you forget accounting and use common sense, you can see the answer. On one side of the balance sheet are the business’ assets—cash, inventory, receivables, furniture, equipment and vehicles. Some assets are liquid (can be turned into cash quickly) and some are not. All represent real value to the business.

On the other side are liabilities—accounts payable, accrued payroll, accrued taxes, bank loans and other debts.

The balance sheet always balances because there is one other kind of liability—“owner’s equity.” This is what the business owes the owners. Seed money the owners put into the company, earnings that have not yet been paid out or some combination of the two.

Total owner’s equity is the exact amount needed to make the liabilities and assets balance. If the shop is losing money, total owner’s equity could even be a negative number.

Assets equal liabilities plus owner’s equity. Always.



NORMS FACILITIES COSTS



Retail florists’ facilities costs average about 8.5% of sales. Rent. Utilities. Repairs. Maintenance. Facility insurance.

If you buy a building, use a fair market rental rate to calculate your facilities costs. Depending upon the amount and terms of your mortgage, your monthly payment may not reflect a fair rental charge.

Floral Finance recommends that profit-minded florists keep facilities costs at or below 10% of sales.

Source: Floral Finance Business Services

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