



SHOP PROFILE page 4:
Making Money in February



FINANCIAL
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EDUCATION
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QuickTakes

*Ideas You Can Put
to Work Immediately*

1 Exercise = Energy

Tired? Want more energy?

Don't sit down to rest. Instead, exercise. Work up a sweat. You'll discover that you have more energy and a keener mind.

Exercising doesn't make you more tired. Quite the opposite. It's like an energy pill.

The top performers in every field know that taking time to exercise is essential.

2 Self-Esteem

Self-esteem is the number one factor in health and longevity.

If you think well of yourself, you will be healthier—and happier.

Where does self-esteem come from? Not by telling yourself how good you are, but by hard work and performance.

Every time you successfully complete a task or assignment, you are making a deposit in your self-esteem bank account.

3 The Journey

It's okay to have goals and aspirations. However, ask anyone who has achieved a major goal. They invariably will say the process of working toward the goal was more fun than reaching the goal.

For many people, life is what happens while they're waiting for something else to come along.

Don't let that be your experience. Live the journey.

INERTIA



An object in motion tends to stay in motion unless acted on by an outside force. Similarly, an object at rest tends to stay at rest. This is Isaac Newton's First Law of Motion.

It is why we wear seat belts. If you're driving at 60 miles per hour without a seat belt and crash into a tree (an outside force), inertia keeps your body moving—possibly through the windshield.

Seat belts and air bags stop your body's forward inertia in a safer, less dangerous way than the tree.

But inertia doesn't just apply to physical movement. As human beings, our sense of motivation also can be influenced by inertia.

If you are naturally lazy, your "lazy inertia" will keep you from doing new things and moving forward. On the other hand, if you are a go-getter, your "motivated inertia" will take you miles in whatever direction you want to go.

Now, look at your business. What inertia do you see? What is keeping you from growing, adding new customers or increasing your profitability? Next, ask what you can change.

Start with yourself. Take a good look at how you work and how you lead others. Do your personal patterns show "good" or "bad" inertia?

Identify what you can and should change. Get your personal inertia flowing in the right direction. Then, follow the same process with the rest of the business.

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House Accounts

PART ONE

When Should You Extend Credit?



A sale isn't a sale until it is paid.

This old saying is more than a cliché. It's a fact. Closing a sale is only the first part of the process. The real victory comes when the customer pays for the product.

On a cash purchase, these two events happen simultaneously. It's house accounts that present the big challenge.

This article is the first of a two-part series on house account policies. We'll show how to make house accounts help rather than harm your profitability.

This month's article examines whether you should extend credit at all. And if so, when. The March issue will explain how to manage house accounts for maximum control.

BIG PICTURE

Even if your shop's average sale is small, tight house account policies are important to your business.

VOLUME

It's not uncommon for 10% to 30% of a florist's sales to be in the form of house charges. For a shop doing just \$350,000 in sales, that's \$35,000 to \$105,000 in loans extended to the flower-buying public.

That's a lot of money.

Mistakes in the way you handle those charges can have a devastating impact on your business.

BIG TICKETS

Even with average sales of only \$50 or \$60, some larger orders will come in over the course of the year. A wedding. A party. A fundraiser.

Company gifts. Added up, these can all go into four or five figures.

A manufacturer who isn't paid on a \$500 or \$1,000 machine can always take back the machine. Because most of your products are perishable, you don't have that advantage. Once you've completed a job, you have little, if any, leverage over the customer. By the time an invoice is past due, the flowers are long since gone.

NO BAD DEBTS

If you didn't offer house charges, you could completely do away with bad debts and collections.

Don't laugh. This isn't as cynical a suggestion as it may sound. Declining to extend credit doesn't mean forcing all your customers into a "cash only" basis. They still can



use credit cards to charge a purchase. However, you no longer are the banker.

THE CREDIT OPTION

Is it realistic to ask your customers to put all their charges on a credit card rather than a house account?

Some florists have determined that it is.

From the customers' standpoint, there is little difference. They still can call in an order and say, "Charge it."

And from the florist's view, the credit card option offers distinct benefits.

For one, it eliminates the expense of billing. Every time you send a statement or invoice, the paper, postage and labor (or service bureau fees) will easily cost \$1 or more.

Having customers use credit cards will save you all that expense and trouble. The bankcard fees you will pay are a reasonable trade-off—almost certainly less than what you would spend to process and bill house accounts.

An even bigger advantage is that you won't have to wait for your money. Instead of waiting 30 days or more to get paid on a house account, you get immediate cash in the bank with a credit card charge.

STAYING THE COURSE

Despite the attractiveness of a "credit card only" charge policy, most

florists elect to maintain some house accounts. At least for commercial customers. Maybe for individuals as well.

That's fine.

More precisely, it's fine as long as you remember that credit is a privilege to be earned and not a right to be claimed. You must establish reasonable credit guidelines. The days when any stranger could call your shop and charge an order are gone.

At the same time, flower shops can't afford a cumbersome credit approval process. You need a system that is logical and easy to implement.

COMMERCIAL & INDIVIDUAL

Commercial accounts and other big-ticket purchasers present the biggest risks. So, they should have the strictest application procedures. It's not unreasonable to run a quick credit report and get a bank and trade reference or two on commercial accounts.

Before you "loan" a customer several hundred dollars, you should confirm that they are worthy of credit.

On individuals whose purchases will be smaller, you don't need to be quite so strict. But you still should take at least a few steps to decrease your risk.

1. Credit Applications

Tell new customers that you would be glad to take their charge if they complete a short credit application. That's what every other bank, lender and retailer in the world does.

The application shouldn't be too difficult. Just a few basics to show you take credit seriously and they should, too.

Some first-time callers won't be able to come by to complete an application. They need flowers immediately. That's why they phoned in the first place.

No problem. Ask them to put their initial charge on a credit card. No need to come into the store for that. After they complete the credit application, you can open a house account for their future purchases.

2. Cash First

A slight variation on the same basic idea: Require that a new customer's first purchase be paid by cash or credit card.

This gives you a chance to establish a relationship with newcomers. Investing cash up front is evidence of their good faith. Once the relationship is established, you can allow them to charge purchases.

3. Credit Limit

Open credit shouldn't mean unlimited credit.

Set a policy that no one can charge more than a predetermined amount without special approval. Either the same credit limit for everyone or individualized limits based on each person's purchasing patterns.

Your policy should be flexible enough to allow for exceptions, as needed. But whether and when to make those exceptions will be up to you. Establishing a credit limit puts you—not the purchaser—in control.

4. Current Customers Only

A customer whose account is already past due doesn't deserve any more credit. So, before accepting a house charge, verify that the customer's account is current. If it is not, the past-due balance should be paid before you accept any new charges.

This is only fair. Remember, credit is a privilege not a right.

Those are the basics on when to extend credit. Next month, we'll look at how to manage house accounts for maximum control. 🌸



Be sure to read next month's article, *House Accounts: Part II*, on how to manage house accounts for maximum control.



Making Money in February

Shop Profile

One Florist's Story

To make a profit in the retail flower business, your February performance is crucial. The month's increased sales give you a chance to make up for other times in which your sales are lighter. Valentine's Day volume also allows you to maximize your staff's productivity.

This month's featured florist, however, shows the ideal isn't always realized.

The shop is a single-location operation doing almost \$425,000 annually.

A glance at the "12 Months" column in the income statement at right shows an annual net profit of \$10,472.67 (2.5% of sales). The owner's quite reasonable \$35,000 salary is included in the payroll figures.

Before looking at how February affected the business' results, a few overall observations are in order.

ANNUAL ANALYSIS

This shop should be making more money.

A shop this size should realize a 10% net profit. Since the current net profit is only 2.5%, where can we find another 7.5% (approximately \$32,000)?

Cost of Goods Sold

Cost of goods sold (COGS) is the first candidate. Because the income statement breaks down COGS for each product category, it's easy to spot problems.

COGS for green plants (31.0%) and blooming plants (35.3%) are in the normal range for these items, given the usual competitiveness of local supermarkets.

However, the largest share of COGS—some \$62,959.27—is in the

arrangements category. The shop's pricing formula calls for 25% arrangement COGS—flowers & greens only—(\$58,348.45). At 27%, the actual COGS total is about \$4,600 too high.

At 69.7%, the shop's COGS for gifts is also too high. Most gifts are doubled, which would lead to a 50% gifts COGS target. Even after a few markdowns for specials, the figure should still be around 54%, or \$12,031. So, gift COGS is at least \$3,500 high.

In summary, we could expect to find about \$8,100 from better control of COGS. That's a good start.

Payroll

A shop's total payroll expense, including taxes and benefits, should be about 30% of total sales.

This shop's payroll is 37.9% of sales, or \$33,000 too high. So, a great deal of labor savings should be possible. And, interestingly, the problem is not the owner's salary. If anything, the owner's wages are too low.

Facilities

This shop owns its building, so mortgage interest has been included in the facilities expense numbers.

Facilities costs of 10% are appropriate for most florists. Once you get above 10%, it is difficult to be profitable.

At 10.3%, facilities expense is certainly not to blame for the shop's low profits.

Profit

Improvements in the three areas described above give the shop a net profit potential as follows:

Current Net Profit	\$10,473	2.5%
+ Arrangement COGS	4,600	1.1
+ Gift COGS	3,500	0.8
+ Payroll savings	33,000	7.8
= Total Net Profit Potential	\$51,573	12.2%

Hitting the overall 10% net profit target is clearly achievable. Only the shop's payroll needs a substantial reduction.

There may even be other profit opportunities.

Notice that the shop's delivery revenue is less than its vehicles expense.

Every time this florist makes a delivery, the shop loses money. Our experience is that a reasonable charge will seldom harm your competitive position. Florists should charge at least enough to break even and, preferably, make money on delivery. After all, delivery is one of the most important services you offer.

Increasing the delivery charge would add more dollars to the bottom line.

A LOOK AT FEBRUARY

February accounts for nearly 12% of this shop's annual sales. That's almost double the average non-holiday month. And February's net profit jumps all the way to 12.4%.

Of course, with that much volume and higher Valentine's productivity, you would expect higher profit for the month. In fact, the shop's February bottom line should be even stronger than this.

Notice that February payroll is down to 35%. That is better than the 37.9% average for the year but not as good as it should be.

Failing to plan the busy Valentine's Day workload carefully can lead to a lot of costly overtime.

WHAT ABOUT COGS?

February's arrangement COGS is up to 31.3%. At least \$2,100 of added expense because the shop exceeded its 25% target.

The overage could be due to two possible causes.

First, the designers may not have followed the shop's pricing formulas. That can happen during the hustle and bustle of Valentine's Day—but it shouldn't.

Second—and just as likely—is that higher-than-normal Valentine's Day product costs have not been completely passed along to the customer.

A conscious decision to prevent customer "price shock" by taking less than a normal markup would be okay. An unintentional failure to use the normal markups can and should be avoided.

When volume is up, you will lose money at a faster-than-normal pace if your controls are lacking.

SHOP PROFILE INCOME STATEMENT		February		12 Months	
PRODUCT SALES		Dollars	Percent	Dollars	Percent
Silk & Dried		\$ 1,796.45	3.5%	\$ 28,122.37	6.6%
Flowers Loose		981.00	1.9	30,685.87	7.2
Flowers Arranged		32,715.31	64.3	233,393.77	55.1
Green Plants		3,246.80	6.4	35,827.05	8.5
Blooming Plants		2,617.40	5.1	28,632.14	6.8
Balloons		2,941.50	5.8	19,127.63	4.5
Gifts		2,672.88	5.3	22,278.84	5.3
Returns		-72.02	-0.1	-8,225.32	-1.9%
Total Product Sales		\$46,899.32	92.1%	\$389,842.35	92.0%
NON-PRODUCT SALES					
Service Charges		\$ 862.50	1.7%	\$ 9,496.64	2.2%
Wires-Out Commission		1,599.02	3.1	16,034.39	3.8
Wires-In Commission		-1,758.29	-3.5	-18,456.89	-4.4
Rebates		1,280.00	2.5	8,347.98	2.0
Delivery		1,439.50	2.8	8,084.28	1.9
Miscellaneous		576.83	1.1	10,508.08	2.5
Total Non-Product Sales		3,999.56	7.9%	34,014.48	8.0%
TOTAL SALES		\$50,898.88	100.0%	\$423,856.83	100.0%
COST OF GOODS SOLD					
Silk & Dried		\$ 513.39	28.6%	\$ 8,406.84	29.9%
Flowers Loose		323.13	32.9	10,119.95	33.0
Flowers Arranged		10,250.24	31.3	62,959.27	27.0
Green Plants		910.45	28.0	11,096.18	31.0
Blooming Plants		891.60	34.1	10,105.84	35.3
Balloons		1,470.75	50.0	9,695.50	50.7
Gifts		1,365.19	51.1	15,524.38	69.7
Supplies/Containers		2,799.43	5.5	24,583.70	5.8
Discounts		458.81	0.9	3,683.87	0.9
Total Cost of Goods Sold		\$18,982.99	37.3%	\$156,175.53	36.8%
GROSS INCOME		\$31,915.89	62.7%	\$267,681.30	63.2%
EXPENSES					
Facilities		\$ 3,356.01	6.6%	\$ 43,814.57	10.3%
Payroll		17,803.49	35.0	160,734.57	37.9
Vehicles		1,654.20	3.2	10,935.78	2.6
All Other Expenses		2,805.93	5.5	41,723.71	9.8
TOTAL OPERATING EXPENSES		\$25,619.63	50.3%	\$257,208.63	60.7%
NET INCOME		\$ 6,296.26	12.4%	\$ 10,472.67	2.5%

SUMMARY

The shop's overall February net profit potential, then, looks this way:

Current Net Profit	\$ 6,296	12.4%
+ Arrangement COGS	2,190	4.3
+ Payroll savings	2,500	4.9
= Total Net Profit Potential	\$10,986	21.6%

Busy holiday months should beat the average target for payroll expense. So, the shop's actual potential profit may be even higher than this summary suggests.

HOLIDAY PROFITABILITY

To hit your overall targets for the year, you need to make the most of the "opportunity times."

The four major holiday months give you the cash to get through slower months such as January and July. Tight holiday controls will help you maximize that potential.

Florists should charge at least enough to break even and, preferably, make money on delivery.

Our profiled shop illustrates how just one important month can affect overall performance for the year.

This shop can do better. More than likely, you can, too. 🌸

THE CHALLENGE

THE SOLUTION

Finding the Help You Need

Most retail flower shops do between \$300,000 and \$400,000 in annual sales. Based on the *Floral Finance* Annual Salary Survey, that means they have 2½ to 4½ full-time-equivalent (FTE) employees. (Two half-time employees equal one FTE employee.)

Most of these shops have no more than two full-time employees on the job throughout the year. Part-timers pick up the rest of the load.

Finding dedicated, hard-working part-time employees is a challenge. However, there is a growing source of workers you won't want to overlook.



THE COLOR IS GRAY

As a percentage of the population, people over age 65 are the fastest growing group. And that trend will only increase as the last of the baby boomers hit retirement age.

Two major factors make this group a prime target for part-time employment.

First, they are healthier at retirement age than any previous generation. Those who stay active can expect to enjoy many fulfilling years of retirement.

Second, most seniors stay put when they retire. Very few leave their home cities for faraway retirement havens. Instead, they choose to retire in the location where they were living prior to retirement.

WIN-WIN

You need part-time help that is flexible and responsible. Retirees are typically very responsible and only want flexible, part-time schedules.

You would prefer someone who doesn't take a lot of training and hand-holding. Good judgment, punctuality

and a willingness to go the extra mile are important traits.

Older workers have developed a lifetime of good work habits. Most have been through a wide range of work-related experiences. They know how to relate to customers. They can coach young employees through challenging situations. They can handle whatever comes up.

You win. The retiree wins. What could be better?



FLEXIBILITY GOES BOTH WAYS

You know how much flexibility your shop needs when it comes to part-time employees. However, have you considered how much flexibility the employees need?

Active retirees often wonder, "How did I have time to work before I retired, given everything else I want to do?"

The more flexible you can be with retired workers, the happier they will be. You might want to line up two retired workers to fill one part-time position to accommodate their schedules.

Of course, some retired workers need income. Flexibility might not be as important to those workers. Regardless, you will enjoy the benefit of their experience.

TOTAL UNDERSTANDING

Good communication regarding the job description, dress, behavior and other work-related issues is important for all employees. Perhaps it is even more vital with senior employees.

Expectations almost always get us in trouble if we don't make them reasonable and known.

Many senior workers have a good work ethic and don't want to disappoint. They may feel more stress if they don't know what is expected. Some may have been out of the workforce for a little while.

To make your experience with older workers as smooth and rewarding as possible, spell everything out in detail. Don't leave things up in the air.

PEACE OF MIND

Hiring part-time employees is never easy. And not all senior workers are gold mines. You'll still have to interview carefully and make sure each individual will fit into your shop's culture.

However, the graying workforce can make staffing challenges easier to manage. And you will appreciate the maturity and calm the right senior worker can bring into your shop. 🌸

Punching In Early Staying Late

Managing payroll is a major challenge for every retail florist.

To make a reasonable profit, you must keep productivity high and overtime at a minimum (preferably at zero).

To track employee hours, larger florists historically installed old-fashioned time clocks. Employees would punch in when they arrived and punch out when they left. Today, time clock computer software, with many more features, is even more common.

Both systems end the need to monitor each worker individually. The employer knows precisely how many hours were logged and how much to pay.

DOUBLE-EDGED SWORD

As wonderful as time clocks are, they also pose some problems.

Wage and hour laws are very strict. They require you to pay overtime whenever it is earned.

Technically, even five minutes of overtime must be compensated. No matter the inconvenience or small amount of money that may be involved.

Suppose a conscientious employee clocks in a minute or two early every day. Bingo! You owe overtime pay. And thanks to the time clock, there's documented proof you owe the extra money.

EXTRA RULES REQUIRED

Employers who use time clocks should set and post rules prohibiting employees from clocking in early.

And then you must follow through with enforcement of the rules. Remember, if employees continue to clock in a little early, you still must pay for the extra time. You can't use the rules to avoid payment.

You can avoid payment only by making sure that no one clocks in early.



Employers who use time clocks should set and post rules prohibiting employees from clocking in early.

A BIGGER PROBLEM

The biggest danger is not the employee who clocks in a few minutes early. It's the employee who comes in an hour early or consistently stays an hour late to "get everything done."

Retail florists who consistently pay overtime wages cannot make a decent profit. You must avoid overtime like the plague.

PRODUCTIVITY

You've undoubtedly heard the maxim that "work expands to fill available time." In other words, a task that could be done in one hour will take an hour and a half if that is the time available to do it.

If employees figure they can add an extra hour at the end of the day to finish an assignment, you lose two ways. The work is not done as quickly. And you end up paying overtime for it.

Keep productivity up. Don't allow overtime.

THE BEST WAY

The more tech-savvy you are, the more suited you will be to time-clock software. The programs are inexpensive, easy to administer and simple to use. And they make payroll processing much easier.

However, the high-tech approach won't make sense for every shop. If you wish, simply have your employees fill out time cards. Let them know your overtime policy. Set their hours according to your needs. They will fill out the cards accordingly.

You won't have to worry whether they arrived at 7:58 or 8:02. They'll mark down 8:00.

Whichever approach you use, you still will have to make sure no one is putting in extra hours. ⚙️

FAMOUS FINANCIAL WORDS

"If you make money your god, it will plague you like the devil." — Henry Fielding

"Many managers are finding out ... that modern technology enables them to make mistakes faster than ever before." — John S. Fielden

"A rich man is nothing but a poor man with money." — W.C. Fields

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INQUIRIES & ANSWERS Letters



LOSS LEADERS

"Is it a good idea to offer specials that are 'loss leaders'?"

Yes, if you do it right.

The idea is to offer a valuable product at a very reasonable price. In fact, at a price so low that customers will flock to take advantage of it. The retailer makes little money on the sale—and may even lose some. Hence the name loss leader.

The hope is that customers will buy other items either at the same time or a later date. If you accomplish that goal, the loss leader is a winner.

However, too often that is not the result.

To protect yourself, make sure you don't cannibalize an item that already is selling well. For example, if you sell 100 arrangements of a dozen roses a month, don't offer dozen-rose arrangements at half price in hopes of selling 30 more. Your existing full-price customers will switch to the money-saving special—and you will lose.

Make your loss leader something different—even unusual. Or offer standard fare, like roses in bunches. Your arrangement customers will continue making their normal purchases, and you'll attract new customers for the special.

COUPON POWER

"Do coupons work?"

Yes.

In more ways than you might think.

When you send out a coupon via email or post one in your local newspaper, the direct responses to the offer tell only part of the story.

Interestingly, many florists using the strategy see sales increases among customers who didn't use the coupons—not just those who did.

Coupons attract as much attention to the business making the offer as to the product being advertised. Recipients may decide to give your shop a try, even if they don't want or need the product you're promoting.



NORMS

OTHER EXPENSES



The total of all other expenses in a retail flower shop after cost of goods sold (COGS), payroll and facilities.

In other words, after the big three, a retail flower shop's expenses don't add up to much. The way you manage COGS, payroll and facilities will largely determine your profitability.

Other expenses include advertising, vehicle, accounting, supplies, general insurance, telephones and a host of other small items. A lot to look at and monitor, but not too significant when it comes to the bottom line.

Yes, manage these other expenses. Keep them as low as possible. But if you really want to boost profitability, put most of your effort into the big three.

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