Page 4:
Giftware Challenges
Avoid the Pitfalls

FINANCIAL INFORMATION,
EDUCATION AND CONTROL
FOR THE RETAIL FLORIST

Floral® Finance

teleflora.

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INSIDE THIS ISSUE

QUICK TAKES
Ideas You Can Put to Work Immediately

1 Leadership Test

Here are three quick, bottom-line questions to help you assess how effectively you are leading your organization:

- How many times did you say "thank you" or give a pat on the back today?
- How many customer contacts have you had today?
- Did you add energy and excitement to your team, or did you drain it away?

2 Desires

"Be careful what you wish for because you may receive it." This saying is a caution to consider the implications of your desires.

When you want something, your conscious and unconscious mind will focus on it.

If your mind is full of negative thoughts, this principle can work against you. Instead, cultivate good goals—those that build positive outcomes. Your mind will work to get you there.

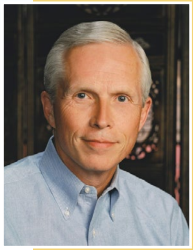
3 Perspective

Employees' performance will rise (or fall) to meet your expectations. It's human nature. So keep your expectations high.

Your employees will pick up on your energy, work harder and automatically accomplish more than if you had low expectations.

FROM THE PUBLISHERS
OF FLORAL FINANCE®

BROADER THINKING



"You don't buy coal, you buy heat; you don't buy circus tickets, you buy thrills; you don't buy a paper, you buy news; you don't buy spectacles, you buy vision."—Anonymous

This quote is a fantastic example of "outside-of-the-box" thinking.

The real goal is more strategic and energizing than what meets the eye. This applies to advertising.

Too many retail florists advertise product qualities instead of benefits.

A product's quality has to do with its physical characteristics or features. My roses are redder. My roses last longer. My roses are less expensive. All may be true statements. They might even convince some people to buy your roses. However, more people buy a product for the benefits associated with it, not its features.

Why do your customers buy arrangements? Most likely, it has something to do with the benefits of the product—not the features, per se.

Indeed, it is probable that they want to express an emotion of some kind: love, thankfulness, sympathy, congratulations or well wishes. These are strong emotions that require just the right means of communication.

This is great news because you are in the business of "delivering emotions."

When was the last time you reminded your customers of that? When was the last time you advertised the emotions your products can convey? You'll get better results when you do!

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Can I *Ever* Retire?

Planning Is Crucial

Your vacation lasts two weeks. Your retirement could last 20 years or more. Which one will you spend more time planning this year?

Getting ready for retirement planning is no day at the beach. It takes preparation—and a bit of math!

Unless you've inherited a fortune or been enormously successful in business, you won't be able to keep up your present standard of living after retirement.

Unless, that is, you start to plan and save now.

RETIREMENT INCOME SOURCES

According to the Social Security Administration (SSA), most people piece together their retirement income from four basic sources.

1. **Social Security**
2. **Savings/Investments**
3. **IRAs**
4. **Company Pensions**

If you're 40 years old or younger, don't count on Social Security to survive in its present form. Most analysts agree that the Social Security program is going to run out of money unless something is changed. None of the suggested revisions are very popular, so Congress continues to put off a "fix," thereby further jeopardizing the program's future.

Florists also usually don't have a company pension.

In other words, for all practical purposes, you will need to provide for your entire retirement through IRAs, savings and investments.

Don't panic. There's plenty you can do. Start by following these steps.

CALCULATING FUTURE INCOME/DEFICITS

1. Calculate Your Expenses.

First, figure out how much it will take to retire comfortably. As a general rule, you'll need to cover approximately 60% to 80% of your preretirement expenses. That level will probably be enough to maintain your pre-retirement lifestyle.

For example, if you spend $50,000 a year now, you'll need $30,000 to $40,000 in today's dollars to maintain a comparable lifestyle during your retirement.

2. Account for Inflation.

Knowing how much money you'll need is only the beginning. Inflation will also be a factor.

As prices go up, your buying power goes down. Tomorrow's dollars won't be worth as much as today's. To maintain your lifestyle during periods of inflation, you have to compensate for the declining value of money.

A simple rule will help you plan for this. It's called the "Rule of 72."

Here's how it works. Estimate what you think the average annual inflation rate will be in the coming years. Then, divide that number into 72. Your answer is the number of years it will take for prices to double at that rate of inflation.

Example: If inflation averages 4% per year, prices will double in 18 years (72/4 = 18). If it averages 3% per year, prices will double in 24 years (72/3 = 24).

No one can predict exactly what will happen over the next 20 or 30 years. Planning for inflation helps you cover your bases. If inflation is less than you expect, you'll be even better off.

For planning purposes, assume an average of 3% to 4% inflation. That means prices will double about every 20 years.

Next, you have to estimate how this trend will impact you personally.

Divide the number of years you have until retirement by 20. The answer is the number of times your estimated expenses will double by the time you begin retirement. The $40,000 you might need if you retired today would be closer to $80,000 if you're retiring in 20 years.

Then, you have to think about the continuing effects of inflation after you retire. A written schedule will give an accurate picture. Start with your estimated expenses in the year of your retirement. For year number two, multiply that estimate by one plus your inflation percentage. For example, if you think inflation will average 4%, multiply by 1.04.

For year number three, use your multiplier times the answer for year number two. And so on.

Run the table out at least to your life expectancy. Add another 10 years to see what you might need if you outlive the tables.

3. Estimate Your Retirement Income.

Once you know what you will need, you are ready to consider what you will have. Although Social Security most likely will have changed by the time you retire, you should at least find out what you might be entitled to under the present system.

SOCIAL SECURITY WON'T GO AWAY COMPLETELY.

What will likely happen are these three changes:

- ✓ The "full retirement" age will increase.
- ✓ FICA payroll taxes will rise.
- ✓ Means testing may lower benefits for those with assets.

Check the SSA website (www.ssa.gov) for links you can use to calculate your benefits. The site also has advice on when to start taking your benefits. The SSA can provide you with an estimate of your benefits if your income stays the same.

Next, look at any employer pension plan in which you have a vested interest. Find out how much you can expect to receive from that source.

Then, look at your IRA and/or 401(k) plans. At your present contribution and earnings rate, how much money will you have there when you retire? How much can you draw out each year?

If your total retirement income is likely to be greater than your needs, you can relax and go on to other things. If not, subtract all of your expected income from your expected needs. The result is the gap you'll need to cover through other savings, investments, interest and earnings to fully meet your expected expenses.

INVESTMENT VEHICLES

Money put into an IRA, 401(k) or other qualified pension plan can accumulate tax-free until you draw it out. That's an enormous advantage over earnings on which you have to pay taxes. Money compounds much more quickly when taxes are not a factor.

There are limits on the amount of money you can contribute to these plans. However, there are other attractive tools.

Consider making life insurance a part of your retirement plan. Money invested in whole life insurance compounds tax-free.

Upon your death, the money goes tax-free to your beneficiary. In the meantime, the policy builds cash value you can borrow against for your retirement. The other huge benefit of life insurance is that if you die early, it protects your beneficiaries from the loss of your income. Be sure to talk to your life insurance agent about these options.

Be careful when you choose an insurance company. It's essential that you select one that is financially sound. Make sure the company you choose gets high ratings from more than one rating agency. You want them to be around when you need them.

The final sources of retirement income are traditional investments that are taxed as you go. In most cases, you should also have some of these investments. They are a normal part of a well-rounded plan.

DON'T DELAY

Retirement planning is easy to put off. Maybe you can't do it today or tomorrow. However, do set aside a time to get started. The sooner, the better.

Get all of the help and advice you can from your accountant, insurance agent or financial advisor. It will pay off in the end.

Then, relax. Enjoy your two-week vacation. And know that your retirement is being taken care of.

Giftware Challenges

Avoid the Pitfalls

It's pretty obvious that giftware plays a big role in the floral industry.

You see it when you visit the trade fair at any floral convention or meeting. The exhibits often feature far more gifts than flowers.

You see it when you casually skim the florist listings in the Yellow Pages. Gift offerings are prominent.

And you see it most clearly when you walk into flower shops across the country. Gifts are often jammed up front. The flowers are in a cooler in the back

Flowers and gifts go hand in hand.

THE QUESTION

There's nothing wrong with selling giftware in a flower shop. In fact, there are strong reasons to do so.

A nice line of gifts helps you broaden your reach. It lets you help people in more than one way. You become multi-dimensional instead of one-dimensional. You have a greater chance to attract December holiday gift givers.

In fact, the question is not whether you should sell gifts but how you should sell them. The common practice of selling flowers over the phone and devoting most of the retail space in the shop to gifts may not be the best approach.

As you analyze how gifts fit into your operation, let the following principles be your guide.

MAKE IT PAY

The giftware side of the business has to pay for itself. This seems obvious, but in fact it is not the way many florists operate. They devote significant time, energy and resources to giftware sales, with little profit to show for their efforts.

If you find yourself in that position, it's time to reevaluate your approach. Are you getting a reasonable return for your investments in giftware?

TURNS MATTER

A good first step to determine if your return on investment is worthy is to check how often you are turning your gift inventory.

Let's say you have $30,000 in gift sales for the year. If you use a double markup (2×), those sales represent $15,000 worth of merchandise at cost.

Next, check your monthly balance sheets. What sort of gift inventory balances are you are carrying?

If your average monthly gift inventory is $7,500, you turned your inventory two times over the course of the year. If the average balance is $15,000, you only turned the inventory once.

The greater the turns, the better. Why? Because the more your inventory turns, the less money you tie up in inventory.

NARROW AND LEAN

A shop that isn't doing much better than one turn per year (overall) on gifts needs to make some changes. That's not good enough.

If your turns are low, you might be making one of two common mistakes.

Too Many Lines. Perhaps you are carrying too many product lines. You're trying to be "all things to all people." Maybe the summer gift shows were too enticing. All the new gift lines looked so good, you bought way too much.

Before long, your shelves are overflowing. Some of the products are selling well. But not well enough to make up for all the merchandise that isn't moving.

If you discover that you have a number of slow-moving lines, get rid of them. Instead of stocking 100 different items, try 50. Narrow your inventory. Focus your efforts on the faster-moving lines. When you do, you'll have less money tied up throughout the year.

Too Many Items. Some shops do a good job of limiting their product lines, but they are dramatically overstocked on the lines they do carry.

The answer to this problem is clear. Cut back on your order quantities.

One technique is to estimate the quantity of a given item you will need. Then cut that number by 25% to 50%. Don't go as "deep" on each product as you might normally. It's better to occasionally run short and have to steer a customer to an alternative selection than to carry unsold inventory.

Some shops will need to take both steps. Cutting the number of product lines and lowering order quantities.

Be honest about your situation and act accordingly. Do what it takes to boost your inventory turns.

GIFTS SUPPORT FLOWERS

Clearly, most customers need to see a gift item before they will buy it. Yet, in a flower shop many, if not most, sales are made over the phone or online. That creates problems for products that need to be seen.

Increasing the visibility of gifts on the sales floor may help. On the other hand, if the showroom is given over mostly to gifts, you may be sending the wrong message to the public. You also could be hurting your flower sales, which is your primary business.

People need to see that you are a florist the moment they walk in the door. After all, flowers are the focus of your business. They set you apart. They make you different than the host of other specialty retailers out there.

Customers rarely will make an impulse floral purchase if they have to search for your flowers.

So be sure that your showroom is not dominated by gifts, with flowers appearing only as an afterthought. Both flowers and gifts should occupy prominent positions on the floor.

MERCHANDISING 101

It sounds easy in principle: Give both flowers and gifts a prominent place in the shop. But how do you make that happen in practice? How do you make certain flowers get the attention they deserve?

Striking the proper balance between flowers and gifts involves several competing interests. Adequate visibility for the gifts. A layout that will heighten interest in cash-and-carry flowers and give a true picture of your total business.

This involves three different elements.

1. The Exterior

The first task is to get people in the store. If your store is primarily visible to vehicle (as opposed to foot) traffic, you'll have to think big. Drivers don't have much time to look. If you want to grab their attention, you'll need to make a big splash. Bright colors. Dramatic window displays. Short and powerful messages. A subtle storefront won't do the job.

Conversely, if you are in a mall, a neighborhood center or some other multi-tenant facility with a lot of pedestrians, a different approach may be called for. Use open doors, sidewalk flowers or a special sign to invite people in.

Display windows can be used to good effect in both types of environments.

Focus your efforts on the faster-moving lines. When you do, you'll have less money tied up throughout the year.

A closed-back window setup lets you present a powerful image. The viewer's eyes will be drawn to whatever you put in front.

An open-back window is a more subtle approach. Passersby can peer past the display into the store. A much better chance to see your fresh products and merchandise.

2. In-Store Traffic Flow

Configure the sales floor to encourage customers to check out both giftware and flowers. Not just the giftware.

This is an area in which supermarkets have something to teach traditional florists. They are masters at strategically routing the in-store traffic flow. Often, the floral area is on the main trafficway. That sort of placement can foster impulse flower sales. A customer who passes beautiful flowers on the way to the dairy aisle just might remember a friend or loved one who could use a small bouquet or a few loose stems.

If your store has a rigid "grid" layout that routes everyone in a predetermined direction, you can incorporate flowers into the traffic flow quite easily.

A "free-form" layout with scattered product groupings makes managing the traffic flow a little more challenging. Customers can browse wherever they choose.

One strategy in a free-form layout is to commingle fresh products with gift merchandise. Placing inexpensive stems or bouquets near the cash register will also build impulse sales—a little nudge that may entice a gift buyer to add a small fresh purchase at checkout.

Easy-to-read signs and pricing are just as important. Having to ask how much a flower costs can be intimidating to some customers. They don't want to appear ignorant, so they just don't ask—and you lose a potential sale.

3. Complementary Products

Careful product selection will also help your gifts and fresh product offerings work together.

Buy gifts that will complement your flower sales. Not those that stand in sharp contrast to your fresh products. Candles. Cards. Gourmet baskets. Permanents. A few decorator lines that you specialize in.

All of these selections "fit" with your floral work and will support fresh flower sales.

ONE FOR ALL

Should you be selling gifts? Sure. They make a great deal of sense for the traditional retail florist.

But don't go overboard. Flowers are still far and away the most important part of the business. Even if 80% to 90% of your floral sales are over the phone, don't hide the flowers from walk-in customers.

In the products you stock and the merchandising decisions you make, send customers a clear message. You sell some nice gifts. And you sell a lot of flowers—to customers just like them.

SUCCESSION SERIES

SUCCESSION PLANNING: *WHO'S IN CHARGE?*

Who is in charge of your operation will determine, to a large extent, the success of the business. It's the most critical issue you face.

After all, every organization needs a line of authority.

The buck must eventually stop somewhere. That's the only way decisions can be made in a timely fashion. It's the only way order and direction can be maintained.

ORGANIZATIONAL STRUCTURE

In most larger corporations, officers run the business and stockholders own the business. Although the officers make the day-to-day operating decisions, ultimately the stockholders (owners) call the shots. They can fire the officers.

In a small business, things are a little simpler. Ultimate control will rest with the owners, who also usually run the business. Fewer owners mean less potential for conflict.

The larger your family, the more difficult it will be to determine clear lines of authority.

Ideally, the person who runs the operation also owns the majority of the business. When more than one person is involved, it's possible that no one may own a majority interest.

This is particularly important if you are looking to pass the business to your heirs. If you have two children, never give half of the business to each child. That's a sure prescription for disaster. Because no one will be in charge, a nasty stalemate can occur.

In fact, any even number of children (two, four, six or eight) owning equal shares presents the possibility of votes being split 50/50.

If that possibility exists, always give at least one share of stock to a trusted family advisor—like your CPA or lawyer—who can step in to break a tie vote. And be sure to have your lawyer draft a document that holds this advisor harmless when he or she supports one side over the other.

If you give ownership equally to an odd number of heirs, you won't have the 50/50 problem.

ACTIVE VS. INACTIVE

In an attempt to be fair, parents often will give stock equally to all of their children, even when one or more don't want to be active in the business.

In reality, this isn't fair at all. The inactive sibling will benefit from the work done by the active sibling.

A better approach would be to value the business and determine what each child's share is worth. Then, as a part of the transition process, have the non-active child sell his or her share back to the business.

The buyout can be done over time, or the business can borrow money to immediately purchase the share. Either way, all of the children are treated fairly at the point of transition, and all can go their own way, free of encumbrances from each other.

RESOLVING CONFLICT

All families have conflicts. Especially those that are in business together. So you need a system for handling those conflicts.

A board of directors or group of advisors can be set up to help make operating decisions. However, ultimately the control will rest with whoever owns the greatest share of the company. Ownership equals power.

Teach your family members how to listen to each other and to resolve conflicts with their emotions under control. For the lesson to really sink in, you also must model this kind of behavior as a part of the training process.

The alternative to not being able to resolve conflict is anarchy or outright war. A business cannot survive either such situation.

> **If you have two children, never give half of the business to each child. That's a sure prescription for disaster.**

ACCOUNTABILITY

When multiple children take over the business, a clear system of accountability is essential. An effective system of accountability involves two basic steps.

First, each person must be given specific, measurable goals. Second, a performance appraisal must be completed for each individual.

And don't leave the performance appraisal to chance. The transition plan should state who is responsible for reviewing the work of each owner/employee.

TOUGH ISSUES

If you only have one child, or only one of your children is interested in the business, passing along control is relatively easy. However, if two or more children want to be involved, you will have to make sometimes difficult decisions.

As a parent you probably have a fairly good feel for your children's abilities and aptitudes. Make the business decisions accordingly.

And don't forget to thoroughly explain to your children why you are making each decision. Good communication throughout the process is a vital part of the transition program.

Pricing for Shrink

Suppose your target for flowers and foliage cost on arrangements is 25% of the arrangement's retail price

For every arrangement, you have carefully counted the flowers and written them down on the ticket. You know your designers are following the rules and not adding extra flowers. You also know you have not had to throw away flowers in the receiving or selling coolers.

However, when your income statement arrives, it shows your flowers and foliage cost for arrangements at 28%. What went wrong?

SHRINK HAPPENS

A certain amount of shrink is inevitable, no matter how well you control your flower care and design processes. Some flowers get broken in transit. Others are damaged during handling and delivery. And a few just aren't up to your quality standards.

The lost flowers will increase your cost for flowers and foliage for arrangements. However, you can plan for this shrink and make an appropriate adjustment to keep your costs in line.

THE TRICK

The trick to planning for shrink is to estimate shrink before applying your markup.

Shrink should not exceed 10% under any normal circumstance. Realistically, most shops should be at 5% or less.

Start by estimating your shrink. If you don't know, assume 10%, to be conservative.

Next, add that percentage to the cost of your perishable product. Then, apply your usual markup. From a financial standpoint, this will compensate for the lost flowers and ensure that you meet your flowers and foliage cost target.

Example: Suppose a carnation costs you 30¢ (including freight) and you expect 10% shrink.

Add 10% or 3¢ ($0.10 \times 0.30 = 0.03$) to the cost of the carnation. This will put the new cost (including shrink) at 33¢.

Then, apply your normal markup to the 33¢ to get your retail price.

Many retail florists have found this little trick is literally worth gold. The small adjustment will add dollars to your bottom line. The larger your business, the more profit you will gain.

PROOF

Let's say your markup on fresh product is 3.5×. Mathematically, that means your cost for flowers and foliage should be 28.6%. (Note: this percentage compares the cost of the flower to the price of the flower. Your overall arrangements COGS target might be different, once the container and supplies are factored in.)

If you buy 10 carnations at 30¢ (including freight), your total cost for the flowers would be $3.00.

After applying your markup, the retail price of those carnations is $1.05 ($3.5 \times 0.30 = 1.05$). If you sell all 10 at $1.05, you will have total sales of $10.50. Dividing your cost ($3.00) by your sales revenue ($10.50) gives a cost percentage of 28.6% ($3.00 / 10.50 = 0.286$).

You hit your target.

Now, suppose you broke and had to throw away one of the carnations. You sold the other nine, gaining sales revenue of $9.45. Now, your cost is 31.7% ($3.00 / 9.45 = 0.317$).

You've missed your target by quite a bit.

So, let's try our new trick.

Add 10% to the cost of each carnation: 30¢ plus 3¢ equals 33¢. Now apply your markup. The new retail price is $1.16 ($3.5 \times 0.33 = \$1.16$).

Again, suppose you break one stem and sell the remaining nine. Your sales revenue will be $10.44 ($9 \times 1.16 = 10.44$).

Your COGS is now 28.7% ($3 / 10.44 = 0.287$).

There you have it. The trick works. You were able to keep your flowers and foliage cost where it belongs—even with some shrink.

FAMOUS FINANCIAL WORDS

"I couldn't wait for success, so I went ahead without it."
—Jonathan Winters

"I'm a self-made man, but I think if I had it to do over again, I'd call in someone else."—Roland Young

"Many persons have an idea that one cannot be in business and lead an upright life, whereas the truth is that no one succeeds in business to any great extent, who misleads or misrepresents."—John Wanamaker

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INQUIRIES & ANSWERS

LETTERS

A CLOSE LOOK

"We're looking at buying an existing shop in our town. What do we need to find out about the business?"

Everything.

You have to know exactly what you're buying. There can't be any surprises on the day you become the owners. Here are several major issues to investigate.

History. Where the business has been financially and physically.

Reputation. How other florists in the community and, more importantly, in the public at large view the shop.

Competition. What they sell and how the market for those products looks for the future.

Finances. The "money questions"—what the balance sheet, profit and loss statement and other records show about the financial health of the shop.

Employees. Who the key people are. Whether they will stay or leave. How the workflow is organized.

Each of these areas covers lots of ground and should give you valuable information before you make a decision.

THEIR VAN. YOUR RISK.

"We use independent contractors for some deliveries, especially during holiday times. They use their own vehicles. How concerned should we be about our potential liability in situations that occur while they are doing our work?"

Very concerned. You need liability insurance.

The rule on liability insurance is simple: Assume that anyone can sue you at any time for any reason. The fact that the drivers are delivering in their vehicles doesn't really help you. Nor does the fact that you are able to classify them as independent contractors for tax purposes.

If these contractors are involved in an accident causing damage to people or property, you should expect to be brought into the dispute in some way. Because they were acting on your behalf.

Make sure you have adequate liability insurance to cover these and other situations. Non-owned automobile liability policies. Umbrella liability policies. Think big. Even $1 million in insurance is not too expensive, considering the benefits it brings.

NORMS

TOTAL PAYROLL

30%

This is the target for your total payroll cost as a percentage of total sales. That includes wages, company payroll taxes, workers compensation insurance and employee benefits. In addition, the 30% target includes a reasonable wage for the owner/operator.

If your shop has multiple locations, the target goes up to 35%.

Hitting these targets is not easy, but it is essential if you want to maximize your bottom line.

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