

## SHOP PROFILE

Analyze for Profitability...



FINANCIAL INFORMATION,  
EDUCATION AND CONTROL  
FOR THE RETAIL FLORIST

# Floral Finance®

teleflora.

FEBRUARY 2016

VOLUME 35, ISSUE 2



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## QUICK TAKES

Ideas You Can Put  
to Work Immediately

1

### Activities vs. Results

Some people work to complete assigned tasks. Others work to get results. The best employees take responsibility for results, not just activities.

The management lesson? Train people to produce results, not just to check activities off of lists. Recognize effort, but reward results.

2

### Praise Publicly

Create a culture in your shop that applauds success.

Give out copious amounts of praise each day. Pass it around. Make your employees expect it and look for it.

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

3

### Hire Winners

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

These people are the type who, like you, will do whatever it takes to succeed. No task will be "beneath" them. They are winners.

Zig Ziglar said, "You cannot consistently perform in a manner which is inconsistent with the way you see yourself." Hire people who see themselves as achievers. And they will be.

## THE RIGHT TOOL



The other day, I was trying to tighten a hinge on a cabinet door. I needed a Phillips screwdriver but couldn't find one.

I did have a regular screwdriver and managed to tighten the screw by holding the screwdriver at an angle and turning it around the screw. It took a while and, frankly, the hinge wasn't as tight as I wanted.

The next day, I was installing a keyboard drawer. The brackets had screws requiring a Phillips screwdriver. But this time, I had an electric drill with a Phillips attachment. Zip. Zip. Each screw tightened firmly in less than two seconds.

What a difference having the right tool makes. The right tool lets you complete a job quickly and effectively. No wasted time. Better end results.

The same is true in your business. If you have the right business management tools, tasks will be easier and quicker. You also will be more profitable.

In the design room, each designer should have a pricing chart that shows exactly how much perishable product can go into each arrangement at different price points. This tool makes controlling cost of goods sold (COGS) easier and faster.

Similarly, a floral-specific income statement at the end of each month is the only way to know if you're on track. When set up properly, this tool will show you all the key numbers you need. The result will be the best possible business.

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

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# DAILY CASH CONTROL



## BUSINESS IS A DAILY JOURNEY...

Cash is the fuel that keeps your shop's engine running. It's what pays the bills, buys the flowers and covers your wages. It's also one asset that changes every day. To be in firm control of your business, you have to track your cash throughout the year.

How much is coming in? What's the breakdown between cash sales, credit cards, house charges and payments on account? And what are all the receipts for?

You can't postpone answering these questions to once a year, once a month or even once a week. Cash control has to be a daily affair.

### WHY IT MATTERS

You only balance your checkbook once a month. Why should you check your sales receipts every day?

There are at least two reasons.

#### 1. It's Safer.

If someone is stealing a few dollars here and there or a salesperson is ringing up sales incorrectly, that situation needs to be addressed immediately. Finding out a week or a month later that you don't have the money you thought is much too late.

With daily cash control, you can spot and correct little problems before they become big ones.

#### 2. It's Easier.

Same basic principle. Verifying 40 payments from a day's worth of sales is much easier than waiting until you have 200 at the end of the week.

A miskeyed or voided sale will be easy to spot in the smaller group. The same mistake is going to be more difficult to locate when you have to pore over hundreds of transactions.

### BALANCING ACT

If you understand and use a simple formula, you'll be well on the way to sound daily cash control.

That formula is in the box below.

#### ADD IT UP

- Taxable Sales**
- + Non-Taxable Sales
- + Sales Taxes
- + ROAs

#### MUST EQUAL

- Cash**
- + Checks
- + Bank Cards
- + Travel Cards
- + Gift Certificates
- + Discounts
- + Paid-Outs
- + Charge Sales

If your daily totals add up perfectly, congratulations! If your cash is over or under for the day by more than a few dollars, find out why. Do you just need a small adjusting entry to "cash over/under" or is there a more serious issue you need to locate and solve?



## ...ESPECIALLY IN A FLOWER SHOP!

The formula has two parts (or sides). First is "what to account for." Second is "how it was paid." To control daily cash, the two sides must balance.

Sound simple enough? It really is. To begin, let's look at "what to account for." This has four components: taxable sales; non-taxable sales; sales taxes; and received on accounts (ROAs, which are the payments on charge accounts).

This breakdown makes sense. You make sales. Some of them are taxable. Some are not. Along with the sales, you count the sales tax (if your state has a sales tax). Finally, you collect payments for previously charged sales.

Adding all four together gives the total amount of money you need to account for.

### FORM OF PAYMENT

The next step is to match the total that you need to account for with the various ways the customers paid you.

As you might expect, **cash receipts** are the most straightforward type of payment and are very easy to calculate.

Open up the cash register. Take out any change fund with which you began the day. The remaining coins, currency and checks are your cash receipts for the day.

**Non-cash receipts** are the second major type of payment. They come in five separate varieties.

**Bank cards/travel cards** are just as good as money in the bank. You deposit these charges directly to your bank at the time of the sale. The bank will take out its discount fee later on, but

that expense doesn't affect your daily cash total.

**Gift certificates** used to purchase products should also be included in non-cash receipts. Note that this does not mean the sale of a gift certificate. Instead, it is when a customer pays for a product or service with a gift certificate that was purchased previously from you.

**Discounts** are coupons redeemed by the general public or your employees. For example, a "\$5 off coupon" that you put in a newspaper ad. When a customer buys a \$30 arrangement with \$25 cash and a \$5 coupon, you would show two forms of payment. The \$25 comes under cash receipts. The \$5 coupon is a discount. Same thing if you give employees a discount.

**Paid-outs** are a bit more complicated. Most florists handle their paid-outs at the cash register. The problem with this approach is that every dollar you take out of the register reduces the day's receipts by a like amount.

**TO BE IN FIRM CONTROL  
OF YOUR BUSINESS, YOU  
HAVE TO TRACK YOUR  
CASH THROUGHOUT  
THE YEAR.**

You need to track how much cash you spend each day and what you spend it for by putting receipts in the cash drawer.

**Charges** are the last category. You aren't paid immediately on sales to a house account or on incoming wire orders. At the time of these sales, you create a receivable.

Use the full gross value of incoming wire orders. Do not deduct the sender's share of the order. That doesn't have anything to do with the daily cash control process.

When you add wire-ins and charge sales to your cash and non-cash receipts, the total should match the amount you have to account for.

### OOPS!

Notice we said that cash receipts, non-cash receipts and charges should

equal the total amount you have to account for.

In reality, you'll often be off a little bit. In a busy flower shop, a sales clerk may miscount someone's change. It happens.

As long as these amounts are small, you don't have much to worry about. It's a cost of doing business. Just add a "Cash Over/Under" line to make up the difference.

If you are under more than a few dollars or if you are \$5 or \$10 short almost every day, however, you have a different problem.

A big—but isolated—shortage may have a simple explanation. Perhaps a voided sale was not corrected at the register.

On the other hand, a pattern of your cash being consistently under can be a sign that a thief is in your midst. An employee is helping himself or herself to a few dollars whenever the opportunity arises. In that case, get busy. Watch the register carefully. See if the problem disappears when certain employees are absent. Stop the bleeding.

### DEPOSITS

You may not have time to go to the bank every day to make a deposit. Once or twice a week may be more your style.

That's fine. However, it's still a good idea to balance each day's cash activity. Make out daily deposit slips. If you don't have time to go to the bank that day, just hold the slips until you do.

### DAY BY DAY

Remember, the only way to keep good control of your cash is to do it each and every day. Don't wait a week or a month until a problem hits you in the face.

## Analyze for Profitability...

The second shop profile for 2016 is different than those you've seen in past issues of *Floral Finance*. It is not based upon one particular shop. Instead, it is a combined average of 24 shops.

To produce the income statement on page 5, we took all of these shops' results and came up with an average for the whole group in each category.

The only adjustment we made was to allocate an appropriate owner/manager salary for those shops where the owner/manager took no salary. Other than that, what you see is the actual average performance for the six months from January through June.

Annually, this "composite shop" is doing \$443,945.58 in sales—a figure that is above average for the industry, though not dramatically large.

### COST OF GOODS SOLD

There's nothing wrong on the revenue side. The income statement shows a healthy sales volume. Net profit is a different story—a mere 1.8% of sales, when net profit ought to be closer to 10%. Explanation? Some of the costs must be out of line.

Can you spot the categories that need attention?

Cost of goods sold (COGS) is one of the two largest expenses a flower shop faces. (The other is payroll.) For a shop to have any chance at profitability, effectively controlling COGS is critical.

COGS for this shop runs from a high of 47.7% on gift sales to a low of 32.2% on loose flowers. Arrangements COGS (including containers and supplies) comes in at 38.2%.

At 38.2% of arrangement sales, arrangements COGS is too high. Rarely



## Improve Performance!

do florists use a pricing formula that will give such a high COGS. More often, the problem is designers who stuff extra flowers into arrangements.

Experience suggests that arrangements COGS should be at or below 33% of arrangement sales for a shop

This average shop's advertising expenses come in at 3.6% of sales. This is right at about the industry norm. It's certainly not the kind of number that would be required for an aggressive promotional effort.

Florists don't spend a lot on advertising. The typical business is small and media costs are high. There is just not enough money to make much of a dent.

The more common—and better—approach is to do limited advertising, often depending to a large extent on direct mail or email to the shop's own customer base. A good portion of the advertising budget should also go into your website. That's a smart use of limited dollars.

### Controlling COGS

Without good information, it's impossible to control COGS. The income statement on page 5 shows the type of information that every shop needs.

First, note that COGS is broken down into several key categories. You will not know whether your COGS for arrangements is okay unless you break out arrangements COGS separately from the total.

Also note that for each COGS category, the product costs are shown as a percentage of the products sold in that same category.

Most income statements relate COGS to total sales. That type of broad information, however, is almost meaningless. You need to know each product's COGS as a percentage of that product's sales. This is the only way to know whether your product costs are too high.

to make a decent profit. If arrangement COGS here had been held to 33%, the shop would have spent \$13,926 less on flowers and foliage. That would have translated into \$13,926 more profit.

Savings in other expense categories could bring even more to the bottom line.

### KEY EXPENSE CATEGORIES

Although managers need to know the numbers for all of a shop's expenses, a few categories are more important than others. Some because of their size. Others because they are central to the type of business a retail florist does.

### Advertising

Advertising often receives a lot of attention.

### Facilities

Once again, this average shop is right on target for facilities expense. *Floral Finance*'s goal is 10% of sales. If you go above that level, it's unlikely anyone other than the landlord will make a profit.

Facilities expense is more than rent. It also includes utilities, facility taxes, repairs and insurance. If all such charges total more than 10% of sales, you should begin to think about what you can do to drive these expenses down—at least over the long run. You might have to move to a less costly location if a better lease cannot be negotiated at the end of your current term.

### Payroll

People can be one of your biggest assets. They're also one of your largest expenses.

Note that payroll expense is more than wages. It also includes all payroll taxes and employee benefits. When the

## SAMPLE INCOME STATEMENT FOR AN AVERAGE SHOP

owner/manager is on the payroll, total payroll costs (including taxes and benefits) should be around 30% of sales. And the owner/manager should be making total compensation of around 8% to 10% of sales.

With a payroll expense of 36.5%, this average shop has too many people on the staff. Hitting the 30% target would result in a savings of \$28,856. This would be a significant addition to net profit.

Staffing for your non-holiday level of sales is the key to payroll control. After all, non-holidays represent 10½ to 11 months of the year. Then add extra staff, as needed, to increase your capacity for the holiday periods. Don't keep extra people around after a holiday.

### The Rest of Expenses

Although most florists worry about telephone costs, these expenses are actually a fairly small part of the overall picture.

The same is true for vehicles. Expensive, but not as expensive as you might think. In fact, the drivers' wages cost more than the vehicle.

All other expenses put together represent less than 8% of sales. When it comes to these relatively small items, watch them. Save money where you can. But don't lose sleep over them. There's not much there to cut. Focus your energy on the bigger items.

### IMPROVING PROFIT

If you want to make more on the bottom line, you have to cut expenses somewhere. You seldom can boost profits with increased sales alone.

Evidence shows that expenses go up as sales go up. Profit remains about the same as a percentage of sales.

### Profitability Rule:

If you can't make money at your present level of sales, you probably won't make money at an increased level of sales.

Manage your expenses to make a good profit. Then as you grow, you will make even more.

There is nothing magic about the target figures given in this article. Can a florist make a decent profit with a payroll above 30% of total sales? Of course. However, something else will have to give. Most likely, arrangements COGS will need to be below 30% to make up the difference.

Can facilities expense be greater than 10%? Yes, if less money is spent elsewhere. Many florists trade off paying higher rent for an exceptional location. They see the extra rent as a form of advertising. This strategy can work as long as the owners are disciplined enough to not spend other advertising dollars.

If this composite shop could manage arrangement COGS down to 33% and payroll down to 30%, the profit would soar to \$50,982, or 11.5% of sales. That's over six times greater than the current bottom line!

Just getting arrangements COGS down below 30% (not unusual in large city operations) would raise profitability to almost 15%.

You can make money as a retail florist. It simply requires managing many different elements carefully and correctly—all of the time. ☺

PRODUCT SALES	Jan-Dec	%
Silk/Dried	\$ 16,9992.90	3.8%
Loose Flowers	35,772.54	8.1
Arrangements	267,817.78	60.3
Green Plants	40,515.70	9.1
Blooming Plants	22,032.64	5.0
Balloons	6,875.88	1.5
Fruit Baskets	5,789.48	1.3
Gifts	20,892.14	4.7
Returns	-2,325.90	-0.5
<b>Total Product Sales</b>	<b>\$414,293.16</b>	<b>93.3%</b>
<b>NON-PRODUCT SALES</b>		
Service Charge	\$ 8,744.04	2.0%
Wire-Out Commission	14,152.20	3.2
Wire-In Commission	-19,755.26	-4.4
Rebates	3,506.06	0.8
<b>Wires Total</b>	<b>\$ 6,647.04</b>	<b>1.5%</b>
Rental	\$ 173.22	0.0%
Labor	262.10	0.1
Interest	608.28	0.1
Delivery	17,752.26	4.0
Miscellaneous	4,209.52	0.9
<b>Total Non-Product Sales</b>	<b>\$ 29,652.42</b>	<b>6.7%</b>
<b>TOTAL SALES</b>		
	<b>\$443,945.58</b>	<b>100.0%</b>
<b>COST OF GOODS SOLD</b>		
Silk/Dried	\$ 6,742.74	39.8%
Loose Flowers	11,503.24	32.2
Arrangements	102,242.32	38.2
Green Plants	16,497.76	40.7
Blooming Plants	9,705.54	44.1
Balloons	2,698.80	39.3
Fruit Baskets	2,569.76	44.4
Gifts	9,956.56	47.7
Discounts	3,863.72	0.9
<b>Total Cost of Goods Sold</b>	<b>\$165,780.44</b>	<b>37.3%</b>
<b>GROSS PROFIT</b>		
	<b>\$278,165.14</b>	<b>62.7%</b>
<b>EXPENSES</b>		
Accounting	\$ 3,531.72	0.8%
Advertising	16,157.12	3.6
Facilities	33,653.68	7.6
Telephone/Dove	7,392.24	1.7
Payroll	162,040.12	36.5
Vehicles	12,039.18	2.7
All Other Expenses	35,151.70	7.9
<b>Total Expenses</b>	<b>\$269,965.76</b>	<b>60.8%</b>
<b>NET PROFIT</b>		
	<b>\$ 8,199.38</b>	<b>1.8%</b>
<b>Add for:</b>		
Payroll	28,856.46	6.5
Arrangements COGS	13,926.52	3.1
<b>NEW NET PROFIT</b>	<b>\$ 50,982.36</b>	<b>11.5%</b>

Note: Each COGS category is calculated on the actual sales of that particular product, not on total sales. COGS percentages using total sales are misleading and do not provide the information you need.



# SUCCESSION PLANNING: ARE YOU READY TO LET GO?

Many owners dream of the day they will retire and turn their business over to the next generation or to new owners. This year, *Floral Finance* will explore the many aspects of planning and executing a successful succession.

It's not an easy task. Here's a checklist of questions to consider before you make the move.

## Am I committed to family succession?

Between the beginning and the end of the process, you will face many hurdles, challenges and disappointments. It's not a path for the fainthearted.

You must have a strong commitment to stay the course.

## Will I be financially secure after retirement?

You will always make more money in the long run by keeping a business than by selling it. A reasonable valuation will only get you about four years of earnings and no salary.

If your retirement savings, the proceeds from the sale of the business and social security are not going to be enough, reconsider retirement.

An ongoing business can provide supplemental income during retirement. Semi-retirement might be a better option.

## Have I chosen a successor and set a firm date to retire?

Dreaming is good. Actual names and plans are better.

## Do I believe in life after retirement?

Many individuals love what they do and wouldn't be fulfilled doing anything else. If you're one of them, think twice about retiring. It might not be the best plan—at least not yet.

## Does a new challenge or interest await me after retirement?

It's not uncommon for someone who has been a workhorse to dream

of retiring on the golf course or on a beach.

The truth? Most people who try to live such a dream are disappointed after a few months.

Humans aren't designed to rest and play all of the time. Work brings fulfillment and stimulation.

If you seek longevity and fulfillment, make sure you move from working in your business to something else that will be personally challenging and stimulating.

## Am I able to delegate decisions and authority?

Do you have the skills and character necessary to let someone else be in charge?

Training successors to be good stewards of the business is not easy. You must be willing to let go.

Only through actually managing and making decisions will your successors learn how to do the job. Inevitably, they will make some mistakes.

You have to be prepared financially and emotionally to endure the inevitable stress of seeing the next owner's inexperience on display.

## Am I willing to let others take business risks?

Sometimes successors want to take the business in a new direction, try an unproven product line or launch a novel approach to advertising.

These steps can be exciting. They also can be expensive if they point the business in the wrong direction.

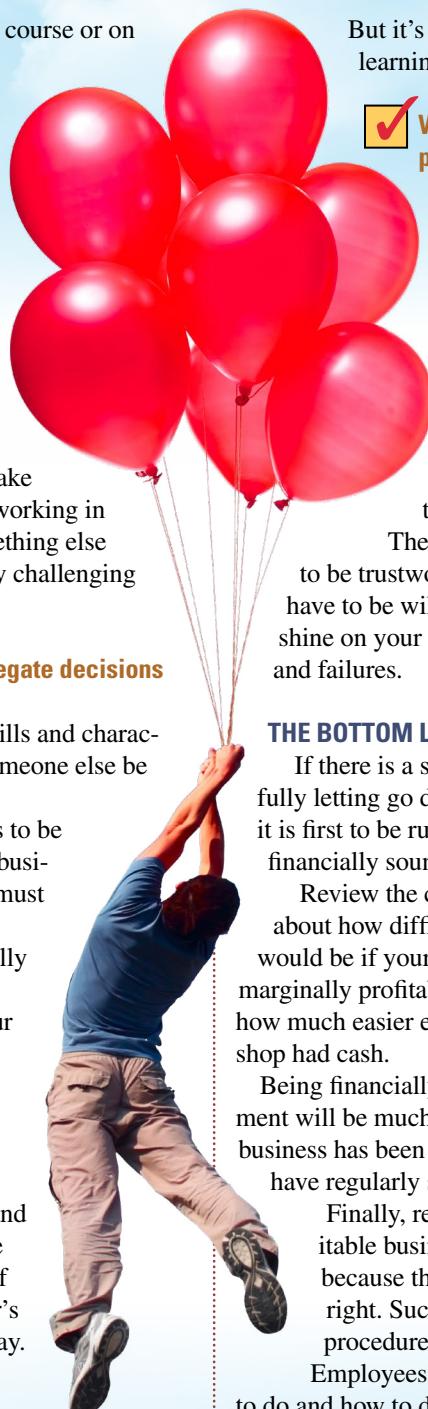
But it's all part of the learning process.



## Will I trust key people with company financial information?

Ultimately, you will have to give your successors bottom-line responsibility. That means opening the books so they know what they are managing.

The individuals have to be trustworthy, and you have to be willing to let the light shine on your financial successes and failures.



## THE BOTTOM LINE

If there is a secret to successfully letting go during a succession, it is first to be running a profitable, financially sound operation.

Review the checklist. Think about how difficult each item would be if your business were only marginally profitable. Then think about how much easier each would be if the shop had cash.

Being financially secure in retirement will be much easier if the business has been profitable and you have regularly set money aside.

Finally, remember that a profitable business gets that way because the owner did things right. Successful systems and procedures must be in place.

Employees already know what to do and how to do it. Major changes won't be required to keep the ship on course. A successor can make occasional mistakes, and things will still go smoothly on the whole.

If you're not yet comfortable with your answers to the checklist questions, focus on making your business more profitable until you are better able to make the transition. ☺

# Discounting Dangers

Sometimes, it seems as if the whole world is discounting. This airline is offering ridiculously low summer fares. That furniture store is advertising a 70% off sale. The car dealership down the road has reduced prices “below invoice” to clear out inventory.

For the retail florist, however, discounting holds some real dangers. It’s not that cutting prices is never the thing to do. It’s just that you have to be very careful when and how you do it.

## WHY

There is only one reason you should ever discount your pricing: to increase your profits. Poorly planned discount programs can actually have the opposite effect. For a discount program to be truly profitable, you’ll need to put three safeguards in place.

### 1. Limit recipients.

You’ll get the most return if you limit the program to companies and individuals who have the potential to buy more from you without cannibalizing current sales.

Businesses are good candidates. Perhaps a discount could encourage them to make a standing order for fresh flowers in a reception area.

Discounts can even be used to entice an infrequent buyer to move up to a higher volume of purchases. Or to encourage a corporate gift giver to buy poinsettias for key customers rather than some other non-floral holiday gift.

### 2. Require prompt payment.

If you’re giving someone a special price, prompt payment should be a requirement. Requesting cash, check or a credit card up front is one way to go. Because you won’t have to wait for your money or go to the expense or trouble of billing, you can justify some of the discount.

### 3. Watch out for wire orders.

Concentrate your discount program on local business, not wire orders. Wire orders just don’t offer much room to maneuver. You receive only 20% of an outgoing wire order—and just 73% of an incoming one. The margins are too tight to allow for a discount and still make a reasonable profit.

## ALTERNATIVES

Following the guidelines above will help you maintain control of your discount programs. The bigger question, however, is whether discounting is the right strategy in the first place.

You can often keep your normal margins and better satisfy customers by adopting a different strategy altogether. Keep your pricing formula consistent, but work to deliver better customer service, greater value and additional benefits to your customers.

## FREQUENT BUYERS

Develop an array of special services and benefits for your best customers. The more they buy, the more they gain. There are a number of options.

**Special Deliveries.** Develop higher delivery standards—the kind of standards that can’t easily be duplicated by competitors. This may mean a 100% reliability guarantee. Or expedited service options (one-hour delivery) for an additional charge.

## Advance

**Notice.** Treat your best customers like VIPs by giving them inside information.

New gift items that have just arrived. Updates on product availability. Opportunities to place

holiday orders early. They’ll enjoy and appreciate being in the know.

**Design Classes.** You could reward top customers with special design classes. Let them learn how to use fresh flowers more effectively in their own homes.

**Open Houses.** A holiday open house is always a special event. You can easily turn this into an event that honors special customers. Invite your best customers to an “Open House Preview” before your public open house. Make it a special time just for them with some benefits that won’t be offered at the regular open house.

**Customer Newsletters.** A newsletter is another way to add value and generate more sales. Thank customers for their business, pass along helpful floral and decorating ideas, and subtly promote your shop in the process.

## WAYS TO COMPETE

Like all pricing matters, decisions on discounting ultimately fall to the individual retailer.

A strategy that makes regular use of discounts isn’t for every shop. If you do plan to discount, however, work through all of the issues first. When you do, your program will be better reasoned and, most likely, more successful. 

## FAMOUS FINANCIAL WORDS

“All animals except man know that the principal business of life is to enjoy it.”

—Samuel Butler

“People spend money when and where they feel good.”—Walt Disney



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

# LETTERS

## TURNOVER

*"How can I keep good employees? The best ones always seem to leave."*

### Understand why they leave.

Losing good employees is a problem most small business owners face. Studies have shown that the following issues are most common reasons good workers quit:

- Too few opportunities for advancement;
- Lack of open communication with managers;
- Inadequate compensation/better pay elsewhere;
- Failure of management to recognize their contributions;
- Promotions given unfairly.

Although you can't control every factor, you certainly can do a good job of communicating with your employees, recognizing and praising achievement, and paying a wage that is competitive in our industry.

Doing all you can won't eliminate turnover, but it will help to slow the process.

## TRAINING PAYS OFF

*"Our shop's owner wants us to do more training. I don't think we have time. There's a lot of work to do, and we can train as we go. Who's right?"*

### Your shop's owner is on the right track.

Have you ever heard the phrase, "the tyranny of the urgent"? It aptly describes becoming so fixed on solving the everyday crises that you neglect everything else. Unfortunately, the less "urgent" tasks that don't get done may be more important in the long run.

Training is a good example. It is important. But it usually doesn't seem urgent. The things that have to be done today take precedence.

Think of training as an investment, not as wasted hours. Make time for it. Properly trained designers will produce the kind of quality product that generates new and repeat business. Salespeople who are taught the art of good customer service will increase sales and keep customers coming back.

Take the time to train. It will pay dividends.

T

The Internal Revenue Service announced that it is lowering its 2016 standard mileage rate to 54 cents per mile from the 57.5-cent rate for 2015.

Effective Jan. 1, 2016, the lower standard mileage rate will "reflect generally lower transportation costs compared to a year ago." The rate is the standard that businesses use to calculate the reimbursable cost to travelers who use their personal vehicles for business.

As in past years, gasoline costs are a significant factor in determining the rate but other costs, including depreciation, are taken into account in formulating the rate.

*FLORAL FINANCE* is published 12 times a year by Teleflora LLC

Annual subscription rate is \$89.95 domestic and \$129.00 (Canadian) in Canada.

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Teleflora LLC, 3737 NW 34th St.,  
Oklahoma City, Oklahoma 73112.*