Shop Profile page 4

$776,487 in Sales ... $2,830 in Profit

41 YEARS
FINANCIAL INFORMATION, EDUCATION & CONTROL

Floral Finance®

teleflora®

MAY 2022
VOLUME 41, ISSUE 5

INSIDE THIS ISSUE

QuickTakes

Employee Retention Tips

1 Use Touch-Base & Exit Interviews

Ask existing and departing employees a few probing questions. Asking questions can improve employee retention.

For example:

- What is/was the best (and worst) thing about working at your shop?
- Are/were any grievances unresolved?
- How can/could you have improved the work environment?

The answers will help you build an even better workplace.

2 Reconsider Counteroffers

When a good worker is considering moving to a higher-paying company, many employers will offer a raise to retain the person. A counteroffer.

Although it's worth paying a little extra to keep good people, make sure money is the real problem. If it's not, fix the underlying problem first.

If you don't solve the real issue, employees who accept a raise may still leave a few months later.

3 Go Beyond Dollars & Cents

Can't pay wages that match your competition? Give something better than money.

Flexible scheduling is a benefit many employees prize. Offering flexible work schedules will make these workers more loyal to your shop and less likely to quit.

FROM THE PUBLISHERS
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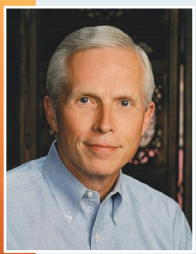
EFFECTIVE COLLECTIONS



Follow these steps to increase the effectiveness of your collection letters.

First, include all of the necessary facts, including when the charges were incurred, how much is owed and when payment was due—everything the customer needs to know to pay the bill.

Second, be clear about what you want. Don't use vague language that doesn't really direct the customer to do anything. Give a clear picture of the response you expect.

Third, prompt the customer to act immediately.

- In an initial reminder letter, a simple, non-threatening request may be all you need: "Why not make your payment now so you don't forget?"
- In a second-stage letter, make the call to action a little more direct: "Your account is now seriously past due. Please make your payment immediately."
- In a third-stage letter, the call should be even more pointed: "Unless payment is received within 10 days of the date of this letter, we will be forced to turn your account over to an agency for collection."

Some experts suggest using an odd-sized envelope or different colored paper to get the customer's attention. Just be careful. Consumer protection and privacy laws prohibit warning of legal action or announcing an overdue bill on the outside of an envelope. Keep the envelope clean and uncluttered.

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On the cover: Teleflora's *Sweet Hummingbird Bouquet*

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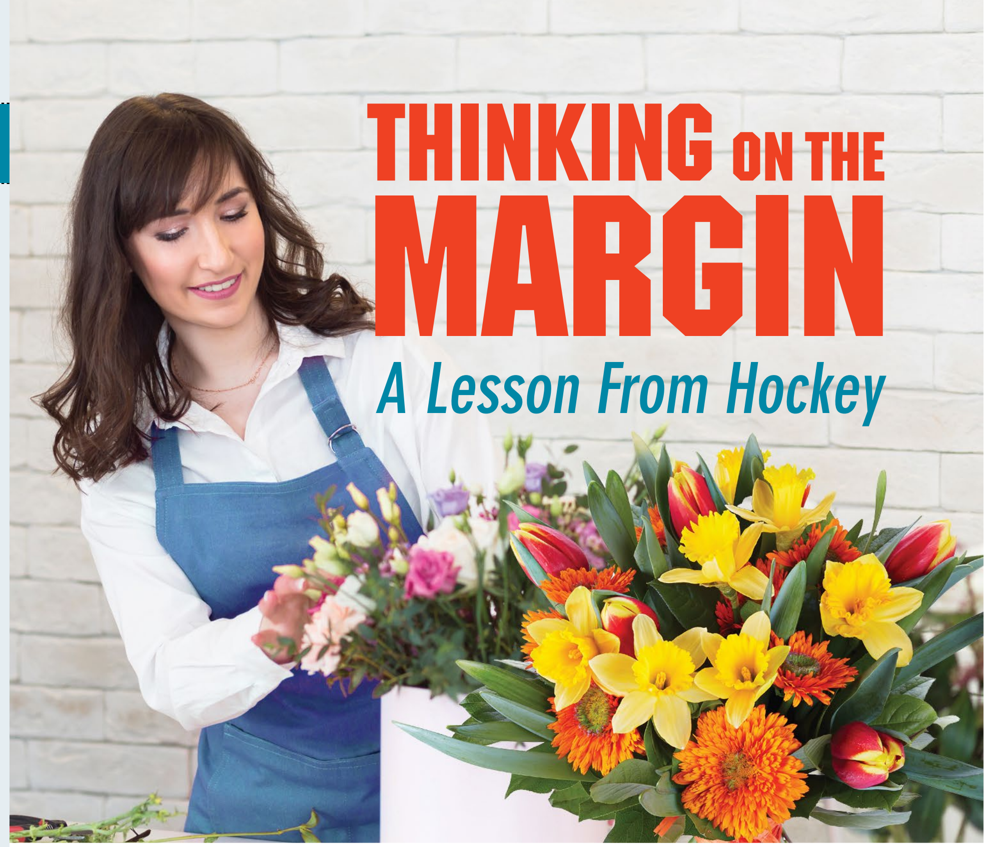


THINKING ON THE MARGIN

A Lesson From Hockey

You're in the stands, cheering on your favorite hockey team. They are up by one point late in the final period.

Suddenly, the other team pulls its goalie away. A substitute begins playing the offensive line, leaving the goal exposed.

A STRATEGY

Does this strategy make sense?

Sure. If it is successful, the other team has a shot of winning. If it is unsuccessful, they lose by two points. The potential gain—winning—is greater than the potential cost—losing by two points instead of just one.

You might say the coach is "thinking on the margin."

Pulling the goalie late in the game may be smart. The same decision would be reckless if made early in the first period.

In the same way, there is a time for you to play the margin in your business. Sales strategies that might not produce a lot of profit can sometimes make a valuable contribution.

A florist who is thinking on the margin will occasionally pursue some sales that don't bear their full share of overhead.

The trick is knowing how these opportunities fit into your overall mix. The hockey coach wouldn't pull his goalie in the first period. Similarly, you would be foolish to price all your products without regard to overhead.

WHY 'MARGINAL'?

You incur certain fixed costs—rent, management wages, vehicles, loans and the like—regardless of the volume of business you do each month.

You must generate enough sales to cover these costs. The easiest way to do this is to build a portion of the fixed costs into each product you sell.

For simplicity, let's say that you only sell arrangements—500 of them per month. If your overhead is $5,000, each arrangement will have to cover $10 in overhead for you to break even.

If cash-and-carry business accounts for 25% of your sales, your pricing for these flowers ideally should allow enough margin to pay for about 25% of your overhead.

It's the same for every other segment of your business. Each needs to bear a fair share of the fixed costs.

REALITY

In real life, pricing isn't quite that simple.

Let's say a charitable group asks you to provide flowers for an upcoming reception. They can't afford your regular prices. And you can't stay within their budget and make a profit. At least not when you add in an allowance for overhead.

At the same time, the reception would bring in more than enough revenue to cover your direct product costs and labor.

An accountant would call this a "marginally profitable" sale. The reception wouldn't add overhead or indirect costs. The revenue would more than cover the costs it will create. So, in that sense it would be a profitable sale.

"But," you tell yourself, "if I price all my business like this, I'll soon be out of business."

Exactly right.

If ALL of your pricing ignored overhead, you couldn't stay in business. At the same time, you can and should price some products without allocating overhead.

HOW TO DECIDE

Airlines can teach us a lot about marginal pricing. The airlines let their planes leave every day with thousands of empty seats.

Why? They know that if they offered standby fares to fill those empty seats, some regular customers wouldn't buy advance tickets. They'd wait until the day of travel and take their chances. Customers who would have paid a higher fare would get greatly discounted seats. And the airline would lose money.

Instead, the airlines use targeted promotions to lure customers who otherwise would not have flown. Vacationers might get a deal. The businessperson who must fly tomorrow from New York to Los Angeles probably won't.

Like the airlines, you don't want to discount business to customers who would otherwise pay full price.

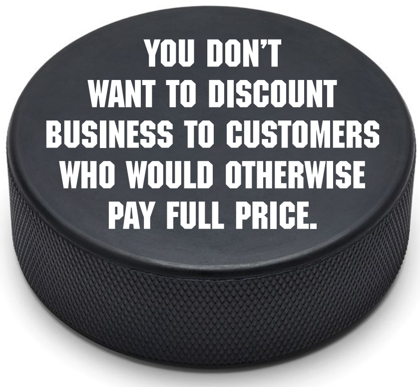
For instance, if you already have a strong gift trade, you probably should not discount those items. You don't want to "cannibalize" regular-price gift sales.

If you don't currently offer gifts, you might attract a new type of customer with some discounted gift prices. This could generate business you wouldn't otherwise have captured. And that's one of the goals of marginal pricing.

MARGINAL COSTING

If you exclude overhead, the marginal cost of many items will be quite low.

If you are thinking of adding cash-and-carry flowers as marginal sales, for example, you won't need to figure in rent or design costs. You'll pay those regardless of the new product line.



The only additional (or marginal) costs will be for the fresh cut flowers, a little prep labor, some buckets and maybe a sign to attract passersby.

OPPORTUNITY COSTS

Suppose a local church requests flowers for an event. They ask for a discount off your regular prices.

Should you take the order?

In a small business, it's often a question of workflow. Is a van available? How about a designer? What work is already on your plate?

Commit to handling the church function and your staff might not be available for other work that day. If they would have spent the day tidying up the shop, all you're giving up is a clean shop.

If you lose a lucrative party because you are now stretched too thinly to handle the job, your opportunity cost is the profit you would have made on the party.

INTO ACTION

You've probably been using the principles in this article for many years. You just thought of it as your "gut feel" or intuition. What you actually have been doing is thinking on the margin.

Keep the following principles in mind as you continue to use this technique.

1. **Use marginal pricing prudently.** Be careful not to cannibalize full-price business. In other words, don't discount items that will pull existing customers away from their normal purchases. Marginal business should be designed to attract new customers.
2. **To determine the cost of marginal business, consider only the added costs of the transaction.** Expenses you would pay anyway should not be part of the calculation.
3. **When evaluating a marginal opportunity, compare the extra revenue and the extra cost associated with the sale.** Your expected marginal profit is the difference between the two.
4. **Identify any opportunities you will be passing up to accept the marginal project.** If the business you would have to pass up is more profitable, reconsider.

If you use the approach in this article, you'll still make some pricing and strategy mistakes. No one is perfect. But thinking on the margin will put the odds on your side. You'll win more often than not. And that's a win.

SHOP PROFILE

$776,487 in Sales…

$2,830 in Profit

That's only 0.4%!

Think about it. This month's profiled shop had more than three-quarters of a million dollars in sales but almost nothing to show for it. A profit of less than one-half of 1%.

That's a long way from our 10% bottom-line profit target. A flower shop with this level of sales ought to net $75,000.

Our analysis shows why the results are so weak. And what can be done about it.

FIRST STEP: THE GREENHOUSE

This business is in the Midwest. It has two retail locations plus a greenhouse. A fairly complex operation.

Very few Midwest greenhouse operations are profitable. Heating costs alone make it difficult to compete with growers in more temperate climates.

Consequently, our first step was to check the greenhouse's impact on the bottom line. A quick review showed that the greenhouse was losing money. Losses of more than $32,000 a year for several years in a row.

In all likelihood, the greenhouse will continue to be a losing proposition. So, our advice was to shut it down.

Doing so won't be easy. Some greenhouse employees have been around a long time. The owners feel an obligation to these people.

Nevertheless, a commitment to profitability will require closing the greenhouse. A difficult but necessary decision.

The income statement to the right includes only the two retail flower locations. We'll assume the owners will get the greenhouse out of the picture.

Analyzing staffing requirements, boosting productivity and cutting back on hours will allow the owners to take a fair wage without hurting profitability.

A SOLID BUSINESS

The retail side of the business is doing a bit better. A net profit of $34,490 on sales of $769,816. That's 4.5%.

Note also that the expenses include an abnormal amount of interest that is disguising the true performance of this business. The adjustment at the bottom of the income statement removes interest from the operational analysis.

The adjusted net profit is $47,206.71, or 6.1%, of total sales.

Other actions could boost the shop's performance even more.

START WITH COGS

Cost of goods sold (COGS) is always the first place to look for problems with profitability.

This shop's COGS figures look pretty solid—with one exception. At 71.5% for the year, silk and dried COGS is more than double what it should be. The lower July silk and dried COGS —only 28%—is much closer to the mark.

For COGS to be above 70%, something unusual must have happened. Maybe a large inventory adjustment.

Whatever the reason, better control of this product category would bring an additional $12,000 to the bottom line. The shop must follow its pricing formula for silk and dried arrangements. Staff must charge appropriately for each item in every piece.

What about COGS for fresh arrangements? Profitable shops have arrangement COGS at or below 33% of arrangement sales (25% for fresh product and 8% for containers and supplies). This shop's 33.4% is just barely above the upper boundary.

However, the figure could and should be even lower. The shop's pricing formula dictates arrangement COGS of 28%. Better control in the design room could bring another $19,000 to the bottom line.

PAYROLL

At 30.2% for the year, payroll is only slightly over our 30% target.

What's the problem? This shop's numbers don't tell the whole story.

The owners are not paying themselves a fair wage. If they were to compensate themselves appropriately, the shop's overall payroll would be much too high.

Some changes are in order. Analyzing staffing requirements, boosting productivity and cutting back on hours will allow the owners to take a fair wage without hurting profitability.

FACILITIES EXPENSE

The shop's 13.5% facilities expense is slightly above *Floral Finance*'s 10% "do not exceed" target and considerably above the industry average of 8.5%. Paying higher-than-normal rent for an upscale strip center location could be acceptable if the extra amount is treated as part of the business' advertising budget.

However, the high rent is out of line for this operation.

If the owners are locked into a lease, nothing can be done about rent in the short term. But in the long run, rent can and should be reduced to an appropriate level.

Operating multiple locations adds overhead. As a result, profit usually declines as a percentage of sales.

One of this business' two shops had a $10,584 loss on less than $95,000 in sales during the last 12 months. The other, more profitable shop is really carrying the business.

Since the owners believe the unprofitable location has little chance of improvement, the solution is obvious. Shut it down. Stop draining resources from the profitable, main store.

PUTTING IT ALL TOGETHER

Without the greenhouse, the shop's net profit is $34,490. Adding back interest expense of $12,716 raises the bottom line up to $47,206.

Better COGS control would mean an extra $31,000 in profit ($12,000 from permanent botanicals and $19,000 from arrangements).

Closing the unprofitable location would put an additional $10,584 on the bottom line.

All of these changes would bring total net profit to $89,790. Well above our 10% target.

Is this outcome realistic? Certainly. This shop has great potential. It is basically well-managed and needs only a few corrective measures.

RECOMMENDED ACTIONS

1. Close or sell the greenhouse operation.
2. Shut down, sell or sublease the unprofitable second retail location as soon as practical under the lease terms.
3. Get COGS in line with better control of silk and dried and fresh arrangements. Follow the pricing formulas for both product categories.
4. Eliminate unnecessary personnel and reduce hours by increasing productivity. Pay the owners a proper wage.

MANAGING JULY

July's loss of $5,112 on $39,297 in sales is not a good showing.

True, July is normally the lowest sales month of the year. Many shops lose money during July.

To keep this from happening, the shop ought to perform a staffing analysis for the month. How many workers do they really require each day during July?

If this shop is like most, the owners will find their non-holiday staff levels are too high. Especially in July.

SHOP PROFILE INCOME STATEMENT	JULY		12 MONTHS	
PRODUCT SALES				
Silk & Dried	$ 2,151.95	5.5%	$ 32,271.94	4.2%
Flowers, Loose	6,828.31	17.4	117,996.76	15.3
Flowers, Arranged	18,713.71	47.6	356,721.99	46.3
Green Plants	5,252.70	13.4	85,376.11	11.1
Blooming Plants	2,106.82	5.4	83,064.95	10.8
Balloons	898.96	2.3	20,064.77	2.6
Gifts	754.18	1.9	21,024.97	2.7
Returns	–156.43	–0.4	–2,775.13	–0.4
Total Product Sales	**$36,550.20**	**93.0%**	**$713,746.36**	**92.7%**
NON–PRODUCT SALES				
Service Charges	$ 727.00	1.8%	17,185.63	2.2%
Wires-Out Commission	1,325.40	3.4	30,452.78	4.0
Wires-In Commission	–1,457.65	–3.7	–31,136.78	–4.0
Delivery	2,035.50	5.2	35,535.43	4.6
Miscellaneous	117.41	0.3	4,033.43	0.5
Total Non-Product Sales	**2,747.66**	**7.0%**	**$ 56,070.49**	**7.3%**
TOTAL SALES	**$39,297.86**	**100.0%**	**$769,816.85**	**100.0%**
COST OF GOODS SOLD				
Silk & Dried	$ 602.55	28.0%	$ 23,063.66	71.5%
Flowers, Loose	3,277.59	48.0	56,638.45	48.0
Flowers, Arranged	4,948.77	26.4	119,078.98	33.4
Green Plants	2,206.13	42.0	28,162.07	33.0
Blooming Plants	1,066.51	50.6	34,307.51	41.3
Balloons	314.63	35.0	7,141.23	35.6
Gifts	300.45	39.8	6,645.58	31.6
Discounts	68.50	0.2	1,237.88	0.2
Total Cost of Goods Sold	**$12,785.13**	**32.5%**	**$276,275.36**	**35.9%**
GROSS INCOME	**$26,512.73**	**67.5%**	**$493,541.49**	**64.1%**
EXPENSES				
Advertising	$ 948.95	2.4%	$ 22,531.88	2.9%
Interest	614.28	1.6%	12,716.69	1.7
Facilities	7,775.12	19.8%	104,072.73	13.5
Telephone/Dove	1,381.59	3.5%	17,785.72	2.3
Payroll	14,897.34	37.9%	232,283.69	30.2
Vehicles	2,605.81	6.6%	10,757.52	1.4
All Other Expenses	3,401.82	8.7%	58,903.24	7.7
TOTAL OPERATING EXPENSES	**$31,624.91**	**80.5%**	**$459,051.47**	**59.6%**
NET INCOME	**$–5,112.18**	**–13.0%**	**$ 34,490.02**	**4.5%**
ADJUSTMENTS TO FINANCIAL STATEMENTS				
Interest	$ 614.28	1.6%	$ 12,716.69	1.7%
NET INCOME (ADJUSTED)	**$–4,497.90**	**–11.4%**	**$ 47,206.71**	**6.1%**

The Family Business

Family Relationships

Couples who own and operate a retail flower business seem to have two views on the subject.

First is the couple that loves working together. They believe the opportunity to spend their days with each other is a blessing.

Second is the owner/operator whose partner is employed elsewhere. Neither party can imagine working side-by-side every day and still maintaining a solid marriage.

Which view is right?

The answer, of course, is "both" and "neither." Just as there are many individual personalities, there are many "family business personalities."

What is right for one couple can be the undoing of another. The road to success can be difficult when two parties bring different expectations and baggage to the business.

However, here are some general insights to guide you through the family business maze.

LEADER & FOLLOWER

When a couple has a clear understanding of who's in charge, operations will go much easier.

We're not talking about a tyrant who forces the other party to submit. Rather, it is a situation where one individual is a natural leader and the other is most naturally a follower. The natural leader doesn't have to force his or her way. Each person is in a role that suits who they are.

The opposite is also true. When two strong leaders try to work together, clash is inevitable. To keep the partnership strong, the individuals probably will have to use their skills in different ways.

TWO DIFFERENT TALENTS

Often, couples who work well together have complementary skill sets.

One might be a highly creative designer. The other a strong business manager.

Together, they form a perfect team. Both skills are needed to run an efficient and profitable flower shop.

Each party sees the other's value. Each directs his or her segment of the business. Harmony is maintained.

However, when both individuals have the same talents, sparks are just waiting to fly. Take two strong (and strong-willed) designers. If they have different opinions on design styles and how to run the design operation, that's a problem.

MULTIPLE LOCATIONS

In a multi-shop business, a couple with similar personalities and skills can work at separate locations. Both partners can flourish, without getting in each other's way.

Smaller shops with only one location can't "spread the talent around" as easily.

BASIC RULES HELP

Even partners who enjoy working together need basic guidelines within which to operate. Long-term camaraderie requires more than just compatible personalities and complementary skills.

First and foremost, separate your home and work lives. When you get to the shop, talk business. As much as possible, leave home problems at home.

Even partners who enjoy working together need basic guidelines within which to operate.

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

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

DON'T PUSH IT

With the right couple and a good plan, working together in a family business can be an ideal situation.

If you fit the guidelines for success, go for it.

However, if you weren't made for such closeness, don't fight it. Remember, people usually can't change who they are. Little adjustments? Yes. Major ones? Rarely.

Be true to who you are. Find the family business arrangement that works best for you.

Your Advertising Budget

Retail florists typically do not spend much on advertising. The industry average is 3%–4% of sales. More aggressive florists will spend 5%.

Consequently, a shop doing $500,000 in sales per year might budget $15,000 to $20,000 for advertising.

That's not a lot. Especially because a big chunk of the budget will need to go toward the shop's website—where most business is generated today.

The question is how to divide up the rest of the advertising budget.

There are two basic views.

SALES-BASED ADVERTISING

Advertise throughout the year, according to your sales patterns.

If Christmas sales represent 15% of your annual sales, spend 15% of your available advertising money on Christmas promotions.

This view stresses promoting the non-holiday use of flowers. The shop advertises in every month of the year.

Allocating the money is simple. Calculate what percentage of your sales comes in each month. That's the percentage of the traditional advertising budget you will spend each month.

If you don't have good sales data or want a simpler approach, see the chart. It summarizes industry average sales percentages by month.

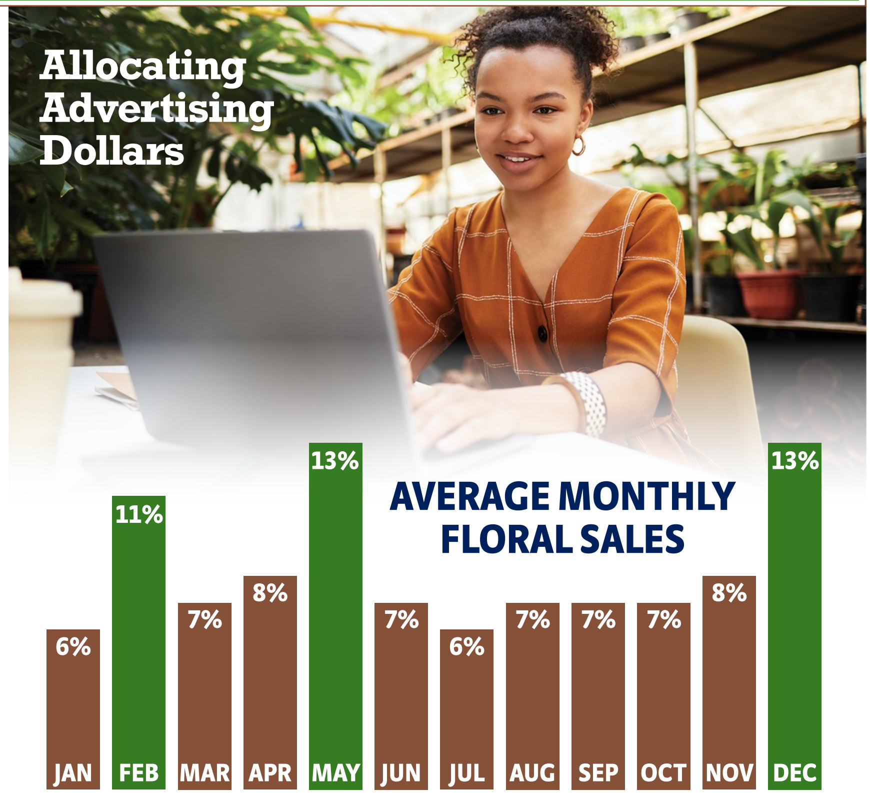
HOLIDAY-FOCUSED ADVERTISING

Another approach is to concentrate your advertising on holiday business. You don't have much to spend, so focus on the seasons that have the most potential.

The old saying "Shoot the ducks while they're flying" summarizes this viewpoint. People are looking to buy at holidays. So, that's when you should hit them with your message.

That sounds logical. And the truth is that florists typically get a greater return on holiday advertising than on advertising during non-holiday months.

With this approach, you divide your traditional advertising budget across the holidays, based on sales.



A COMBINATION

Although maximizing your return by advertising exclusively at holidays sounds attractive, it is probably best to straddle the fence. Focus the bulk of your traditional advertising on holidays, but set aside some for year-round, non-holiday advertising.

If your shop is big enough, you might use a billboard for your year-round advertising. A smaller shop might use a reader board for year-round messages.

PLANNING IS BEST

Whichever route you choose, plan your traditional advertising expenditures. Decide in advance what you will spend each month. Then, stick to your strategy.

It only takes a few minutes to plan your advertising budget for the year.

FAMOUS FINANCIAL WORDS

"To be a success in business, be daring, be first, be different." — *Marchant*

"As an effective leader, your aim is to set an example of standards, actions and values that will inspire subordinates in ways that benefit the company." — *Fred A. Manske*

"The trouble with today's economy is that when a man is rich, it's all on paper. When he's broke, it's cash." — *Sam Marconi*

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INQUIRIES & ANSWERS

Letters

LOW-COST MORTGAGES

"I'm finally planning to refinance my home mortgage. Since adjustable-rate mortgages are cheaper initially, is that the best way to go?"

Probably not.

Mortgage interest rates are the lowest they've been in decades. In the early 1980s, people were delighted if they could buy a home with an 8% mortgage interest rate. Today, fixed rate mortgages are in the 2%–4% range. Very reasonable. (But with inflation on the rise, this will likely change soon.)

It is probably wise to lock in a fixed rate on your refinancing even though it will cost you a little more in the beginning. You'll rest easier, knowing your payments can't go any higher.

LIABILITY PROTECTION

"I'm 60 years old and have had a sole proprietorship for 30 years. My son says I should incorporate. It sounds like a waste of money. What do you think?"

Better safe than sorry.

Incorporating will cost some money. Probably several hundred dollars to get the paperwork in order. However, think of the expense as cheap insurance against a cataclysmic event.

The major reason for incorporating is to protect you, the owner, from liability.

Suppose your shop's driver accidentally runs over a pedestrian. The pedestrian is confined to a wheelchair for life and sues for lifetime expenses of medical care and loss of income. Your liability insurance is capped at a million dollars, and the costs go well beyond that.

If you are a sole proprietor, the injured party can come after you personally for payment. Your life savings could be lost.

On the other hand, if the business is incorporated, your personal assets are safe (assuming you had no criminal involvement).

So, even though you are nearing retirement age, incorporating is a good idea. For a minimal cost, you can protect everything you have saved over a lifetime.

NORMS

AVERAGE DISCOUNTS

This is the average range of employee discounts in retail flower shops.

The retail flower business is a low-wage industry. Very few florists can afford much in the way of employee benefits.

Offering discounts on flowers and products is one alternative. Discounts are valuable to the employee and cost the shop nothing. A generous discount program also reduces the risk of theft.

Besides, you don't need to make money off employee purchases.

Put your discount policy in writing. And make sure no one rings up their own discounted sale—owners included. That will help ensure that every employee transaction is above board.

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