Shop Profile
Are Four Locations Better Than One? *page 4*

FINANCIAL INFORMATION, EDUCATION & CONTROL

41 YEARS

Floral® Finance

teleflora®

DECEMBER 2022
VOLUME 41, ISSUE 12

INSIDE THIS ISSUE

QuickTakes

Ideas You Can Put to Work Immediately

1 Monitor Your Sales

Things are moving fast this time of year. Lots to do. And not much time.

However, there's one task you can't let slide: monitoring your sales by product line through the holidays. Especially the first three weeks.

Don't end up overstocked on December 25. Know what's happening. Be prepared to offer special prices to move items that fall behind your sales projections.

2 What Do Customers Want?

Here's a pearl worth remembering: Your job is not to try to sell products to consumers. Your job is to buy what they want and make it available.

Remember, the customers are in charge. How you cater to their desires will determine your shop's success.

3 Exciting Work

Boredom comes from predictable, repetitive, easy work that can't be done wrong.

Unfortunately, that's exactly what too many managers try to create in their job descriptions.

Meaningful work is broader and more challenging. Let your employees know what customers want, and reinforce that the job is to meet those needs—not just to perform tasks.

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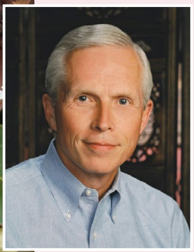
FROM THE PUBLISHERS
OF FLORAL FINANCE®

USING A CONSULTANT



Are consultants worth their fees?

Some might say so-called experts charge too much for too little tangible gain.

I take a different view. A consultant's expert advice can be worth much more than his/her fees. However, at $150 to $250 per hour or more (plus expenses), you must select your expert carefully.

First, you need someone who understands the floral industry. Then, carefully define the problems for which you need solutions. Are you seeking to cut operating expenses? Boost sales? Focus your design?

Make sure the consultant's expertise matches your needs.

Thoroughly check out the candidate. Call references. Talk to other florists who have worked with the consultant.

Then, spend some time interviewing the candidate. The chemistry has to be right for the relationship to work.

Clarify the assignment and the deliverables the consultant will provide at the end of the job. Will you receive a written report? Will the consultant offer recommendations or simply lay out alternatives?

Never say "yes" until you are absolutely clear about the fee arrangement. What is the consultant's hourly rate? Will he/she itemize all billable hours? What expenses will you have to cover?

If you choose wisely and structure the relationship carefully, a consultant can be well worth the money.

Paul Goodman
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On the cover: Teleflora's *Rustic Holiday Wreath*

PROTECT YOURSELF

PLAIN TALK ABOUT LIABILITY

You don't face the same kind of liability risks as a physician. But your exposure is greater than you may think.

A little water on the floor might seem like a small matter. Until a customer slips, falls and injures her back.

You know how dangerous the chemicals in your shop are. A young child who wanders in with his mother may be less aware. What would happen if the child swallowed a bit of floral preservative you left on the counter?

Or take a big wedding reception you plan for one of your customers. Are you responsible for the actions of the caterer, musicians and prop rental firm that you hire on your customer's behalf? Maybe. Their negligence could very easily become your problem if you aren't careful.

While you can't completely protect yourself from all possible liability threats, there are some steps you can take to reduce your risk. Here are a few of the most important.

INCORPORATE

Incorporating your business does more than change the way your income is taxed. It also can decrease your personal exposure to lawsuits.

In the eyes of the law, a corporation is an entity completely separate from the individuals who own it. Generally, the owners are not personally responsible for the business' acts or omissions.

There are exceptions to this rule. A corporation's owners, for example, are personally liable for its tax debts. And courts occasionally ignore the corporate liability shield if it would give a more equitable result. Sometimes, it's just not fair for an asset-rich owner to hide behind an asset-poor corporation.

Still, incorporating will give far more protection than any other form of business organization. A partnership or sole proprietorship offers absolutely no shield to the owners. An aggrieved party can sue the owners personally for any alleged wrong—putting the owners' personal assets at risk.

PRINCIPAL & AGENT

Legally, the term "agent" describes a relationship in which one person or organization represents another.

An insurance agent, for example, sells on behalf of the insurance company. Same thing with an independent manufacturer's representative who markets products for several different companies.

Legally, an agent is not usually held responsible for the actions of the party he or she represents (the "principal"). If a product sold by the manufacturer's rep fails, for example, the customer's grievance will be with the manufacturer, not the rep.

The distinction between principal and agent is important in your world as well. Party planning is one clear application. As the party planner, you may arrange a host of details for your clients—from the food to the decorations to the entertainment. Are you merely the agent for the caterer, the musicians and the other suppliers? Or are you the principal supplier?

If you are judged to be the principal rather than the agent, you face a couple of problems.

First, if one of the suppliers fails to live up to its promises, you could be liable to the customer.

Second, if the customer doesn't pay a bill, guess who probably will have to. That's right—you. Because you "bought" goods and services and then, in essence, resold them. The fact that you aren't paid by your customer won't affect your obligation to the suppliers.

CONTRACTS

In party planning, do everything you can to preserve your status as an agent. Structure the job so that the caterers, musicians and other suppliers are in a direct contractual relationship with the customer. You are simply the person who got them together. The agent … not the principal.

This can be a tricky line to draw. At a minimum, make sure that all documentation supports an agency relationship.

Your customer should be the party who signs all vendor contracts. Similarly, in all estimates, correspondence and invoices, use the supplier's name in addition to your own: *"Upon your approval, the food for your party will be prepared and supplied by Mimi's Catering."*

Not *"We will obtain whatever food you request for the evening."*

Try to structure the relationship so that the customer is buying directly from the other vendors instead of you purchasing the goods and services and then reselling them to your customer.

You'll be in a much stronger position if the suppliers—not you—bill the customer for their services.

GUARANTEES

Do not make any claims or representations on behalf of the supplier. Make it clear that you are merely communicating whatever promises the vendor has made.

Again, drawing this line isn't always easy. Take something as simple as describing the food that Mimi's will prepare. Here's one dangerous way to do it:

"Mimi's will deliver the food promptly at 7:00 p.m., in plenty of time for the party's 7:30 p.m. start. The menu will include one beef and one chicken entrée, along with a wild rice pilaf, an asparagus casserole and two desserts. There will be more than enough to satisfy 40 hungry adults."

The problem with this statement is that you have little, if any, control over most of the things you just promised.

For all you know, Mimi's may deliver less than you planned, come at 7:30 p.m., bring only one entree, skip the rice and skimp on dessert.

The better approach is to report what the vendor has said, without adopting any promises as your own. Try the following statement instead:

"As you will recall, Mimi's has indicated they will arrive by 7:00 pm. Their tentative menu plan calls for serving 40 guests one beef and one chicken entrée, along with a wild rice pilaf, an asparagus casserole and two desserts."

With the latter statement, you've accurately reported the vendor's intentions without making any promises you may not be able to keep. It's a much better way to go.

BE SAFE

Can it happen to you?

Oh, yes.

The potential for disputes, lawsuits and liability is out there. However, with preparation and planning, you can greatly decrease your risk and put yourself in a stronger position if anything does go wrong.

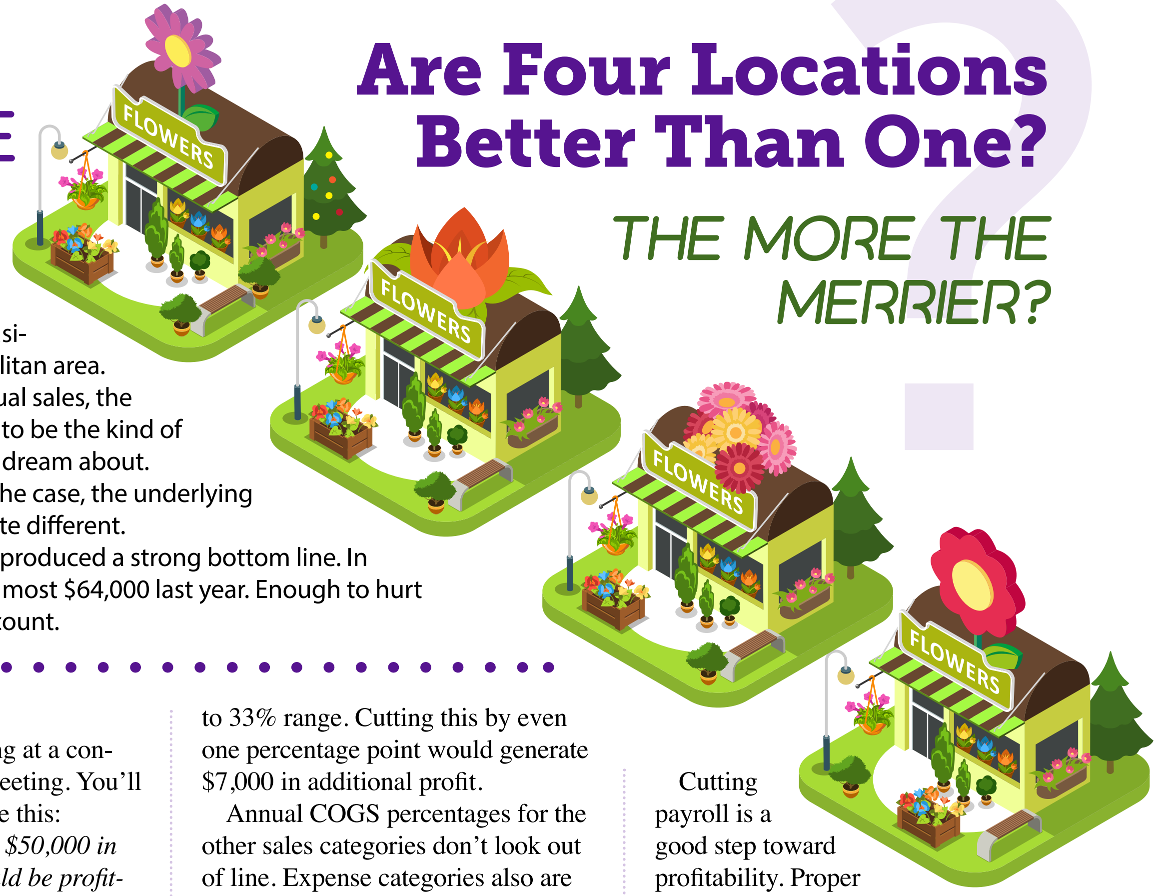
As a final step, always carry adequate business liability insurance. At least a million dollars. Much more for a larger shop. The policy will cost a few hundred dollars but will provide protection you can't get any other way.

Use a little common sense. And a lot of care. You'll only help yourself.

SHOP PROFILE

Are Four Locations Better Than One?

THE MORE THE MERRIER?



This month's shop profile is a four-location business in a large metropolitan area. With $1,125,400 in annual sales, the business would appear to be the kind of operation many florists dream about.

However, as is often the case, the underlying reality is something quite different.

The big sales haven't produced a strong bottom line. In fact, the business lost almost $64,000 last year. Enough to hurt any owner's savings account.

THE MYTH

Listen to florists talking at a convention or association meeting. You'll often hear something like this:

"If I only had another $50,000 in sales volume, then I would be profitable."

It's a myth. Increased sales do not automatically bring desired profitability. Our profiled shop is a perfect example.

THE TRUTH

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

That's because the lack of profits is not normally related to sales volume. It usually reflects unsound management. An unprofitable shop's increased volume almost certainly would be managed just as poorly as the lower volume.

Only when you become profitable with your present volume will additional sales make you more profitable.

WHERE'S THE PROBLEM?

A quick review of this shop's income statement shows what happened and how the owners might turn things around.

Cost of goods sold (COGS) for arrangements (flowers, greens, containers and supplies) comes in at 32.5% of arrangement sales. That's at the high end of the acceptable 26% to 33% range. Cutting this by even one percentage point would generate $7,000 in additional profit.

Annual COGS percentages for the other sales categories don't look out of line. Expense categories also are OK—except for facilities expense and payroll.

A multi-location shop's payroll should not exceed 35% of total sales, including owner/manager salary, payroll taxes and related benefits. This operation is 2.4% above the maximum. So, labor expenses are definitely too high.

Owners who add another shop often overestimate the sales potential or underestimate how long it will take to get there.

Note: A single location's payroll should be at or below 30% of sales. The additional payroll for a multi-location shop comes out of the bottom line. The profit target for a single location shop is 10% of sales; for a multi-location shop, it's 5%.

A CLOSER LOOK

This shop ought to net about $56,000, after paying owner and manager salaries. Given the current loss, the business is nearly $120,000 away from that goal.

Cutting payroll is a good step toward profitability. Proper staff management should yield a savings of as much as $27,000.

Progress, but still a long way to go.

One other problem jumped out in our analysis.

Multiple location flower businesses often have one or more stores that aren't really contributing to overall profitability. That's exactly what's happening here. Only one of the three satellite stores is a winner; two are losing money. All have low sales (ranging from $66,000 to $99,000).

Facilities expense is the big problem at the two unprofitable locations. A whopping 39.3% and 42.0% of sales, respectively.

To put these figures in context, the main store's facilities expense was only 7.6% of sales. If all the other locations could manage to that level, the business would save almost $53,000.

STILL NOT THERE

Together, projected payroll and facility savings total about $80,000. That would put the business in the black. But it still needs another $40,000 on the bottom line to reach acceptable profitability.

Reviewing and cutting expenses wherever possible should account for

	December		12 Months	
PRODUCT SALES	Dollars	Percent	Dollars	Percent
Arrangements	$ 75,539.74	49.5%	$ 700,969.38	62.3%
Plants	38,886.79	25.5	234,662.33	20.9
Fruit/Gourmet	8,768.60	5.7	18,195.88	1.6
Gifts	17,820.31	11.7	95,544.40	8.5
Total Product Sales	**$141,015.44**	**92.4%**	**$1,049,371.99**	**93.2%**
NON-PRODUCT SALES				
Service Charges	$ 4,478.65	2.9%	$ 28,366.39	2.5%
Wires-Out Commission	4,681.61	3.1	35,486.79	3.2
Wires-In Commission	–8,788.07	–5.8	–68,393.65	–6.1
Rebates	0.00	0.0	162.00	0.0
Delivery	9,414.70	6.2	71,988.02	6.4
Interest	351.44	0.2	5,082.32	0.5
Miscellaneous	1,383.46	0.9	3,337.95	0.3
Total Non-Product Sales	**$ 11,521.79**	**7.6%**	**$ 76,029.82**	**6.8%**
TOTAL SALES	**$152,537.23**	**100.0%**	**$ 1,125,401.81**	**100.0%**
COST OF GOODS SOLD*				
Arrangements	$ 20,026.67	26.5%	$ 227,757.78	32.5%
Plants	13,610.38	35.0	97,379.30	41.5
Fruit/Gourmet	3,244.38	37.0	5,955.75	32.7
Gifts	7,662.73	43.0	35,564.80	37.2
Discounts	0.00	0.0	2,987.46	0.3
Total Cost of Goods Sold	**$ 44,544.16**	**29.2%**	**$ 369,645.09**	**32.8%**
GROSS INCOME	**$ 107,993.07**	**70.8%**	**$ 755,756.72**	**67.2%**
EXPENSES				
Advertising	$ 4,460.92	2.9%	$ 43,358.23	3.9%
Facilities	12,262.28	8.0	138,767.40	12.3
Telephone/Dove	1,810.50	1.2	23,525.83	2.1
Payroll	39,861.06	26.1	420,727.10	37.4
Vehicles	3,672.65	2.4	38,796.79	3.4
All Other Expenses	20,010.64	13.1	154,463.76	13.7
Total Operating Expenses	**$ 82,078.05**	**53.8%**	**$ 819,639.11**	**72.8%**
NET INCOME	**$ 25,915.02**	**17.0%**	**$ –63,882.39**	**–5.6%**

**Each COGS percentage is figured on the actual sales of that particular product, not on total sales. COGS percentages using total sales are misleading and do not give accurate information.*

A LOOK AT DECEMBER

The strong December results saved the business from an even worse year. If you took December out of the picture, the operation would have had gross sales of $972,864 and a loss of $112,231 (11.5% of sales).

December shows the value of productivity. During this holiday month (and, presumably, February and May as well) the staff is more fully utilized. When productivity goes up, payroll costs go down as a percentage of sales. Space is also utilized more efficiently.

Even COGS improved during December. Undoubtedly, the designers were creating more standard arrangements. By following recipes, they controlled their product use much more carefully.

To keep profitability up during non-holiday seasons, two lessons emerge:

1. Staff must be reduced.
2. COGS must be controlled carefully.

Fail in either area and the business' chances of long-term survival are slim indeed.

half of that. The balance would come from lowering arrangements COGS to 28.5% of arrangement sales.

MULTIPLE LOCATIONS

Open more shops and you can expect more headaches. Losses and lower profits are the most common.

Why? Several reasons.

Managing multiple locations takes keener skills and a tighter organization. The owner can't be in more than one store at a time. That makes control more difficult.

Plus, owners who add another shop often overestimate the sales potential or underestimate how long it will take to get there. That, in turn, can lead to other mistakes. For example, an owner who is expecting big sales at a new location often signs an expensive lease.

When the expected sales don't materialize, the business is in immediate trouble.

And signing a lease locks the business into the agreed upon rent for one, two, three or more years. You can't just decide to stop. You have to fulfill the terms of the lease.

In our profiled business, the owners would like to shut down the two unprofitable locations immediately. But they can't. The two stores will continue to lose money for years to come.

The expansion has proven to be quite a costly mistake.

A BRIGHT FUTURE

Despite this business' current difficulties, it really does have a bright future. After all, it has over a million dollars in sales. Not a bad base from which to build.

Deciding how to staff the business year-round is the owners' biggest task. They know how to utilize staff during busy times. Just look at the December payroll. Only 26.1% of total sales. No holiday overstaffing or excess overtime.

The staffing pattern during the remainder of the year is another story. Annual payroll is almost 12 times the December payroll—even though sales are much lower during most of the other months. Cuts will be necessary.

Reducing non-holiday staff will not be easy for these owners. Personalities are involved. Long-term relationships. Families' incomes are at stake.

The owners will have to recognize a bigger reality. The business cannot continue to lose money. If it does, everyone will be out of work. Not just a few people.

The Non-Compete Agreement

Is It a Good Idea?

It happens all the time. You hire and train an employee. He works with you for several years, developing relationships with your customers.

Then one day he quits. A short while later, you learn he has opened a competing shop just down the street and is calling your customers to ask for their business.

It doesn't seem fair.

The only solution seems to be having new employees sign a non-compete agreement.

Basically, the document restricts employees' rights when they leave your employment. And that's the problem.

IT'S 'UN-AMERICAN'

Non-compete agreements go against the basic culture of North America. We believe in the freedom of the individual. People should be able to do what they want. Their rights shouldn't be unduly restricted.

On the other hand, businesses also have rights. A non-compete agreement attempts to protect those rights. However, in doing so, the document often abuses the rights of individuals.

In fact, most non-compete agreements written without proper legal counsel are unenforceable because they create unreasonable restrictions on a person's ability to earn a living. Everyone has the right to use their talents. And that includes former employees.

How can a non-compete agreement strike the balance in a way that is fair to both employer and employee?

PROPER LIMITATIONS

First, you can't restrict a person's rights forever.

Good non-compete agreements usually last from two to three years. A long enough period that the individual will have to do something else in the interim, instead of just waiting to start competing with you.

Second, the restriction must be limited geographically. You can't keep a former employee from opening a flower shop anywhere in the world. That's just too broad. The restriction must be limited to the area in which you compete.

Finally, there has to be a specific reason the business needs protection. For example, no employee should be able to take your customer list and use it against you in a new business.

On the other hand, you do not own your customers. People are free to do business where they want.

So, an employee could leave without your customer list but still call individuals in the community to seek their business.

MONEY TALKS

In the best non-compete agreements, you pay money for the right to prevent another individual from competing with you.

There's a quid pro quo—"something for something."

The most common example is when a business is purchased. The new owner pays the former owner for the business. The new owner can rightfully assume that the old owner will not steal the customer list and open a competing business.

But even this restriction must have time limitations. If the old owner waits a reasonable period of time (as defined in the agreement), she can then turn around and open a competing business.

So, if you're buying a business, you usually can negotiate a legally enforceable non-compete with the former owner.

REALITY

Creating a solid non-compete with an employee is more challenging than with a former owner.

Unless you pay the person to not compete with you when they leave, you probably won't be able to draft an enforceable document.

Think about it. This is the way most businesses get started in North America. It's call free enterprise.

Someone somewhere trained almost every entrepreneur. Entrepreneurs simply take what they have learned and set out to do it on their own. Companies large and small have trained their competition since the beginning of recorded civilization.

In fact, that's probably how you—or your parents—got started in the flower business.

BEST DEFENSE

Commit to running a profitable shop that serves your customers well and treats your employees fairly. You'll compete effectively—with or without non-compete agreements.

Organize Your Desk | A Simple, Workable System

Do you have trouble keeping your desk clean? Are there piles of papers scattered all over it? Do you know what is in every pile? How often do you come across something on your desk, look at it and decide to throw it away?

Messy desks are not unusual. However, they are preventable. All you need is a simple system to reduce the clutter.

Every piece of paper, every piece of mail can be placed in an appropriate category.

FIVE CATEGORIES—FOUR PILES

First, immediately throw all junk mail away. As well as anything else you obviously don't want or need.

The rest can be divided into four categories.

Category 1

These are the "must dos."

They are important and should be handled as soon as possible. If you can't take care of something right away, put it in your "must do" pile to complete before the day is done.

Examples are a bill to be paid, a customer complaint to address or a government form to fill out. Whatever the reason, it can't be ignored. It must be addressed. Today.

Category 2

These are like Category 1 items, except something is missing. Perhaps a task that must be completed but can't be done until someone gives you a needed piece of information. Once the missing information is supplied, the deadline is at hand.

Make a second pile for these items. As information is supplied or deadlines hit, pull the item out and finish it.

Category 3

Reading material. Form a pile of reports, magazines, memos and other things you want to read. As you have a few minutes, work your way through the pile. And periodically throw away items you decide you really won't or don't need to read.

Category 4

This last group is for anything that doesn't fit into the first three categories. In other words, it's something you just don't know what to do with. It looks important. You think you might need it. But no immediate action is required.

Select a deep drawer in your desk for Category 4 items. Lay each new item in the order received on top of the pile. Shut the drawer and ignore them.

If you ever get a call that concerns a #4, you can quickly go to the drawer and locate it in your "chronological" stack. However, for most items in the #4 drawer, that call will never come.

After three or four months have passed, open the drawer, lift off the top half of the pile and place it on your desk. Then, take the bottom half and throw it in the trash. Finally, put the top half back into the drawer.

Repeat this exercise every three or four months. If you don't need a #4 item in that amount of time, throw it away. In the meantime, at least it is not cluttering your desk.

YOU CAN BE ORDERLY

With a little attention, even the most piled-up desk can be kept fairly clean.

And organization brings rewards. You will be so much more efficient. No more sorting through piles of paper just to remind yourself what's there.

FAMOUS FINANCIAL WORDS

"Our national flower is the concrete cloverleaf."
—Lewis Mumford

"Discovery consists of seeing what everybody has seen and thinking what nobody has thought."
—Albert Szent-Gyorgyi

"Logic is a systematic method of coming to the wrong conclusion with confidence." *—Murphy's Laws*

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INQUIRIES & ANSWERS

Letters

HANDLING OLD INVENTORY

"Is there a secret to buying smarter? I always seem to end up with product that doesn't sell."

Just common sense.

The best way to purchase inventory, whether gift lines or special containers, is to plan carefully. Many florists go to gift shows looking for "that special something." They see an item that they personally like. So, they buy it—only to quickly find out it won't sell. Other florists buy the right products but get too much.

There's no substitute for planning your buying. What colors are best this year? Is there any trend you should pick up on? How much can you spend on gift inventory? Make the best decisions you can ahead of time. Leave your impulses at home.

Of course, even with the best buying, you'll end up with a few leftovers. The secret here is planning how you will sell them. Half-price sales the day after Christmas work well. So will a big special sale in the spring or summer. You can also incorporate many of these items in creative arrangements.

Toss whatever remains after you've tried your best. Get the clutter out of the way to free up shelf space for new items.

COMP TIME

"One of my designers has asked for time off instead of being paid overtime. Can I do this?"

Yes, but it won't save you money.

Federal law requires that any non-managerial employees be paid overtime when they exceed 40 hours of work in a week. The law allows you to trade paid comp time for the extra hours. However, you must give 1.5 hours of comp time for every overtime hour worked. In other words, it's the same cost as paying for the overtime.

NORMS

FORGOTTEN BIRTHDAYS

Two-thirds of us have forgotten the birthday of a loved one or friend at some time. That leads to an embarrassing moment when the memory kicks back in.

A retail florist is in a perfect position to offer a special occasion reminder service. When a customer sends an arrangement or plant, put the occasion in your database. Next year, send out a reminder a week or two before the big date.

This is not being pushy. It's offering a valuable service that many customers will appreciate. A good percentage will choose to send a gift again.

A reminder service is good for you—and your customer.

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