SHOP PROFILE

FINANCIAL INFORMATION, EDUCATION AND CONTROL FOR THE RETAIL FLORIST

Floral® Finance

teleflora®

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INSIDE THIS ISSUE

QUICKTAKES

Ideas You Can Put to Work Immediately

1 Monitor Your Sales

It's that time of the year when things are moving fast in the shop. Lots to do. Not much time.

However, you can't get sloppy in your management. Monitoring your sales by product line is critical through the holidays. Especially during the first three weeks.

Don't end up overstocked on December 25. Track which products are selling and which aren't. Be prepared to offer special sale prices to move items that are falling behind projections.

2 Cater to Your Customers

Here's a pearl worth remembering: It is not your job to try to sell things to consumers. It is your job to buy what consumers want and make it available to them.

Remember, the customers are in charge. How well you cater to their desires will determine your future.

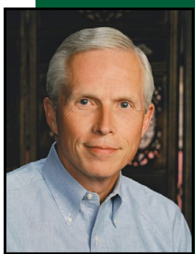
3 Make Work Meaningful

Boredom comes from predictable, repetitive, easy work. Sadly, a prescription for boredom is what a lot of managers create when writing job descriptions.

Meaningful work needs to be broader and more challenging than simple tasks. Convey to your employees how their jobs directly impact customer satisfaction and the shop's success.

FROM THE PUBLISHERS
OF FLORAL FINANCE®

CONSULTANTS



A consultant can provide advice that is worth much more than what he or she earns. However, at fees of $150 to $250 per hour or more (plus expenses), you need to pick your experts very carefully.

The first rule is to know what you're looking for. Define the problem(s) for which you need solutions. Are you seeking to cut your operating expenses? Boost your sales? Focus your design style?

Make sure that the consultant's expertise matches your needs. Obviously, you want someone who understands the floral industry and the kind of problems you are facing.

Thoroughly check out the candidate. Call references. Talk to other florists with whom the consultant has worked.

Next, interview the consultant. The "chemistry" has to be right for the relationship to work.

Clarify what the consultant will give you at the end of the job. Will you receive a written report? Will the consultant make recommendations or simply lay out alternatives?

Never say yes until you are absolutely clear about the fees that will be charged. What is the hourly rate? What other expenses will have to be covered?

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

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PROTECT YOURSELF
PLAIN TALK ABOUT LIABILITY

You certainly don't face the same kind of liability risk as a physician, but your exposure is greater than you may think. Your shop could be forced to pay damages in a number of different ways.

Spilling 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 small (or large) amount of a floral preservative that had been left on a counter?

Or suppose you do some party planning for a wedding customer. Are you responsible for the actions of the caterer, musicians and prop rental firm that you work with? Maybe. Their negligence could very easily become your problem if you aren't careful.

Although you can't protect yourself 100% from all possible liability threats, several basic steps can reduce your overall risk. Here are some of the best.

> **As the party planner, you may arrange a host of details for your clients. … The question quickly becomes whether you are merely the agent for the caterer, the musicians and the other suppliers or whether you are the principal supplier yourself.**

INCORPORATE

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

The reason is that in the eyes of the law, a corporation is a completely separate entity from the individuals who own it. Generally speaking, the owners are not personally responsible for the acts or omissions of a corporation.

Of course, there are exceptions to this rule. A corporation's owners, for example, are personally liable for its tax debts. And in other cases, courts occasionally will ignore the corporate shield if doing so would produce 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 provide 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 and indeed must sue the owners personally for an alleged wrong. The owners' personal assets will be directly at risk.

PRINCIPAL AND AGENT

Legally, the term "agent" is used to describe 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.

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

The distinction between principal and agent can become very 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. The question quickly becomes whether you are merely the agent for the caterer, the musicians and the other suppliers or whether you are the principal supplier yourself.

If you are judged to be the principal rather than the agent, you may 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 the bill, guess who probably will be expected to do so? That's right—you. 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 original suppliers.

Contracts

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

This can be a difficult line to draw. At a minimum, make sure that all documentation reflects the agency relationship. Your customer, for example, should be the one to sign any contracts requested by the other vendors.

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

In your estimates, correspondence and other invoices, be sure to use the actual supplier's name in addition to your own:

Right: "Upon your approval, the food for your party will be prepared and supplied by Mimi's Catering."

Wrong: "We will obtain whatever food you request for the evening."

Set up the charges so that the customer is buying directly from the other vendors, instead of you buying the goods and services and then reselling them to the customer.

The strongest position is when the other suppliers bill the customer instead of you. That really takes you out of the line of fire.

Guarantees

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

Again, drawing this line isn't always easy. Take something as innocent as describing the food that Mimi's will be preparing.

Dangerous Statement: "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-and-green-bean casserole, and two desserts. There will be more than enough to satisfy 40 hungry adults."

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

For all you know, Mimi's may come at 7:30 p.m., bring one entrée, skip the rice and skimp on dessert.

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

Better Statement: "As you will recall, Mimi's indicated that they will arrive by 7:00 p.m. Their tentative menu plans call for serving 40 guests one beef and one chicken entrée, along with a wild rice pilaf, an asparagus-and-green-bean casserole and two desserts."

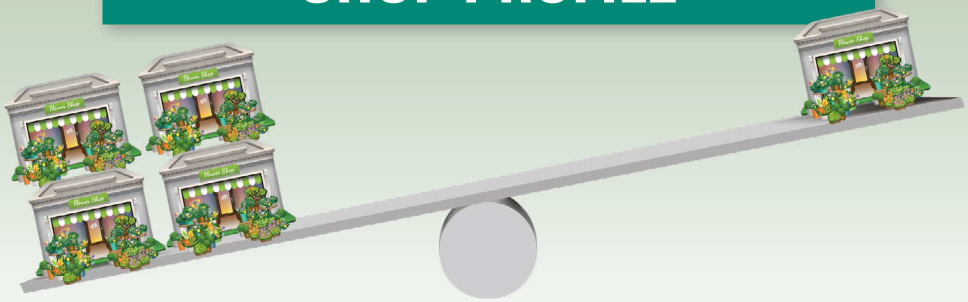
With the latter statement you've accurately reported the vendor's intentions without making any promises you may not be able to keep. It's a much better way to go.

COMMON GROUND

Can a liability conflict happen to you? Oh, yes.

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

To be even safer, carry an adequate amount of business liability insurance. At least a million dollars. Much more for a larger shop. It will cost you a few hundred dollars a year but will provide a degree of protection you can't get any other way.



Are Four Locations Better Than One?

Our shop profile for this month is a four-location business in a large metropolitan area. Having built $1,125,401 in annual sales, this operation would appear to be the kind many florists dream about.

However, as is often the case, the underlying reality is quite different. The big sales haven't produced a strong bottom line. In fact, the business lost $63,882 last year. That's enough to hurt anyone's savings account.

MORE SALES ≠ MORE PROFITS

Listen to the conversations of florists at a convention or association meeting, and you'll often hear something like "If I had another $50,000 in sales, I would be profitable."

Not true.

LOW PROFITS ARE USUALLY THE RESULT OF THE ABSENCE OF SOUND MANAGEMENT TECHNIQUES.

It is a myth that more sales will automatically bring profitability. This month's profile shop is a perfect example. Most florists would get excited at the thought of more than a million dollars in sales, but this business is losing money.

FIRST RULE OF PROFITABILITY

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

That's because the cause of low profits normally is not volume. Low profits are usually the result of the absence of sound management techniques. Increased sales would almost certainly be managed just as poorly as the lower volume sales.

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

WHERE'S THE PROBLEM?

A brief review of this shop's income statement provides some insights on what has happened and how the owners might turn things around.

Arrangement cost of goods sold (COGS) comes in at 32.5% of arrangement sales. That's at the high end of the acceptable range (26% to 33%). While not a major problem, cutting this by even one percentage point would add $7,000 in profit.

The percentages for the other COGS categories don't look out of line. Expense categories also look okay, except for two biggies: payroll and facilities expense.

A CLOSER LOOK

First, look at payroll. Too much money is being spent on labor. A multi-location shop's payroll should not exceed 35% of total sales, including the owner/manager's salary, payroll taxes and related benefits. This operation is 2.4% above that maximum. (Note: A single-location business should keep payroll at or below 30% of sales.)

Although the profit target for a single-location shop is 10% of sales, the target for a multi-location shop is 5%. That means this shop ought to be able to earn 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 would be a good start. Proper staff management should save as much as $27,000. That's nothing to scoff at, but it still leaves a ways to go.

One other problem here also jumps out. Often a multiple-location flower business will have one or more stores that aren't really contributing to overall profitability. No exception here. Only one of the three satellite stores is a winner. Two are losers.

All three had low sales (ranging from $66,000 to $99,000). And the two unprofitable locations were way out of control on facilities expense. A whopping 39.3% and 42% of sales.

Let's put these figures in context. At the main store, the facilities expense was only 7.6% of sales. Managing the

A LOOK AT DECEMBER

The December results actually saved the business from an even worse year. If you take December out of the picture, the operation would have had gross sales of $972,864.58 and a loss of $112,231.41 (11.5% of sales).

The December snapshot 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 better utilized.

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

To keep profitability up during the rest of the year, two lessons emerge:

1. Staff must be reduced when sales slow.
2. COGS must be controlled carefully to keep it in its proper place.

Fail in either of these areas, and the chances of long-term survival are slim indeed.

other locations to that level would save almost $53,000.

Collectively, the payroll and facilities expense savings mentioned previously would total about $80,000. That would put the business in the black. But the owners would have to get another $40,000 on the bottom line to reach their profitability target.

There are only two other possibilities. First, reviewing and cutting expense items wherever possible. Second, lowering COGS on arrangements to 28.5%.

THE CHALLENGE OF MULTIPLE LOCATIONS

Open more shops and you can expect more headaches.

Why? Several reasons.

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

IT IS A MYTH THAT MORE SALES WILL AUTOMATICALLY BRING PROFITABILITY.

Plus, an owner who adds another shop or two often overestimates the potential for sales or underestimates how long it will take to get there. That in turn can lead to other mistakes. For example, owners expecting big sales are often willing to sign an expensive lease. Once the lease has been signed, the owners are locked in. They have to fulfill its terms. Even if the expected sales don't materialize.

Our profile shop is a good example. The owners would like to shut down the two losing locations immediately. But they can't. They have to pay off those leases. The two stores will continue to be losers for some years to come. The expansion proved to be quite a costly mistake.

SHOP PROFILE INCOME STATEMENT

	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%
Wire-Out Commission	4,681.61	3.1	35,486.79	3.2
Wire-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				
COGS—Arrangements	$ 20,026.67	26.5%	$ 227,757.78	32.5%
COGS—Plants	13,610.38	35.0	97,379.30	41.5
COGS—Fruit/Gourmet	3,244.38	37.0	5,955.75	32.7
COGS—Gifts	7,662.73	43.0	35,564.80	37.2
COGS—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 BRIGHT FUTURE

Despite the difficulties currently facing this business, it really does have a bright future. After all, it has over a million dollars in sales. That's not a bad base upon which to build.

The main task will be deciding how to staff the operation. Clearly the owners know how to utilize staff when times are busy. Just look at payroll costs during the month of December. Only 26.1% of total sales. No holiday overstaffing or excess overtime.

The problem is the staffing pattern during the remainder of the year. The annual payroll is almost 12 times the December payroll. The owners aren't cutting back enough on people when sales decline.

Admittedly, reducing staff will not be easy. Personalities and long-term relationships are involved. Families' incomes are at stake.

Even so, the owners 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. Hard decisions must be made.

PERKS *Something for Nothing?*

Some owners of small businesses think the company is a ticket to free goodies. The business pays and the owner doesn't. Obviously, that's not exactly true. The company might write the check, but the result is less profit on the bottom line. As an owner, you end up paying one way or another.

However, given the right circumstances, having the company pay is a perk because the company pays with pre-tax dollars rather than after-tax dollars. So, to the extent that you can legitimately have the company cover something, you do save the amount of tax you would have paid.

This is a nice perk, to be sure. But one that comes with potential complications that are worthy of caution.

ABUSE

Since the person who benefits from using pre-tax dollars also controls the company checkbook, abuse is easy and not uncommon. As a result, the IRS watches for this type of cheating very carefully. And it has become quite adept at creating rules to prevent abuse.

CARS

Consider company cars. Why not have the company purchase your vehicle and pay all the expenses? You get to use the car with pre-tax dollars, right?

Not quite.

First, the IRS has devised strict rules on depreciation. Cars don't qualify for special treatment. They have to be depreciated according to a schedule. If the car is used extensively for personal use, the depreciation is straight line. No accelerated write-offs.

Then, there's the question of how much you use the car for personal—as opposed to business—travel. The company must keep an exact log of all business use. The individual must pay for his or her personal use.

How about this? Just buy the car yourself and charge mileage to the company for business use. It's easy. It's clean. And there is an even bigger benefit: No tax audit problems.

If you've ever been audited, you know that one of the first things the auditor will review is personal expenses being paid by the company. Company cars are at the top of the list of suspicious activities.

If there is no company car, there is no issue.

TRAVEL

You don't want to do anything illegal or engage in activities that will invite an audit. It's just not worth the few dollars you will save. So, if you take a trip that is really for personal (not business) reasons, belly up to the bar and pay for it yourself.

On the other hand, do take advantage of the deductibility of a trip that truly is for business purposes. Industry shows and events are prime examples of trips you can write off. Trips to gift shows are also great candidates. And there's nothing wrong with going out to dinner and enjoying the location of the gift show.

Problems can arise, though, when you add a few days of personal travel onto a business trip. Be careful. In those cases, you must pay personally for the personal travel, as well as an appropriate prorated portion of the ticket that got you there.

OTHER PERKS

Owning your own business comes with many different perks. Business travel, health insurance (if you're set up properly), and budgets for entertaining business suppliers, associates and customers, to mention a few.

For a complete explanation of IRS rules, go to www.IRS.gov and download a copy of Publication 463: *Travel, Entertainment, Gift, and Car Expenses.* It's easy to find using the search tool.

However, there also are many things that you shouldn't try to expense.

In deciding what to expense and what to pay personally, you have to deal with two issues.

The first, and most important, is moral. How much is your integrity worth? Hopefully, you will conclude that your integrity is not for sale at any price.

Second is the IRS. You always run the risk of getting caught when you push the envelope. And if you do, you will pay penalties and interest that can add up to quite a tidy sum.

THE BEST ADVICE

Don't try to take what isn't yours. Do the right thing and your conscience will be clear. You will sleep better at night. And remember: It doesn't cost that much to walk the straight path.

FAMOUS FINANCIAL WORDS

"Logic is a systematic method of coming to the wrong conclusion with confidence."
—Christopher Morley

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

Punching in Early … Staying Late

Controlling payroll is a major challenge for every retail florist. In order to meet a reasonable profit target, you have to keep your productivity up.

TECHNICALLY, EVEN FIVE MINUTES OF OVERTIME HAS TO BE APPROPRIATELY COMPENSATED. THIS APPLIES TO ANY AMOUNT OF OVERTIME—NO MATTER THE INCONVENIENCE OR SMALL AMOUNT OF MONEY INVOLVED.

That means you have to staff properly. One key is reducing payroll during non-holiday periods. Another is keeping overtime to a minimum—preferably none at all.

Historically, many larger florists installed time clocks in an attempt to monitor employee hours. Employees would punch in when they arrived and punch out when they departed. Today, the traditional time clock often is replaced by "time-clock" computer software. A little more high-tech, but the same basic principle.

Having employees check in and out eliminates the need to monitor each person individually. The time clock does the work. The employer knows precisely how much time to pay for.

TWO-EDGED SWORD

As wonderful as time clocks are, anyone who has used them for long also has experienced some not-so-wonderful problems.

Wage-and-hour laws are very strict. Those laws require you to pay overtime whenever it is earned. Technically, even five minutes of overtime has to be appropriately compensated. This applies to any amount of overtime—no matter the inconvenience or small amount of money involved.

This is where the time clock can work against you. A "conscientious" employee clocks in a minute or two early every day. Bingo—you owe overtime pay. Those extra minutes are right there in the time clock records—documented proof of the extra pay you owe.

EXTRA RULES REQUIRED

Employers who use time clocks should establish and post a rule that employees cannot clock in early.

However, even posting the rule won't get you off the hook. You also have to enforce the rule. If employees continue to clock in a little early, you must pay them for the extra time. You can't use the rule to avoid payment.

Ultimately, you avoid overtime pay by making sure that no one clocks in early or clocks out late.

When it comes to managing hourly employees, clocking in a few minutes early is not the biggest problem. It's the employee who comes in an hour early or consistently stays an hour late to "get everything done."

Retail florists cannot afford to pay overtime wages on an ongoing basis and still make a decent profit. Overtime must be avoided like the plague.

Consequently, you need to monitor your employees to make sure they don't add those extra hours. Everyone needs to know your overtime policy. And you need to enforce it.

THE BIGGER ISSUE: PRODUCTIVITY

In the final analysis, what you really want out of your employees is high productivity. You've undoubtedly heard the maxim that "work expands to fill available time." In other words, something that could be done in one hour will take an hour and a half if that is the time available to do it.

Employees will slow down, figuring they can finish by adding an extra hour at the end of the day. You lose two ways. The work is not done as quickly as it should be—and you end up paying overtime.

Keep productivity up. Don't allow overtime.

Clocking Time

Large florists will undoubtedly have to use time clocks and manage them properly. However, time clocks don't necessarily make sense for everyone. You can opt for old-fashioned time cards if you wish.

Simply have your employees fill out time cards each day. Let them know your overtime policy. Set their work hours according to your needs. They will fill out the card accordingly. You don't have to worry whether they arrived at 7:58 or 8:02. They'll mark down 8:00.

You won't have to worry about a few minutes of overtime. But you still have to monitor productivity and make sure no one puts in extra, unneeded hours.

The more tech-savvy you are, the more likely you will want to investigate a good time-clock software program. They're inexpensive. And with today's tech-oriented workforce, they are easy to administer and use.

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NORMS

NON-PRODUCT FLORAL SALES

The amount of sales in the average retail flower shop not attributed to floral products. These sales are from gifts, balloons and gourmet items. This underscores that retail florists primarily are in the business of selling floral products.

Of course, a percentage of revenue comes from services such as delivery. But the vast majority of that revenue is tied to delivering floral products.

Florists often will try to expand sales outside of the floral niche. Most who try have less-than-satisfying results. Why? Customers who frequent flower shops are primarily looking for flowers or flower-related products.

Source: Floral Finance Business Services

INQUIRIES AND 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 it's gift lines or special containers, is to plan carefully what you want and need.

Many florists go to gift shows looking for "that special something." They see an item that they personally think is great. They buy it, only to find out it won't sell.

Others buy the right product 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? As best you can, make your fundamental decisions ahead of time. Leave your impulses at home.

Of course, even the most strategic buyers will end up with a few leftovers. The secret is to plan how you will sell them. Throwing a half-price sale the day after Christmas is one strategy that often works. Having big "leftovers" or "lemon" sales in the spring or summer also works. If the item fits, incorporate it in a creative arrangement.

What do you do with whatever remains after you try your best? Recycle or toss the items. Get the clutter out of the way to free up shelf space for new products.

COMP TIME

"One of my designers has asked to be given 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 go over 40 hours of work in a week. The law does allow you to trade comp time. However, you have to give one and one-half hours of paid comp time for every overtime hour worked. In other words, it's the same cost as paying for the overtime.

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