

EDITORS' NOTE *Paul Goodman, CPA, PFCI, and Derrick Myers, CPA, CFP, love a good financial management challenge, however big or small. Send your questions to fmeditor@safnow.org, and we'll challenge the experts to tackle them in an upcoming article.*



THANK \$ FOR THE FUNERAL WORK

BY DERRICK MYERS, CPA, CFP, PFCI

Q: What are the various ways that florists compensate funeral homes for referring business?

> Historically, funeral homes and directors believed that accepting commissions on floral sales was unethical ... but unfortunately those days are gone. Now almost all funeral homes are looking for a piece of our action, but the real problem is that they think we have fat profit margins, and they are looking for far too big a piece. I commonly see florists giving up 20 percent, 30 percent and, yes, even 40 percent as a selling commission to their local funeral homes. Compare these numbers to what they pay their sales staff in the store, which is between 5 and 7 percent, and you begin to understand just how big a problem this can be. The problem all started with us. We became accustomed to the split on wire ins and outs, and it has become the standard discount for everything. Anytime someone wanted a discount, we would give them 20 percent, because that's what we were accustomed to giving. But, I have news for you. We target a 20 percent bottom line profit for most of our florists (10 percent as wages, and 10 percent as profit). So, if we make only 20 percent and you discount 20 percent ... well, you don't have to be an accountant to see the problem with that math.

There are some funeral homes that still cling proudly to their principles and refuse to take a commission. These are a rare breed and should be treated with the utmost care to make sure you are the one to continue to benefit from that relationship. If you do find yourself trying to set up arrangements with funeral homes that want these high percentages for commissions, you may need to draw a line in the sand at 20 percent. I have also seen shops that give the funeral homes catalogs with prices marked up, just so the shop can give the discount and still make money.

Q: Have you ever seen situations where these relationships backfire? What cautions should I keep in mind when developing one?

If you find yourself marking up the items for the funeral home to sell just so you can give them their cut and still make money, you could be opening yourself to a situation where you may need to explain to a customer why they bought one item from the funeral home and another of the same item from you directly and paid two different prices. This is not usually an easy conversation to have with your customer, who probably feels cheated right about now.

I feel that honesty is always the best policy, and I think that is no exception here. If your customers question your relationship with the funeral home, let them know that if they buy through the funeral homes they pay a sales commission to the funeral home. As a sidebar, though, I am always amazed at how much more money the funeral homes are able to charge when you compare it to what florists are able to charge for the same item.

Q: What financial parameters should be considered? How do I figure out what percentage or fee to give to the funeral home for referrals, and how do I factor it into my bookkeeping?

I think that as an industry we need to limit discounts to 10 percent, and even then we need to make sure that we don't discount too much of our business. But, there is a lot of educating that needs to be done among florists, customers, funeral homes and wire services before we will get to this point as an industry. In the meantime, it is up to you to determine the discounts that you offer. Unfortunately, to be competitive with your neighbor florist, you may

have to offer 20 percent or 30 percent to get the business, which means you will have to mark up the product to the funeral home in order to maintain your own profit margin.

Although this sounds pretty straightforward, the math looks like this. Let's say you have a \$100 order and you are comfortable giving up 10 percent, which means you get \$90. But you have to give 30 percent to the funeral home, so to get the sale price, you need to divide \$90 by 70 percent (100 percent less the discount of 30 percent, which is 70 percent), which gives us a sale price of \$128. This is almost as much as adding the 30 percent on top, but remember that they make their 30 percent on whatever sale price we set, so by marking up the sale price we are increasing their commissions. Therefore, they now get a commission of \$38 and you get the \$90 you needed. (Somebody really makes out good on this deal, and as usual, it's not the florist!)

When accounting for this in your books, you would simply enter a sale of \$128 with a discount of 30 percent, giving you a net invoice of \$90. This is the number that will be used when analyzing your COGS and other business percentages. 🌿

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