

EDITORS' NOTE *Paul Goodman, MBA, PFCI, and Derrick Myers, CPA, CFP, PFCI, 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.*



RESOLVE TO BE PROFITABLE

SHUTTERSTOCK/ GOODSTUDIO

Want to do better financially in 2020? The first step is making the decision to prioritize profits.

BY PAUL GOODMAN, MBA, PFCI

What distinguishes profitable flower shops from unprofitable flower shops? I'll give you a hint: It's not luck.

It's also not floral design work or the background the owners brought to the business. It doesn't have anything to do with the shop's size, location or customer demographics.

No, the major distinction is that owners of profitable shops made a decision once upon a time. They decided they were going to do whatever it took to put their business in the black.

If you want to be profitable, you must make a similar decision. It will mean changing some of the ways you do business. Committing yourself to management practices that may not come naturally or easily.

Without this decision firmly in place, you will get soft when making other decisions and maintaining the necessary operating standards in your shop.

What does that decision entail? It primarily means you will implement necessary steps to control three major expenses to meet industry profitability standards. Before we summarize those three, here's a rule I've discovered: If you're not profitable at your present level of sales, you won't be profitable at a higher level of sales.

Many florists think the answer to their problems is increased sales. To be sure, it is important to work at increasing sales. But if you're not profitable now, you will most likely manage the increased volume the same way and you still won't be profitable. You must change what you are doing and get profitable now. Here are the three major things you must control.

Perishable Costs

Normally it's referred to as controlling Cost of Goods Sold. By definition that's the cost of the products you sell. That's only the product cost. It doesn't include labor. We'll deal with that later.

For florists, there is really only one product cost that makes a major difference in profitability. It's the cost of the flowers and greens you buy. The majority of your sales are arrangements, so it makes sense that you need to control the cost of the perishables.

Here's your easy-to-remember target. Flower and green costs should not exceed 25 percent of fresh sales. That's it. It's not complicated. You can check your purchases each week against your sales to see how you are doing.

The real problem is how to keep flower costs at 25 percent or less. That has to do with design room control. First, you must price everything properly and charge for every flower and green used. The only way to do that is to count. Everything in every arrangement must be counted and charged to the customer. No extra flowers, period.

Here's where that decision to be profitable comes into play. If you have

a designer who refuses to count and charge accordingly, you have no choice but to politely show them the door.

Payroll

If you are a single location flower shop, payroll must be kept at 30 percent of sales. That includes wages, payroll taxes and employee benefits. It also includes the owner/manager being on the payroll. If the owner/manager is not on the payroll, then the target is 20 percent.

If you have multiple locations or a garden center, the target is 35 percent and your expected profitability will drop by that same 5 percent of extra payroll.

Hitting this payroll target is not easy. It requires that you keep productivity high. The secret is to set your permanent staffing only for the number of hours needed to handle nonholiday business. Nonholiday business is the typical weekly volume you experience for about 11 months of the year.

You also must staff for the volume of business you have by day of the week. For most florists, that means you'll need more help on Friday than on Tuesday.

If you have never done it before or need to update the numbers, do a non-holiday staffing analysis for your design room. Take four consecutive weeks in March or June or September. Excluding wedding or event work, mark down the fresh sales for each day of the week. Then add all the Mondays together, divide by four and you'll have your average design sales and workload for a Monday. Do the same for the other days of the week.

Assume a designer can design about \$200 an hour. Use that target to figure

out how many design hours you need each day on average. Then be sure to add a few hours for miscellaneous design room activities.

If you've decided to be profitable, you have to staff only for those number of hours. Of course, you will have to add staff for weddings, events and extra busy days that come along.

That's it. Keep your staff lean and productive all year long.

If you're not profitable at your present level of sales, you won't be profitable at a higher level of sales.

Facilities Expenses

The target here is no more than 10 percent of sales. This includes rent, repairs, maintenance, utilities and facility insurance.

This one is pretty easy. The industry average for these expenses is roughly 8.5 percent. So, most florists already hit this target. If you don't, then you have a challenge because facilities do not lend themselves to quick fixes and adjustments.

You'll have to realistically figure out what needs to be done and set up a timetable to implement the changes. It might mean reducing the size of your shop or moving to another location.

Other Expenses

What about all other expenses?

The shops that are the most profitable manage these tightly as well. However, all the other expenses in a flower shop outside of the big three mentioned previously only account for 17 to 21 percent of sales — good to manage, but not nearly as critical as the big three for achieving and maintaining a strong profit margin. 🌿

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FINANCIAL GOAL SETTING

I get a variation of this question often: "How much should my shop make?"

In addition to a salary for the work you do, your shop can reasonably expect to make 10 percent on the bottom line. If you are a multi-location shop or have a garden center, that target drops to 5 percent because of the added payroll expenses to run those operations.

The next question usually is, "What is a reasonable salary for the work I do as an owner/manager?"

Including your wage, payroll taxes and other employee benefits, your compensation package for the first \$500,000 in sales is 10 percent of sales. If your sales are higher than \$500,000, then you can add 5 percent of the sales over \$500,000 to your compensation package. — P.G.

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Ready, Set, Grow!

A simple checklist can help you better understand your business today — and how you want to move forward into the future.

BY PAUL GOODMAN, MBA, PFCI

The new year is still fresh and new. You want to try new things to grow your business. You need a plan to head in the right direction, and the first step is learning where you are. It's an interesting exercise and easy to accomplish. It is simply an explanation of who you and your customers are.

Set a time to fill out this comprehensive list of questions that apply to a retail florist business. Answer them honestly and thoroughly. You will end up with a very accurate description of your business.

You'll need access to some numbers, but not too many. You'll also have to do a little research to identify your top customers. However, you already know most of the information you need. You just need to carefully think through the questions.

You might want to get some help from a trusted employee — someone who has been with you long enough to know your customers and products. Someone with good insight as to what makes your customers tick and draws them to your shop.

So, just sit down with a pencil, paper and genuine curiosity.

If you're already in business, you will want to have two columns on each of your pages: one for where you are today, and the other for where you want to be. If you're starting from scratch, all you need to fill out is the second column — where you want to be.

1. Understand the basics of your business.

- When did you start your business? And how did you get started? Did you buy an existing business or start your own?
- Are you a single owner? Or do you have partners?
- What is the legal organization — partnership, corporation, LLC or sole proprietorship?
- Do you have any financial backing? How much and from whom?
- What experience did you (and your partners) bring with you?
- What are your current annual sales?
- How have your sales grown in the past year? Two years?
- What sales level can you realistically achieve in the next year? In five years?

2. Craft your mission statement.

- Why did you go into the retail flower business?
- What did you hope to accomplish?

The answer to these questions should be as specific as possible. For example, a common answer might be “to earn a living and maximize profits as a retail florist.” Another might be “to provide consumers with the best premium floral products and services.” Yet another, “to become the area’s best designer.”

Each of these would have you running your business in a different manner to achieve different goals. Whatever your mission statement, it will be the foundation of what you do. You should refer to it constantly to see if you are staying on track and meeting your objectives.

3. Identify your customers.

- Who are your customers? What are their typical age ranges, income levels and gender?
- Geographically, where do they come from? Are you a neighborhood florist or are you located in a shopping area or downtown?
- Do you cater to a certain group, like commercial accounts?
- Do you focus on certain types of events, like weddings?

- List your top 25 customers by annual purchase amount.
- What portion of your annual sales do these top 25 customers account for?
- Is there any pattern in the type of customer that makes up this list? For example: Are they all corporate customers or wedding/event customers? If a particular demographic applies to most of your top 25 clients and they represent a good portion of your sales, that would be a great indication of your strengths. It would be a strong signal that you might want to focus more attention on growing that segment of your business.

4. Review your products and services.

- What is the single most important thing you offer that attracts the greatest number of your customers? For example, many retail florists would agree that delivery is the most important service that sets them apart from other flower competitors. The answer to this question will tell you why most customers do business with you.
- What are the second and third most important things you offer that attract the greatest number of your customers?
- Next, list in sales volume order your top five products and/or services. Analyze the competition.

5. How many other retail florists compete with you?

- What are their strengths and weaknesses?
- How close are they to your location?
- Do you serve different customers?
- Are there other competitors besides retail florists?
- How are competitors outside of the floral industry different from you?

If you’re like most retail florists, you will have competitors. Many would describe themselves similar to your own description. Given that fact, what sets you apart from them? What gives you an edge?

GO DEEPER

Even before you complete the checklist featured here, Goodman suggests answering key questions to set you on the road to profitability. Find out more at safnow.org/moreonline.

For many retail florists, especially in major metropolitan markets, the single most important competitive factor is location. They serve a unique part of town. Convenience makes them the florist of choice.

What sets you apart does not have to be something necessarily different about the products and services you offer. It can be as simple as your location.

6. Strategize about space.

- Where is your shop located? What part of town? Is it in a strip center or is it a stand-alone shop?
- What is the traffic pattern? Does your location lend itself to walk-in traffic?
- How big is your shop? Do you need more space? Or are you too big? Many shops have way too much display space that requires excessive merchandise and staffing for the level of sales.
- Do you have multiple locations? Would you like to have additional locations? Or would you like to consolidate and have fewer locations?

Your Unique Profile

Right in front of you, on a few sheets of paper, should be an accurate description of the business you have and some ideas of where you want to go. Anyone reading your answers should have a solid feel for what you want to accomplish.

The next steps involve summarizing your goals and then creating a more detailed list of the steps necessary to accomplish them along with a timeline. 🌿

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Keep Up Your Momentum

Adding profitable volume can help you build on a strong foundation as you grow your business.

BY PAUL GOODMAN, MBA, PFCI

Hopefully, your goal in 2020 is to become profitable and grow your business — that's been the focus so far this year of this column.

In January, we looked at the most critical part of accomplishing your goal. You must “make a decision to be profitable” and then follow through by doing what is necessary to make that happen.

That approach basically means you are going to operate your shop properly. First, you are going to control your perishable costs (flowers and greens) by making sure your design staff follows your pricing formulas. They must charge for every item in an arrangement. No extra flowers. Everything is counted and doublechecked.

Then, you are going to keep payroll low by making sure your employees are productive. Designers and sales associates need to hit volume targets. Part of that is on your shoulders by not overstaffing.

Basically, you are going to manage for profitability. After you get your shop operating profitably at your present level of sales, you need to turn your attention to growing your sales.

We started that process in February by taking a close look at exactly what your business looks like. Who are your customers and your competition? Who do you want to target for future growth? What are your strengths and weaknesses?

Now, it's time to look at marketing for growth. You want to add profitable volume. Profitable volume consists of items that are priced properly and produced efficiently.

Increase the Top Line

The big challenge any retail florist faces is getting added volume. Basically, there are only three ways to increase your top line:

Increase the number of customers.

This is the option to which most people give the most attention. You know how much your average customer spends. Adding new customers will increase your sales accordingly. Add 10 percent more customers and you should increase volume by about 10 percent.

Increase the average order size.

Instead of adding new customers, you get more per sale. Get your present customers to spend 10 percent more on average per order, and you will also get about a 10 percent increase in sales. It is often easier for florists to increase the average order size, rather than trying to add new customers.

Increase present customers' purchasing frequency. Finally, if your average customer buys twice per year, you could increase your business by 10 percent by getting one out of every five customers to make just one more purchase per year.

Typically, retail florists spend 3 percent to 4 percent of sales [on marketing]. That is modest by most retail standards. If your campaign is going to be aggressive, you will need to increase that number to at least 5 percent.

Your first step: Determine which of these approaches — or which combination of approaches — fits your situation best. That will help guide the methodology you employ to add sales.

Craft a Compelling Message

Given the profile of your customer and your growth goals, it's important to step back and ask, "What will my message be?" Are you going to focus on unique or high-quality products and designs? Will you emphasize service or value?

You can also choose to focus on product features — for example, color range or product origin — or benefits — such as the reason behind a purchase ("I love you." "I'm sorry.") and the response the flowers can help promote ("I love you, too." "I forgive you.").

Marketing the benefits is a much more appealing message than marketing the features. You should focus primarily on why the customer is buying in the first place.

A holiday message can be specific, such as, "Flowers are the best way to tell mom you love her!" at Mother's Day. A more general benefit theme for all your advertising might be, "Flowers are the best way to send your love."

Dig into Your Budget

How much are you going to spend on marketing? Typically, retail florists spend 3 percent to 4 percent of sales. That is modest by most retail standards. If your campaign is going to be aggressive, you will need to increase that number to at least 5 percent.

If you are starting a new business, your marketing budget will have no correlation to sales. You must determine how much you are going to spend to get your new business off the ground. Divide the money over each month of the year based on what you want to promote when.

Manage Your Marketing Money

What media channels are you going to use to get your message out? Traditional choices range from putting a sign in your window to advertising on television. Of course, the bigger the reach of the media, the higher the cost. Television is too expensive for most florists.

Historically, florists spent a lot of their advertising budget on the Yellow Pages. Today's world with the internet and Google is completely different.

So where should you spend your money now? Most of your marketing dollars need to be spent on your website and social media. Primarily what this means in most shops is that only some of the money actually goes to the internet media itself.

UP YOUR ACCOUNTING GAME

This month's column completed a three-part series we're calling "Floral Accounting: Back to Basics." Our goal? Ensure SAF members have the best financial advice to move their businesses forward. You can access the previous two columns at safnow.org/moreonline.

Most of the budget will be needed to hire the right person to manage your website and social media. Content takes time, and you need to be placing new things on social media each week.

You also need to be sourcing reviews about your shop. And don't forget the need to always respond to negative reviews. All this takes time, and that means money to pay someone to focus on it.

Don't Skimp on Training

If your choice is to increase the average order size or add additional orders from your present customers, your best money will be spent training your staff.

It's a fact that customers generally spend more money per order when they buy on your website than when they buy in the shop. That means your sales staff is actually hindering the customer from spending what they otherwise would choose to spend.

Good training for taking telephone orders or waiting on customers in the shop will pay off handsomely. For example: What's the first question you should ask your customer? It shouldn't have anything to do with selecting a specific product or determining how much they want to spend. Instead, that first critical question should be all about the card message. What does the customer want to say on the card? That message will give you a large clue as to the importance of the occasion and potentially how much the customer is willing to spend.

That's what proper training will do. First get the right information and then know how to sell the customer exactly what they want and allow them to spend as much as they want. 🌸

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