

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.*



HOW TO MAXIMIZE PROFIT IN 2020

By returning to some best practices and solid principles, you can end this rollercoaster of a year on solid financial ground.

BY DERRICK P. MYERS, CPA, CFP, PFCI

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The year 2020 continues to be a year of challenges and surprises. When we first received shutdown orders in early March, we prepared for major drops in sales. I told my clients they could see sales drop by as much as 50 percent for many months to come, but 2020 has surprised us once again. Some businesses, including some florists, did indeed see the losses I predicted; but to my surprise, others began to see their sales soar. As of press time, the general trend is that retail florists' sales are slightly above 2019! What is especially strange is the large variance in sales growth for shops. The range is huge! Some shops are down 50 percent or more while most shops are flat compared to last year. But some shops are up 25 percent or more.

Why are we seeing this big difference? First, let's look at what we have lost: weddings, proms, graduations, funerals, and corporate events (and even general corporate deliveries since so many people have been working from their homes). Even hospitals were closed to visitors and deliveries for much of the year. The entire floral landscape had changed overnight. In addition to these losses, many flower shops were ordered to close their retail locations, so there went our walk-in business! All we had left was no-contact delivery. So why isn't everyone down by 50 percent or more? Hint: the internet!

Over the summer, I read somewhere on the internet that experts are saying that COVID-19 has changed consumer purchasing so much that we have advanced four to five years in the online shopping movement. Those shops that had good websites with strong search engine optimization, thriving social media presences, and that had invested in pay-per-click marketing saw an explosion in their internet business. Some florists saw their internet sales increase more than 200 percent! In most cases, florists saw their internet business go up by more than enough to offset the COVID-related losses.

What does all of this mean to you, as a business owner? In my opinion, it's a call to action to shore up your financial best practices, to make sure you are positioning yourself for the best possible outcome. With so much uncertainty in the world, these are some areas you can actually control, and they make a huge difference to your bottom line and how you move into 2021.

Watch COGS Closely

Of course, sales are only part of the story. This year there have been challenges with product procurement that have limited sales for some florists.

BACK TO THE BASICS

This month and next month, we've asked our resident financial experts to walk readers through the fundamentals of finances every flower shop needs to master. Look for Part II in the November/December issue of *Floral Management* magazine.

Many florists were not able to get the product they needed in March and April, when the supply channel in many areas was interrupted, forcing them to limit the orders they accepted. Many had these limitations through Mother's Day and missed out on what was probably the most profitable Mother's Day in a long time. Although fresh product seems to be more readily available now, prices are higher, mainly the result of increased freight costs. Also, restrictions on imports have begun to show up in the supplies and container markets, making them harder and more expensive to acquire. As a result of these challenges, we are seeing COGS climbing an average of 1.5 percent this year. It is now more important than ever to control your Cost of Goods and make sure that you are pricing to cover these higher costs, thereby ensuring that you profit during these tough times.

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Pay Attention to Payroll

After the internet, labor has been the second biggest story in the floral business. We saw many layoffs in the early phases of the COVID-19 pandemic. Here, the surprise was that, while sales did not drop as much as we predicted, many shops ended up doing almost the same volume of business without re-hiring their people back. Some owners picked up the slack by working themselves too hard, but many others realized that they had too much labor to begin with and took this opportunity to bring back only the best and most productive people, ending up with a stronger, more efficient team. These new teams were more profitable in both cost and production. On top of the better teams, many florists also used Payroll Protection Plan loans (PPP loan) to help to rebuild their staff, making this year's payroll costs the lowest in history.

The Deal with PPP Loans

Many florists took advantage of the PPP loans to help cover the costs of their employees for 2020. If you received a PPP loan that was less than \$150,000, don't be in a hurry to file the loan forgiveness paperwork with the bank. There is a bill before Congress that would make all loans of \$150K or less automatically forgiven, saving you and the bank a lot of paperwork. Congress originally designated PPP loans as "tax-free" income, but the IRS has taken the position that the payroll, rent, utilities, etc., that are paid for using forgiven PPP money are nondeductible, essentially making the PPP money taxable. Many members of Congress have brought forward bills that will hopefully reverse the IRS's position, but if not, be prepared to pay taxes on the amount of the PPP loan that is forgiven.

Happy New Year?

Here are my predictions for what will happen the rest of 2020: The internet will continue to lead the way in floral sales, so if you are not positioned well to take advantage of this market, get to work! The internet made sales for this Easter and Mother's Day the largest I have seen in years, and I believe it could do the same thing for Thanksgiving and even Christmas. By taking action to control your COGS, manage your team, and focus your marketing efforts, you could look back on 2020 and realize that it was not as bad as we thought. Perhaps it just might be your best year ever. 🌸

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