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.*

ASK THE ACCOUNTANT

SHUTTERSTOCK/ZENZEN

KEEP THE BIG THREE IN CHECK

How good financial management and discipline in three core areas can help you reach your goals even in times of uncertainty

PAUL GOODMAN, MBA, PFCI

Let's begin with a quick overview of how the pandemic has affected retailers in the floral industry. Many florists have experienced higher sales this year than in 2019 even after losing most event work since COVID-19 struck. Isolated people need to express themselves, and florists have supplied a wonderful product and service during the crisis. Internet sales are thriving. On the cost side, florists have been forced to trim their payrolls and many have found new efficiencies. These trends have greatly helped the bottom line. In this article we will take a deeper dive into the numbers that will make for a very profitable 2021.

Let's capitalize on the trends of 2020 by going back to the basics of flower shop profitability. What I've learned working with florists over the last 40 years is that three things, when managed properly, lead to solid profitability: facilities expenses, cost of goods sold (COGS) and payroll. All the other expenses in a flower shop amount to only 17 to 21 percent of sales and are generally handled well. The big three make up the rest of the cost side of the operation.

Facilities Expenses

These expenses consist of rent, building repairs and maintenance, utilities, and a few other miscellaneous items that relate directly to the cost of operating the building, like snow removal in the winter up north. These facilities expenses when totaled together should not exceed 10 percent of total sales. Fortunately for most florists, it's not a problem. The industry average for facilities expenses is 8.5 percent.

If your facilities expenses are above the 10 percent target, you will find it difficult to make a profit. Unfortunately, you can't change these expenses quickly. However, if you find yourself in that position, you need to plan ahead to make the necessary changes to get your facilities expenses under control by moving, negotiating a better lease, or subletting a portion of your space. Not a quick fix, but a doable fix.

Since most florists do not have a facilities expense problem, that leaves only two expenses that cause most of the profitability problems.

Cost of Goods Sold

COGS by definition is the cost of the products you sell. In an arrangement it is the cost of the flowers, container, and supplies plus of any gift items included. It does not include design labor, which is controlled under payroll. For plants it is primarily the cost of the plant plus the cost of any supplies or pot covers that are sold with the plant.

Controlling COGS is a function of your pricing formulas. Take gifts, for example. You buy a gift item for $5. If your pricing formula is to double the cost of a gift, you would sell this item for $10 (2 x $5 = $10) and maybe adjust that to $9.95 to take advantage of price barrier pricing. The only way you could increase your COGS on gifts to more than 50 percent would be if you lowered the price through a sale or had gift items that were damaged and couldn't be sold. So, controlling your COGS on gifts is easy. It's all a function of your pricing formula. In fact, all the items you sell, except for one, have COGS primarily controlled by pricing and are also easy to control.

BACK TO THE BASICS

This month and last month, we asked our resident financial experts, Paul Goodman, MBA, PFCI, and Derrick Myers, CPA, CFP, PFCI, to walk readers through the fundamentals of finances every flower shop needs to master. Find part one of this series at **safnow.org/moreonline**.

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Wouldn't you know that the one that is the exception is the one you sell the most of: arrangements, the largest sales category for a retail florist. Why is it different than the rest? Most other items are bought as finished goods. You don't do much to them, except mark them up and sell them. Arrangements, on the other hand, need to be designed (manufactured) and therein lies the problem. Your designer can easily add extra flowers to an arrangement. And it only takes two or three extra flowers in each arrangement to tank your bottom line. Here's how to control that.

The cost of flowers and greens should not exceed 25 percent of arrangement sales. So, start by having two separate COGS categories for arrangements — one just for flowers and greens and the other for containers and supplies. That'll make tracking it easier. The second step is the hardest — designers must count and charge for every item going into an arrangement. No exceptions. It is the only way to keep your flowers and greens cost under control.

Remember: Wholesale prices were trending up by a percent or so due to supply chain logistics, so be sure to check your flower prices to make sure you are getting your full markup. (Read more about the supply chain on p. 22.)

Payroll

And finally, the one that causes the most profitability problems. In an ironic way one benefit of the pandemic is that it caused most florists to lay off personnel. Many were shut down completely and others just had to scale back. The result was that florists found their productivity increasing and thereby their payroll costs down as a percent of total sales. Sometimes we are forced to do something that is really in our best interest and discover we don't need to be paying for extra labor hours. As this pandemic comes to an end (and it surely will), don't ease up on your labor control. It will make your bottom line shine.

The target for payroll expenses (including payroll taxes and employee benefits) is 30 percent of total sales. If the owner/manager is not on the payroll, the target is 20 to 23 percent with the owner/manager getting the other 7 to 10 percent through a draw on profits. The larger the shop, the smaller the percentage of sales that goes to the owner/manager because of the need for additional managers.

If the owner/manager is on the payroll, here is the formula for their pay: Total compensation including payroll taxes and benefits should equal 10 percent of total sales up to the first $500,000 in sales plus 5 percent of the sales above $500,000. So, owner/manager compensation including payroll taxes and benefits for a shop doing $450,000 should be $45,000. For a shop doing $1,000,000 in total sales, it should be $75,000 ($50,000 from the first $500,000 in sales plus $25,000 from the second $500,000 in sales). Make sure you forecast your sales based on your recent experience and staff accordingly.

Making a nice profit is not easy; however, you only need to focus your attention on the two largest items — flowers/greens cost and payroll. If you manage those correctly, you can't help but make a nice profit at the end of the day.

Paul Goodman, MBA, PFCI, is a former CPA and the founder of Floral Finance Business Services based in Tulsa, Oklahoma, editor of Floral Finance and author of The Profit-Minded Florist. **plgoodman@aol.com**