

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](mailto:fmeditor@safnow.org), and we'll challenge the experts to tackle them in an upcoming article.*



# COVID Rightsizing

**Ask these questions to generate a healthy profit from pandemic lessons learned.**

BY DERRICK MYERS, CPA, CFP, PFC

It's been 18 months since COVID-19 entered our lives. As the industry went through this journey and saw the effect on business, many florists realized that by having the right amount of labor and the proper amount of space dedicated to production — or “rightsizing” — they were able to generate unexpected profits.

## Labor Costs

At the start of the pandemic, most florists encountered a temporary stop of all events, weddings and corporate work, while at the same time experienced a sharp increase in online “everyday” business. By the end of 2020, sales were generally at the same level as 2019 — and in many cases, even higher. But even more surprising than the strong rebound in sales was the fact that retail florists found themselves producing the same or more volume of business with less staff and lower labor costs.

For the first time in many years, most of the florists we work with were regularly achieving or beating our labor targets of 25% of inventory (product) sales, and profits were at the highest levels we have seen since the 1980s.

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### Are you charging enough for event and corporate work?

So, here is what we learned: As the average florist lost event, wedding and corporate business in favor of everyday business, profit went up. Translation: Florists weren't charging enough when pricing events, weddings and corporate work.

Many florists tend to provide corporate work at a discount, in the hope of gaining business from the visibility of our work. In most cases, this is not a strategy that works. You need to make the appropriate profit on every order and if you get some exposure — and maybe even some business as a result — that is the icing on the cake.

### Do you accurately account for staff time on events — consultation through teardown?

When it comes to weddings and events, many florists simply underestimate the amount of time that is required to handle an event from the consultation through the teardown. Even when they get the amount of time right, they then manage to undercharge when it comes to the labor rate. Make sure that in addition to the design labor that is built into the project, you are also charging at least three times the hourly rate of the employees providing the consultation, setup, teardown, restocking, etc. Charging for all this labor will ensure that your level of profit is where it needs to be to make this work worth doing. There is a lot of extra worry, care, and weekends that go into event work, so it should be worth the extra effort.

Labor costs also dropped for florists that have multiple locations, as they were forced to shutter some of their locations when COVID was at its worst. Closing these locations and the increased profits that resulted brings us to our next topic — facilities.

## Facilities Costs

COVID has created more questions than answers when it comes to retail facilities costs. While there are pros and cons to each scenario, there is no one right answer. The answers seem to be different from company to company. Consider each variable as you make the decision that is best for your business.

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### Do you dedicate too much of your facility space to retail showrooms?

Most florists typically see 10%-20% of their total business conducted at the front of the building. That means 80%-90% is done over the online or via phone, and the customer never even sees the showroom. Yet many florists devote as much of their square footage to the showroom as they do to the design/production areas. Consider restructuring your space to be more efficient in production with less space devoted to the showroom. At the same time, however, ensure that those customers who do still come to the store have something to see and a good experience.

### Should you have more or fewer locations?

I currently work with some florists opening more locations while other florists are closing locations. The question seems to be one more of energy than strategy. The florists that are full of energy and excitement are the same florists that are expanding their operations, and those that are less energetic and excited about the industry seem to be reeling in. For many years, multi-location was the model for growth and expansion. But online sales have enabled shops to grow very large in one location. At the same time, the internet gives multi-locations an advantage when marketing in multiple areas. I work with florists that are closing locations and growing business and profitable, while at the same time others are growing through expansion.

### How far apart should your locations be?

Traditional locations are close enough that they can be supported by one another, such as enabling product and orders to be easily moved back and forth between locations. This usually means locations that are about 20 minutes

apart. Many florists use a central design center that produces most of the designs and deliveries, with the outlying locations acting more as retail sources and "Google pins" for marketing and brand growth.

Some florists spread their locations further out so that they can expand into new markets and continue to grow their company.

### Should each location stand alone, or should there be a central design center?

Ideally, each location should have enough business to support all of its costs and make a good profit. The break-even level of sales (depending on the rent and management costs) is about \$200-\$250K, but for each location to fully stand on its own and make a good profit for the company, sales need to be \$400K or more. Remember that when there are multiple stores, it requires a manager at each store making a reasonable salary.

The alternative method is a central design center with centralized management running the satellite stores. In this case, the stores have lower overhead, no manager on site, and can therefore be profitable at lower levels of sales. This model is usually all about using the satellite store to drive business to the "company," and the orders are processed and delivered through the design center.

## Ready to Reassess

When your business begins to go back to "normal," keep a close eye on your labor and facilities costs. Careful control of these expenses will enable you to maintain the new levels of profit that we've seen in the last year and a half! 🌱

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