

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.*



BUDGETING MADE EASY

Controlling three key expenses can create a simple and effective budgeting process.

BY PAUL GOODMAN, MBA, PFCI

Stop! Don't turn the page. This isn't your CPA's budgeting, with spreadsheets and hours of detailed number crunching that might make you want to procrastinate or avoid budgeting.

It's true; if you want a complete detailed budget, you need to create spreadsheets and invest a significant amount of time. But you don't have to. By controlling three key expenses, budgeting can be very simple and yet extremely effective.

Targets to Keep Profits on Track

Your goal is to make a profit. To paraphrase Charles Dickens: If you spend less than your income, the result is happiness. If you spend more than your income, the result is misery. That's what a budget is all about. It's easy to spend too much if you don't have a budget or targets to guide you and keep your profits on track.

A Simple, No Spreadsheet Approach

Most people envision a budget as a large spreadsheet of numbers that projects revenue and helps you look at every expense to figure out how much you will spend each month in the coming year. That is a formidable task. It can be much, much easier.

Let's focus on the few items that make a big difference in your profitability.

The Big Three

A reasonable profit target for a retail florist is 10 percent of sales. That means your expenses can total 90 percent of sales. Did you know that there are three types of expenses that typically account for 70 to 75 percent of expenses? They are payroll (30 to 35 percent), cost of goods sold (30 to 35 percent), and facilities (10 percent). All other expenses total 15 to 20 percent. Advertising, credit card fees, computers, vehicles, office supplies, telephone, to list a few, don't account to much after the big three.

You will have the most impact on your profit by keeping those big three expenses in line, not by trying to minimize the smaller expenses. Of course, you still need to be reasonable on the smaller stuff, too, but the big expenses determine your profit future.

So, this budgeting process is not going to be all about spreadsheets. Instead, look at what you can control and what those targets should be.

What Can You Control?

Let's start with expenses for your facility. If you rent your facility, there is little you can do to change expenses for rent and utilities after the lease is signed. So, make a good decision up front on your shop location. You'll be there for a while, and you will have very little control of that expense in the future.

You will, however, have a lot of control over the other two large items: payroll and cost of goods sold (COGS). Selecting the proper targets, or budgets, for these two expenses will have a major impact on your ability to make a profit.

Since facility costs are most likely fixed, let's look at the other two big expenses, plus a few smaller ones that can cause some grief, and set some targets to maintain.

Manage Cost of Goods Sold

Unless you are buying a lot of items that aren't being sold and just end up in inventory, there is only one product you purchase that you need to control on a daily basis: fresh flowers and greens. What's the budget? No more than 25 percent of the total weekly sales from fresh arrangements and loose flowers. Many florists I work with can hit 22 or 23 percent.

This budgeting process is not going to be all about spreadsheets. Instead, look at what you can control and what those targets should be.

If you've been in business a while, look back at your weekly fresh sales for the same month the previous year, adjust for any sales increase or decrease you are experiencing, and take 25 percent of those sales. That's the budget for fresh purchases each week. Don't include weddings or events since they are planned ahead of time, and you will purchase separately for them. As long as your designers follow your pricing formulas and don't stuff extra flowers and greens, 25 percent is the magic number.

When it comes to other inventoried items, such as silk or dried florals, plants, gifts, or supplies such as containers, only buy enough to cover your expected sales. Any product that is not selling should be put on sale and you shouldn't buy more.

Plan Your Payroll

This one's a bit tougher because you don't buy employee time in small bunches like you do your fresh product. The trick here is to realize that your sales will be very level for 10 and a half to 11 months out of the year. The exceptions are the holiday weeks.

Take four consecutive non-holiday weeks and average the sales for each day of the week. Plan to have your permanent staff to handle only your daily, non-holiday sales.

Use part-time employees as much as you can. Your target is to keep your total payroll expenses, including payroll taxes

and employee benefits, at 30 percent of total sales. This includes a salary for the owner/manager. If the owner/manager is not on the payroll, your budget target is 20 percent. (For larger shops with more than \$500,000 in sales, the target is 23 percent if the owner/manager is not on the payroll.)

For shops with more than one location, or shops with a garden center, the target moves up to 35 percent.

Don't Let Advertising Add Up

Advertising is an expense that can get out of hand quickly. The normal budget for advertising is 3 to 4 percent of total sales. If you want to be more aggressive, you can go to 5 percent. Remember that extra advertising will generally come at the cost of lower profit, but it could also lead to faster sales growth. Today, most advertising dollars go toward your website. If you do other advertising, use the bulk of your advertising budget to promote your online business.

Avoid Donation Overload

It's easy to get swamped with requests for flower donations. Set a budget at the beginning of the year by month. Give only to good customers. Once you've tapped out your donation budget, use that as your reasoning to decline additional requests. Remember that most donations should be a part of your advertising and expensed appropriately.

Stay Focused

This process makes budgeting easy and doable by identifying a few targets to hit. Stay focused on the most important and controllable items. A little work controlling those expenses will be reflected in your bottom line. 🌿

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