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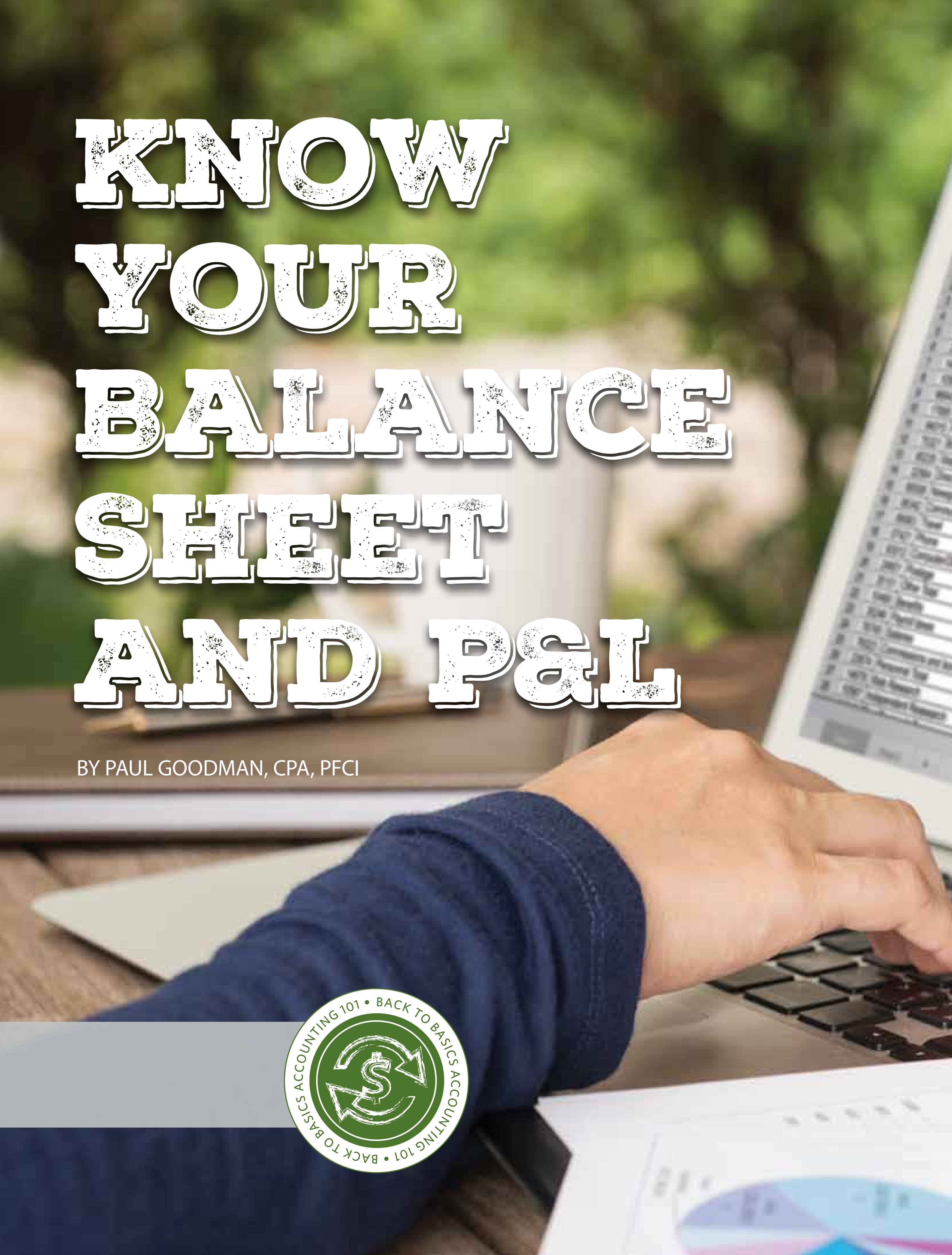
FLORAL SHOP ACCOUNTING 101

A 17-part Floral Management series that tackles essential flower shop accounting, financial management and benchmarking best practices.



KNOW YOUR BALANCE SHEET AND P&L

BY PAUL GOODMAN, CPA, PFCI

BACK TO BASICS ACCOUNTING 101 • BACK TO BASICS ACCOUNTING 101 •

Q: What's the difference between a Balance Sheet and a Profit & Loss statement?

> The Balance Sheet shows how healthy you are financially at a given moment in time. It's a snapshot of your financial health. Every transaction will change the Balance Sheet. For example, suppose the Balance Sheet says your bank account has $1,000 in it. Spend $20 and now your Balance Sheet will show $980. This is why a Balance Sheet is generally prepared for the end of a month: so it matches the closing day of an accounting period.

The Balance Sheet is made up of three categories: assets, liabilities and owner's equity (or owner's capital). Assets must equal the liabilities plus the owner's equity. That's why it's called a Balance Sheet — because the two sides always balance.

Assets are the things you "own," like cash, inventory, accounts receivable and equipment. Liabilities are what you "owe" to someone, like accounts payable, sales tax payable and loans. The owner's equity account shows how much "equity" the owner has or how much the business "owes" the owner. If all the assets were turned into cash and all the liabilities were paid off, the amount left would be the owner's equity or capital.

You are probably most familiar (and comfortable) with the Profit & Loss statement (also called an Income statement). It shows your revenue and expenses for a period of time like a month or year — not a moment in time. By subtracting your expenses from your revenue it shows you how much you made or lost during that period. That's the net profit line at the end of the Profit & Loss statement. That net profit number also appears on the Balance Sheet as a line item under owner's equity. Net profit is the number that ties the two statements together.

Without getting into all the details of accounting, let's follow a simple transaction and see how it affects both statements. Let's buy $50 of gasoline for your delivery vehicle. This purchase will appear on your Profit & Loss statement as a vehicle expense. Since your expenses just went up by $50, your net profit dropped by $50. On the Balance Sheet, two things happened: Your cash went down by $50 and the net profit line in the owner's equity account went down by $50 just like the Profit & Loss statement. Those two changes to cash and the net profit line kept the two sides of the Balance Sheet equal.

Every time you make a transaction — selling or buying— your Profit & Loss statement and your Balance Sheet will change. The only exception: when you make a capital purchase or payment or buy something that goes into inventory. Suppose you buy a new vehicle for $25,000. You will have a $25,000 increase in assets under equipment, and you will either have a decrease in cash or a loan for $25,000 added to your liabilities. Both entries hit the Balance Sheet, but not the Profit & Loss. That vehicle expense will ultimately hit the Profit & Loss statement through a depreciation entry. By the way, this little example is generally the answer to the common question, "If I made so much money according to my Profit & Loss, where's the cash?" If you don't have cash equal to your net profit, then you used it for something that is reflected on your Balance Sheet.

Q: What is the difference between a "cash" basis of accounting and an "accrual" basis?

Cash basis accounting is the easiest to understand and the easiest to do. Basically, any time cash is received or used, it is accounted for at that time. Cash in, cash out. Simple. However, cash basis accounting doesn't tell you everything that happened and tends to distort your Profit & Loss statements.

Let's look at a simple example of a transaction that takes place over a three-month period (see table , above). In month one, our florist makes no sales but buys a container for $10. Cash is paid out and COGS (cost of goods sold) gets the entry. In month two the florist sells the container for $20, but it is charged by the customer to a house account. No cash is received or spent so there is no sale or cost. In month three no sales are made, but the customer pays the invoice that was received. Cash is received so it is recorded as a sale.

Accrual accounting matches activities together, so you get a better understanding of what is happening. In our example when the container is purchased in month one, it does not appear as an expense on the Profit & Loss statement. Rather, it is put into inventory.

Cash Accounting

	Month 1	Month 2	Month 3	3-Month Total
Sale	0	0	$20	$20
COGS	$10	0	0	$10
Profit	$-10	0	$20	$10

In month two the sale is logged on the Profit & Loss statement because that's when you delivered the product to the customer. The amount owed is placed in accounts receivable on the Balance Sheet, and the $10 inventory is moved to COGS to match up with the sale. In month three no sale or cost activity takes place on the Profit & Loss statement. The balance sheet reflects that money was received from the customer and placed in the bank account.

Both the cash accounting method and the accrual accounting method end up with the same result for the three months. But the accrual method gives you a much clearer sense for COGS. With the cash basis, you either had to relate your performance from one period to the next or wait for the three-month statement.

Accrual Accounting

	Month 1	Month 2	Month 3	3-Month Total
Sale	0	$20	0	$20
COGS	0	$10	0	$10
Profit	0	$10	0	$10

Strict accrual accounting would place all your expenses in the month they were incurred and place that amount in a payable account waiting until the payment due date. That would mean extra accounting for things like utilities and telephone expense. Floral Finance recommends a "modified accrual method" under which sales and receipts are handled by an accrual method and all other expenses are handled by cash accounting except for large purchases, which need to be spread over several accounting periods.

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

Payroll Primer

BY PAUL GOODMAN, CPA, PFCI

What Is Payroll?

> "Payroll" includes wages, payroll taxes, worker's comp insurance and employee benefits. The cost of all of these items added together represents your payroll expense.

Payroll Targets

Total payroll for a **single location** operation should not exceed **30 percent of sales**. For multiple location operations, the target is **35 percent of sales**.

But these targets can vary. In some shops, the owner and/or manager is paid through payroll just like other employees. In other shops, owners and/or managers take "draws" against the shop's profits.

If the **owner/manager is not "on the payroll**," then the payroll target is reduced by the amount of what should be the owner/manager's wage:

- For shops with $500,000 in sales or less, the owner/manager's pay target, including taxes and benefits, is 10 percent.
- For larger shops, the owner/manager's pay target is 10 percent of the first $500,000 in sales and 5 percent of sales above $500,000.

What Makes Payroll Tricky?

Two words: sales fluctuations.

The average retail florist experiences extremely monthly swings in sales. It is not unusual, for example, for sales to peak in both May and December, with each of these months producing around 13 percent of total annual sales volume.

Conversely, January and July are each likely to produce sales equal to only 5 or 6 percent of annual volume.

Clearly, the challenge lies in staffing to manage such intense fluctuations while still maintaining overall profitability. With a bit of analysis, planning becomes easier.

Consider: The four months in which sales spike upward for most retail florists are February (Valentine's Day), April (Administrative Professionals Week and proms), May (Mother's Day), and December (Christmas). Even within these busy periods, peaks and valleys exist:

- Valentine's Day creates very busy days for only three to five days out of the month on average. The rest of February is normal, non-holiday sales volume.
- Likewise, April is busy for only three to five days.
- The Mother's Day rush will run for up to 10 days.
- Peak Christmas demand will run for 20 to 25 days.

Total up all those busy days and you'll find you have only 33 to 45 days out of the year that are likely to be really busy. Although you may have a few other busy days (particularly if you have a strong wedding business and a clear wedding season), the rest of the year runs along at a fairly predictable non-holiday sales-volume level. In other words, you'll do about the same volume of business on a non-holiday week in March as you will on a non-holiday week in September or June.

Best Practice: Staff to Minimize Payroll

It's not enough just to know what your average non-holiday weekly volume is, or even your average non-holiday daily volume. To keep payroll as low as possible, you need to staff by day of the week, with enough workers to cover likely busy days but a leaner staff on predictably slower days.

With a bit of analysis, coming up with the right working formula for your shop is easy. Let's start in the **design room:**

1. Create a form with the seven days of the week listed down the left-hand side of the page. Put six columns across the top.
2. Label the first four columns for weeks one through four. The fifth column is for the "total," and the sixth is for the "average."
3. Gather all of your design sales data for a consecutive four-week non-holiday period. (Don't include weddings or event sales: You'll plan separately for these.)
4. Fill out the form by marking in the design sales for each day of week one in the appropriate spot under the first column. Do the same for weeks two through four.
5. Total the sales for all four Mondays.
6. Repeat steps 4 and 5 for each day of the week.
7. Divide each day's total by four to get the average design sales volume for that day.

Once you've identified your design sales volume for a given day, you must staff for that day to handle that amount of design and no more.

Of course, in order to do this, you must know how much the average designer can produce per hour.

Based on my experience, the average floral designer can produce **four everyday/standard arrangements per hour**. This suggests that if your average arrangement sells for $50, your designer is producing $200 per hour.

But for analysis purposes, plan on six productive hours during an eight-hour workday. The formula works like this:

1. **Multiply your hourly production by six to get the expected production per day.** Using the $50-average-order-size and $200-per-hour numbers, for instance, you'll find you can reasonably expect a designer to produce $1,200 per day, or an average of $150 per hour in an eight-hour day.
2. **Divide your daily design sales by your expected hourly production to get the number of design hours** you will need to get out the day's work. For instance, if Monday has average design sales of $750, you'll need five hours of design time (750/150=5). And, if Friday has average design sales of $1,800, you'll need 12 hours of design time (1800/150=12). Keep in mind that for most smaller, and many medium-sized shops, employees rarely do one task all day long. So divide the number of design hours needed by the amount of time individuals have available for designing.

You can use a similar approach to staff your team outside of the design room.

For example, to determine **delivery staff** needed, calculate the **number of deliveries you do each day** of the week. Then, **divide that by the number of deliveries you expect per hour.** If you expect a driver to deliver 24 arrangements in an eight-hour day, that would be three deliveries per hour. If your average number of deliveries on a Monday is 15, you'll need five hours of driver time (15/3=5).

Planning for needed **sales staff** is a bit more complicated (after all, a sales person can't do anything until the customer shows up or calls for assistance). To staff your sales team appropriately, therefore, you need to figure out your number of sales by hour of the day and then staff to accommodate that number.

Don't Do This:

Overstaff. Of course, you must add personnel to handle the busy periods. But as soon as the holiday volume ends, cut back to your non-holiday staffing level. During non-holiday periods, the danger of overstaffing is just as real. Remember, once you've covered your sales volume, you don't need anyone else to design that day.

What's the Payoff?

Retail florists who staff using these tested formulas will save between 40 and 80 hours of payroll expense in a typical week compared to those who staff based on average daily sales year-round (or with even less "science" than that). That adds up to a lot of money over the course of a year.

Controlling payroll contributes significantly to your being able to make a decent wage as the owner/manager of a shop. And if you're doing a good job controlling the rest of the operation as well, you should be able to achieve a bottom-line profitability of around 10 percent.

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

CASH FLOW CATCH-UP

BY DERRICK MYERS, CPA, CFP , PFCI

> When florists talk about financial statements, they usually are referring to the balance sheet and the profit and loss statement (covered in the January 2016 issue). Financial statements, however, usually travel in threes, and the third statement is the statement of cash flows.

What is a Cash Flow Statement?

While not as well known or understood as the other two statements, the cash flow statement's purpose is extremely important. This statement shows the effects of profit or loss and the changes in assets and liabilities on the cash flow of your business. Once you understand a cash flow statement, you can answer a question I hear quite often from frustrated florists: "If I'm making money, where is it?"

What Makes Cash Flow Tricky?

Profits do not necessarily mean cash. If it did, then the profit line of the statement would be the only thing you'd need. But many florists experience years in which they have profit for which they have to pay taxes, but no cash to pay those taxes. That's because cash flow is affected by every change in every asset and liability on the balance sheet. Each asset and liability will affect cash in a similar manner and will be reflected in one of the three sections of the cash flow statement: cash provided/used by operations; cash provided/used by investing activities; and cash provided/used by financing activities. Let's take a closer look at each of these areas.

Cash Provided/Used by Operations This section of the statement shows the effect that the current operations of the company have on the cash flow. Depending on the format selected by your accountant, it may start with a mini profit and loss statement, or it may just state the profit or loss and then add back noncash expenditures such as depreciation and amortization.

If this calculation results in a positive number, then it will have a positive effect on cash flow and be labeled as **cash provided by operations.** Of course the opposite is true as well; if the number is negative, it will be labeled as cash used by operations.

This section handles those assets and liabilities that are linked directly to operations:

- If **inventory goes up** on the balance sheet, then that means that the company has used cash to acquire the inventory; therefore **cash will go down.**
- If **accounts receivables go down,** that means the company collected the receivables and cash will go up.
- If the company pays down its **credit card balance** at the end of the month, cash will go down.
- If the company charges more flowers on its **accounts payables,** then cash will go up.

I'm sure you are starting to get the idea. Some other items that will show up in this section are **accrued payroll** and **payroll taxes, customer deposits,** and **prepaid expense** – just to name a few.

Cash Provided/Used by Investing Activities This section looks at the investing habits of the company. If the company buys **equipment, buildings** or other **fixed assets,** or **perhaps stock** in another company or mutual funds with its cash, these activities are reflected here as a use of cash. If the company sells an **investment** and receives the cash, it's a source of cash. This section also reflects **dividends** paid by the company on its own stock, as well as the purchase or sale of its own stock.

Cash Provided/Used by Financing Activities This is the section that affects most businesses and why the situation is not as simple as profit equals cash. Here, we look at the cash used to pay **officers' loans, bank loans, credit cards** (with long-term balances), **draw, distributions,** etc. Paying all or most of this debt will reduce cash flow while leaving profit intact on the profit and loss statement.

This is why so many florists have no cash but still have profit. They are using the cash generated by the current year's profit to pay off old debt. While paying debt reduces cash, financing can also be a source of cash. When the company borrows money from any of the sources just mentioned, your cash flow will go up—as does your debt load.

Best Practices:

Concentrate on watching the changes in your Inventory, accounts receivables and accounts payables. (Remember to account for any debt.) Doing so will help you predict the timing of your cash ebbs and flows. For example, in November your inventory might go up in anticipation of your Christmas sales. As this happens, cash will be tied up, but it should return along with the cash generated from the profit from those sales in December, and also in January as you collect Christmas receivables. Understanding how each of your asset and liability accounts affects your cash flow will lead to better management.

Don't Do This:

Don't rely solely on the balance in the bank to tell you how well you are doing. Many florists have been paying down debt quickly over the last several years, so although they have good profits, they are still weak in their cash position.

What's the Payoff?

Taking the time to understand the impact that every change in your balance sheet and profit and loss statement have on your cash flow will help you better control your cash flow now and budget for your future cash flow needs.

Derrick P. Myers, CPA, CFP, PFCI, is is vice president of Crockett, Myers & Associates, a financial management and accounting firm that has been working with florists for more than 30 years. **derrick@crockettmyers.com**

RESOURCES

Accurate forecasting can go a long way toward assuring good cash flow. Check out "Storm-Free Forecasting," at **safnow.org/moreonline.**

BY PAUL GOODMAN, CPA, PFCI

GET POWER OVER PAYABLES

BACK TO BASICS ACCOUNTING 101 • BACK TO BASICS ACCOUNTING 101 •

Defining It

Let's start with the basic principle behind payables: When you buy something, you can pay for it immediately, or you can charge it and pay later. Either way, you have to record the transaction for bookkeeping purposes. If you write a check, the transaction gets expensed to the appropriate account. However, when you charge it and pay later, you enter the expense against the appropriate account and put the balance in the payables account on the balance sheet to pay later with a check.

In the first case, money goes out immediately. In the second case, you can choose when the money goes out (in other words, when you actually pay the bill).

Why It's Important

Payables are important for two reasons. First, you don't have to use your cash right away. Second, depending on how you manage your payables, you can actually save some money.

Businesses run on cash. Without cash, you can only operate so long, and then you have to shut down. Every month, expenses exist that have to be paid: rent, utilities, employees, gasoline and other items, including products you sell.

When you first start a business, money goes out constantly. Soon, however, you start making sales, and money comes in. Your goal is to eventually have more money coming in than going out. That's when you become profitable. Simple, right? Not so fast.

In the process of buying products, you can usually charge those items and conserve your cash for a while. You can either do that by getting credit from the seller or by using a credit card to make the purchase. Either way, about a month later, you will have to pay for those items if you don't want to become past due on the credit (more on the risks of credit cards in a moment).

Best Practices

Just like you want your house account customers to pay as quickly as possible, your suppliers want to get their money quickly, too. To get you to pay sooner, they will often offer terms such as "2 percent 10, net 30." That means they will discount the bill by 2 percent if you pay within 10 days, or else the full balance is due in 30 days. That's a great deal, if you have the cash. You give up your cash for 20 days and get 2 percent. That would be like someone offering you interest of 36 percent per year.

As is normally the case, people who have cash can save money by paying off debts quicker. In fact, people with cash can often get an even better deal by negotiating with the supplier on the condition that they will pay cash. That's why you will often hear the phrase, "Cash is king."

You can often get an even better deal if you are ordering products for a holiday, such as Christmas, months in advance. Suppliers who offer Christmas products need to manufacture them long before Christmas. And they would like to know they have sold most of those products as soon as possible. Their incentive to get you to buy early is to give you "dating" on your invoice. You buy the product in June, and the seller dates the invoice as if you bought it in September or October. Then the seller will often throw in the "2 percent 10, net 30 deal" on top. You don't have to pay for that order for months. By using your payables ability, you have conserved your cash for a long time, and you can use that cash to get you through the slower summer months.

Common Missteps

Not too many years ago, most credit came from suppliers. That is no longer the case. The most common form of credit today is a credit card. As with almost everything else, there are good things and bad things about credit cards.

One good thing is that you can stretch out your payment date by an additional 30 days without a penalty. For example, if my credit card company cuts off the billing statement on the fifth of the month, and I charge something on April 6, I will have almost 60 days before the payment is due without a penalty. That's much better than the normal 30 days.

Another good thing is that you can get cash back — usually 1 or 2 percent — or get an airline credit card that gives you miles that can be used for travel. Most florists see this as free travel and really appreciate that benefit.

There are two bad things about credit cards. First, and not too bad, is that the credit card company won't give you a discount for paying early (even though some give you a cash discount for paying on time). Second is the really bad part. If you don't pay on time, you will get charged interest. Although there are some cards that offer 0 percent interest for a period of time, most cards eventually charge you anywhere from 20 to 30 percent. They set the minimum payment so low that even if you never charged another thing on that card, the balance would not be paid off for years because of the added interest each month and the low required payment. Credit card companies don't want you to pay on time. They want to charge interest.

In my book, the preferred method of payment, unless you can negotiate a cash deal, is to use a credit card. When the statement comes in, you expense every item to its appropriate account, and then put the balance into a "Credit Card Payable" account to wait until the payment is due. You get up to 60 days to use your cash, and you get travel miles. It's a pretty attractive deal.

Remember: Never charge anything you can't pay off on time without a penalty. Never use a credit card for your business that you can't pay off completely each month. Furthermore, never use a credit card personally unless you can pay off the full balance each month. Credit is only good if you can pay it off on time.

Paul Goodman, CPA, PFCI, is 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

Get Receivables Right

BY DERRICK MYERS, CPA, CFP

What Are Accounts Receivable?

When customers purchase flowers from your store and ask you "to put it on their account," they are referring to a system of accounting known as Accounts Receivables (A/R). This system records the sale (credit to sales) and the accompanying balance owed to your shop, the accounts receivable (debit to accounts receivable). At some time in the future, you receive the payment (debit to cash) and clear the receivable balance (credit to accounts receivable). In the flower industry, this type of sale is referred to as a "house account."

In the past, keeping track of house accounts required multiple pages of ledgers, one page for each customer. Florists manually recorded each purchase and payment on the ledger. They subtotaled it each month and then sent a statement to the customer. The customer would wait, usually until the end of the month, to pay. The whole process could take up to 60 days or more.

Fortunately, those days are long gone. With modern point of sales systems, keeping track of customer balances is a breeze. The POS systems make all of the entries required to process the accounts receivable through two steps:

1. **Record the sale.** During the sale process, you indicate the method of payment, which could be cash, check, credit card or accounts receivable. The system then automatically tracks the outstanding balance of the customer's accounts receivable account.
2. **Customer payment.** Once the customer pays, you enter a "payment on account" into the system; it clears the A/R balance and records the cash into the bank. Statements can be issued immediately or at any time, speeding up the collection process on the accounts.

What Makes Accounts Receivable Tricky?

There are actually many types of accounts receivable that you must track. In addition to customer accounts, there are credit card receivables, wire-in receivables, barter receivables and employee receivables. All of these different receivable balances should be tracked, to ensure that you are properly paid for your services. Here are some best practices for each:

Credit Card Receivables: Although most florists receive their credit card payment within a couple of days after a sale, they still need to match the collection with the sale. This is a two-step process. First, verify that the amount you processed through your "Zon" machine actually has been processed by your credit card processor, with no rejections or errors. Then, make sure that the cash has actually made it to the bank (minus any fees).

Wire-In Receivables: Verify that the orders filled for the wire service were in fact paid to you on your statement. Again, your POS system can help; many systems match incoming wire service sales to the statements, or, at the very least, print a list of the orders so they can be checked manually against the statements. In addition to checking that the payments were received, you need to check to see if they are for the correct amounts. You may be surprised how many items never reach your wire service statement.

Barter Receivables: Some barter is done through a service that tracks your sales to and services from other members of the group. In this instance, there is also a fee charged by the barter service. Other barters are on a one-to-one basis and you need to have a system to track those on your own. Most florists treat these "barter customers" as house accounts, but it is important to clear these balances as you use the other company's services. The most common example I can give is:

You work with a local radio station; you provide them with flowers and in exchange you get airtime. The entries for these transactions should look like this:

- **A/R Radio Station (debit)**
- **Sales (credit)**

While the POS system can handle the credit to the accounts receivable radio station account, you may need to make a journal entry to ensure the debit is applied to the correct expense account:

- **Radio Adverting Expense (debit)**
- **A/R Radio Station (credit)**

Employee Receivables: Many shops allow their employees to make purchases from the shop by using a house account. These purchases should be treated like other house accounts. There is also a second type of employee receivable in which you actually lend them money as a short-term loan. Make sure that you have a system in place to track the outstanding balance as it is paid back. If it is paid back through salary withdrawal, you must have permission in writing to reduce the employee's paycheck.

Best Practices:

More and more florists are moving away from house accounts. After all, in today's market, almost everyone has a credit card or a debit card. Even though there are fees paid for the processing of credit/debit cards, having access to the cash more quickly can be more valuable than the costs associated with credit card transactions. Having the cash available sooner to use in the business to generate more sales, save interest on loans and payables, or just to pay bills and meet payroll obligations is vital to most flower shops.

Don't Do This:

Even though most florists have actively reduced the number of their house accounts, house accounts are still expected and necessary to maintain your relationships with customers in some parts of the country. Don't be so quick to get rid of them that you risk losing your customers. This is especially true of some corporate customers.

What's the Payoff?

Taking the time to track, evaluate and control your accounts receivable can have tremendous impact on your company's cash flow — and we all know that "cash is (still) king."

Derrick P. Myers, CPA, CFP, PFCI, is vice president of Crockett, Myers & Associates, a financial management and accounting firm that has been working with florists for more than 30 years.
derrick@crockettmyers.com

BY DERRICK MYERS, CPA, CFP

COLLECTIONS AND BAD DEBTS

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What Are Collections and Bad Debt?

> If your business is one that still deals with house accounts for retail and commercial customers, then you also probably find yourself struggling with so-called collections and bad debts.

We all know that generating sales is important to our business, as is hiring good employees, managing them well and making sure that our operations run smoothly. One component of business success that owners often overlook, however, is the collection of accounts receivable. Many more companies have failed due to poor cash-flow management than a lack of sales and revenue.

What Makes Collections and Bad Debt Tricky?

Unfortunately, florists often come out on the short end of the stick when it comes to accounts receivable collections — especially when doing business with large corporations and commercial accounts. Many big-box retailers, for example, now stretch their payment terms to vendors, sometimes for up to 120 days. This reduces the cash flow of your business by squeezing your cash-flow cycles tighter and tighter.

When it comes to getting customers to pay bills on time, many florists feel helpless. This is the wrong attitude to take. Instead, be proactive by making accounts receivable collections a top priority companywide. Bring representatives from your financial and accounting, management, sales, and other departments together to come up with a comprehensive strategy geared toward maximizing accounts receivable collections.

Best Practices:

Be Selective: The best way to minimize collection problems is to properly vet customers before you extend them any credit. Net terms aren't for everyone. Start by setting up a professional credit application that gives you a chance to get as much info as you can on these customers. Then, use this information to be sure that you are making proper credit decisions. Once you've decided to move forward on credit with a customer, be sure you have a contract that clearly states the terms, credit limits and due dates that your agreement will be operating on.

Invest in POS: Tracking accounts receivable can be daunting without a good POS system. If you establish house accounts for your customers, invest the time and money in researching and purchasing an appropriate POS. These systems are an excellent way to keep an eye on your accounts and get your invoices to customers seamlessly and quickly.

Establish Credit Limits: The use of a credit limit is something that you decide and control. Take advantage of this power. Start new customers with moderate terms (e.g. 10 days); once they have proven their ability and willingness to pay, they can earn more flexible terms.

Start Early: Create a system that reminds customers a payment is coming soon. If it is a week before payment is due, and you still haven't received the check, shoot the customer a friendly reminder email simply reiterating the due date and how you accept payment.

Don't Wait: Go after a late payment as soon as the due date has passed. Many point of sale systems include features to help you identify past due accounts, so be sure to use them. Email the account, indicating that the payment is late (this is as simple as the click of an icon on some POS systems). If it's a chronic late payer, be firm: Ask them to tell you when you can expect payment. If someone's late for the first time, keep it friendly; make sure they received the invoice and ask them to let you know if they've already sent payment. If you do not receive a response (within a week for a first-time offender, within 48 hours for a repeat offender), call them to discuss it.

Offer Installment Plans: Some customers may be experiencing a true financial hardship. In that case, you may want to offer a payment plan. Having a customer pay you back in smaller amounts over time is much better than a customer not paying you back at all. It gets cash in your pocket immediately and says a lot to the customer, as you are doing them a huge favor. Work with the customer to create a payment plan that meets both of your financial needs. If you do set someone up on a payment plan, be sure to flag the customer in your POS system to suspend his or her charging privileges; you don't want the customer charging more if he or she is already having difficulty paying.

Review Finance Charges and Rewards: Incentives go a long way, no matter what you are doing. Consider this when it comes to accounts receivable management. Are you adding finance charges for late payments? Are you giving customers a discount if they pay early (such as 2 percent, 10 days net 30)? Whether it's consequences for paying late or rewards for paying early, these policies give customers that incentive to pay you on time (or early). It's worth it, especially to see what kind of effect it has on your payments. If you are considering adding a finance charge, check your state's usury laws to make sure you are not overcharging.

Bring in Outside Resources: If you are still not receiving payment, it may be time to bring in outside help in the form of a collection agency. Be sure to take the time to do your due diligence, and you'll find a partner whose first priority will be to get you paid, while letting you focus on the other things that are important for your business.

Prep for Business Bad Debts: When you have exhausted all of the above steps and you realize that getting paid is not going to happen, you have a bad debt. Generally, a business bad debt such as an uncollectable customer account can be deducted on your form 1040, Schedule C (Profit or Loss from Business, Sole Proprietorship), or on your applicable business income tax return. According to the Internal Revenue Code, a debt becomes worthless when the surrounding facts and circumstances indicate there is no reasonable expectation of payment. To show that a debt is worthless, you must establish that you have taken reasonable steps to collect the debt. It is not necessary to go to court if you can show that a judgment from the court would be uncollectible. You may take the deduction only in the year the debt becomes worthless.

ACCOUNTING FOR LATE FEES

Late fees — which are taxable in some states — are recorded as **"other income"** (not sales income). For shops on a cash basis accounting, late fees are **accrued as sales** when you collect them; for accrual based shops, when the charge is levied against the account.
— DM

Don't Do This:

Feeling emotional about an unpaid bill? That's natural. But don't let your emotions get the best of you. Remember, these customers live in your community; you probably see them at events around town. Always stay professional, but be clear about your terms. Planning ahead and even practicing tough conversations can be helpful. After all, your past-due clients will have a lot of reasons why they haven't made their payments. Get acquainted with the most common late-payment excuses, and learn how to respond to each one.

What's the Payoff?

Taking the time to properly manage, control and monitor your collection processes and bad debts can have a dramatic effect on the cash flow of your business. Through timely billing and follow-up, you can ensure that your accounts receivable collections are effective and timely, increasing the speed of your cash-flow cycle and thereby giving you more available cash on a day-to-day basis. These procedures will also help minimize the need for collection activities and ultimately reduce your bad debts as well.

Derrick P. Myers, CPA, CFP, PFCI, is vice president of Crockett, Myers & Associates, a financial management and accounting firm that has been working with florists for more than 30 years. **derrick@crockettmyers.com**

BACK TO BASICS • ACCOUNTING 101

SALES ANALYSIS DONE RIGHT

BY PAUL GOODMAN, CPA, PFCI

Defining It

A sales analysis is a simple review of sales. You can quickly get this report from your point of sale (POS) system and customize your analysis for one day, week, month or year. Most systems will create a report for any date range.

What Makes a Sales Analysis Tricky?

> Your sales analysis is critical for controlling cost of goods sold (COGS) and payroll, two of three factors every florist who wants to be profitable must control. (The other is facility expenses; see box for help on those.) Let's take a closer look at both of these areas.

Cost of Goods Sold

Controlling COGS is a function of both your buying and how well you stick to your pricing formulas in the design process. A good sales analysis won't help with the problem of stuffing, i.e., putting too many flowers in an arrangement. However, when used properly, an analysis can prevent you from overbuying product.

Most retail florists have two types of operations: holiday and non-holiday. For non-holiday times, which make up 10 to 11 months of the year, your weekly sales will be level with an occasional blip due to extra funerals, weddings or events.

Do a sales analysis of several non-holiday weeks, and you'll quickly see your particular pattern. Exclude weddings and events, for which you plan and buy product separately. You can determine your fresh flowers sales for your average week. Your purchasing should not exceed 25 percent of your fresh sales. If you stick to buying no more than 25 percent of your expected fresh sales, you should maintain good control of COGS. Many florists do even better than 25 percent and get down to 20 percent.

Your sales analysis will also tell you what your plant and gift sales are each week. You can then plan to purchase enough of those items to be fully stocked.

Holidays — Valentine's Day, Administrative Professionals Week, Mother's Day and Christmas — will show an increase in sales that will vary by the holiday. It is important to know how much to expect for the whole holiday. It is also important to know your sales by day leading up to the holiday. This daily data will allow you make sure your product will arrive on time to meet your needs.

Payroll

The other big cost item of a retail florist is payroll. If you want to make a nice profit, you have to have productive people and keep payroll in line. The target is 30 percent of sales. That includes a salary for the owner/manager and all payroll taxes and employee benefits. It's not an easy task to pull that off. The sales analysis report can help.

You should use your sales analysis report to get data to project various levels of work in your shop. For example, take the design room. You can know precisely how many arrangements are created each day of the week. You know approximately what to expect from your designers. Set the number of design hours to match the workload expected and no more. That will ensure a reasonable payroll come payday.

Do the same for sales and delivery. Your reports will tell you how many deliveries you can expect each day of the week, and you can staff accordingly. Similarly, for the sales floor. Your sales analysis reports can show you the number of sales by hour of the day. You can see the busy periods and can staff to meet the customers' needs while not overstaffing and bloating your payroll.

Best Practices:

Start by looking at your sales for the previous year. Compare that figure with how your sales are running currently. This will allow you to broadly estimate your future needs.

If you have been running at a 15 percent increase, you can safely assume your sales next month will most likely follow that pattern, and plan accordingly. Remember, sales can change quickly. Do a sales analysis at least every week to see how you are doing compared with your expectations, and then make any adjustments necessary in your buying. The quicker you make an adjustment, the better you will control COGS, especially if sales are decreasing. You most likely won't be able to sell excess product that was purchased; however, you can lower your future purchases and maybe promote a sale to move your excess product.

Consider this example: Suppose your sales report for Christmas last year says you sold 2,500 poinsettias from Thanksgiving through December 24. By breaking the report down into smaller date ranges, you can see what you did per week. You note that you sold 2,000 by the week before Christmas. Since your sales have been fairly level, you decide to order the same 2,500 poinsettias. Now, you use your sales analysis report to monitor how you are doing. You notice that you are only selling about 500 per week in the first two weeks of the holiday. You could be left with a lot of poinsettias come Christmas day. You react by creating a special sale to move more poinsettias. It works, and you are able to turn most of those plants into cash. That's how using your sales analysis reports can really impact your sales, COGS and profit.

Don't Do This:

Today's POS systems make the job of tracking sales like a walk in the park. That's good; however, it can also tempt you to get more detail than you need. You can break your sales down into hundreds of categories if you want. Be careful. Too much detail can make it meaningless for management purposes. If you keep a lot of detail on sales to help you with buying, make sure you categorize them into a few larger categories to make your overall managing tasks a bit easier. For example, you might want to limit your major categories to Silk and Dried, Loose Flowers, Arrangements, Blooming Plants, Green Plants, Balloons, Food Items and Gifts.

What's the Payoff?

Your sales analysis is one of the most important tools you have to run your flower shop with an end goal of profitability. The sales analysis report provides the data required to buy properly and staff properly. It's easy to get from your POS system and is something that you should rely on at least weekly if not daily.

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

MORE ONLINE

Get additional detailed guidance on COGS, Payroll and Facilities Expenses at **safnow.org/moreonline.**

COGS

UNDER CONTROL

BY PAUL GOODMAN, CPA, PFCI

BACK TO BASICS • ACCOUNTING 101

What Is Cost of Goods Sold?

> If you've been a retail florist for a while, you've undoubtedly seen articles about Cost of Goods Sold (COGS). You know that if you are going to make a profit, you must control COGS and payroll. All of the other expenses in a flowers shop combined do not match the importance of controlling those two large expense items.

First, a definition: COGS is the cost of the products you sell. Only the products. Many think it includes some labor, such as design labor. It doesn't. Controlling all labor costs is important; however, that's a separate topic. COGS for a typical arrangement would be the cost of the container, supplies that go into the arrangement, and the flowers and foliage. COGS for a gift item such as a stuffed animal is the cost of that stuffed animal.

You typically sell two types of products in your shop: finished goods items and manufactured (designed) items. Most if not all of your manufactured items are arrangements. Everything else is a finished good, which is something you buy and put on a shelf to sell to a customer. For a few finished goods you might add something to the product before selling it. For example, for a green or blooming plant, you might add foil wrap and a bow or a container pot. They still are in the finished goods category.

Why the distinction? Because COGS for finished goods is simply a result of your pricing formula. If you buy a stuffed bear for $5 and your pricing formula calls for a double markup, you would set the retail price at $10. When you sell that bear for $10, your COGS would be $5 and your COGS percentage would be 50 percent. The only thing you can do to alter COGS for that bear is change the price. Suppose you sold it for $8. Your COGS would still be $5; however, your COGS percentage would rise to 62.5 percent ($5 / $8 = 0.625). Except for when you can take advantage of an occasional sale, you can't do much to alter your COGS on finished goods.

Conclusion? Determine your pricing formulas (markups), apply them to the finished goods you buy, and then go merrily down the road knowing your COGS for finished goods is settled and requires no more attention.

What Makes COGS Tricky?

You guessed it: arrangements. The problem with arrangements is that there are two steps. First, you use your pricing formulas to set retail prices on your containers, supplies, and flowers and foliage. So far, so good. Second, you gather them together to make an arrangement. Here's where the problem arises. If you added the marked-up price of each item going into the arrangement to set the retail price, you wouldn't have a problem. Most florists, however, design to a fixed price and end up stuffing an extra flower or two into the arrangement, and that throws off their COGS for the arrangement.

Best Practices

The big rule for COGS when it comes to arrangements: You must count and charge for each item. There is simply no other way to control COGS in arrangements. Having said that, there are some steps you can take to make the process much easier.

For one thing, remember that the container and supplies are really finished goods. Set the price using your pricing formula and move on. The container and supplies are not the problem.

Again, the goal is to not stuff any extra flowers or foliage into the arrangement. There are two shortcuts to make this easier for the designer. The designer still has to count and charge for each flower and foliage item, but the process can be easier:

- **Standard arrangements.** Use standard arrangements whenever you can. They should be a part of your everyday business. When the standard arrangement is first designed, the designer needs to carefully count and charge for each flower and foliage item. Once that task is complete, all that needs to be done for future copies of the standard arrangement is to follow the formula for the design. No need to reprice every arrangement. Just follow the formula.
- **Custom arrangements.** Set up a design room pricing chart. In the first column of the chart, indicate your typical retail arrangement prices. Then, for each retail price, subtract your labor charge and supplies charge. What is left is the amount available for the container and the flowers and foliage. Put that number in the second column. That's it. When the designer is asked to make an arrangement for $79.95, all they have to do is find $79.95 in the first column and look to the second column to get the amount they have to work with for the container, flowers and foliage. For example: Suppose your labor charge is 20 percent and your supplies charge is 6 percent. The amount available to the designer is $59.16 (79.95 x .74 = 59.16). All the designer needs to do is subtract the retail price of the container from $59.16, and what is left is what is available for the flowers and foliage.

Don't Do This:

With COGS, vigilance is key. Don't slack off. You must monitor your performance each week using total arrangement sales from your POS system. Next, add all the flower and foliage purchases you made for the week. Check to see what your percentage is by dividing your purchases by your arrangement sales for the week. The answer should be .25 (25 percent) or less.

Finally, a quick word about supplies. You don't want or need to count each supply item and charge for it. Simply charge a percentage of the arrangement. Our experience shows that charging 6 percent to 8 percent of the arrangement's retail price will cover the cost and provide a double markup on supplies.

What's the Payoff?

The do-not-exceed target for the cost of flowers and foliage is 25 percent of the retail price of the arrangement. Many florists are able to get that down to 20 percent and bring more profit to the bottom line. However, start with the 25 percent. It is a very reasonable and achievable target.

Finally, consider an incentive for staff. When COGS arrangement percentages are below 25 percent, give your designers a bonus. You'll be amazed how quickly your design team starts to hit the target every week, and you'll be surprised how nicely your profit grows.

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

YOUR ARRANGEMENT PRICING FORMULA

Although you can set your prices as you choose, the most common pricing formula for arrangements in the United States is as follows: Labor 20 percent, Supplies 6 percent, Containers 2x markup, Flowers & Foliage 3.5x markup.

BACK TO BASICS ACCOUNTING 101

CHARGING FOR SERVICES AND LABOR

BY DERRICK MYERS, CPA, CFP

> As the flower business continues to change, more florists are expanding the services that they offer. This is a good thing for business, provided you charge fees that not only cover the expenses of providing these services but also include a healthy profit.

Best Practices

In order to ensure that you make the appropriate amount on your services and other labor charges, try to average three times the cost of your labor when pricing the service. For example, a $15-per-hour designer doing an onsite wedding setup should generate at least $45 per hour for the company.

Weddings and events offer myriad opportunities for extra services. Here are some of the more common ones:

Event Setup and Teardown: Once the host realizes you will handle all of the setup to ensure it is perfect, and then come back, clean up and haul it all away, they are willing to open their purse strings for the service. For many shops, adding 20 percent to 30 percent more to the bill is comparable to the recommended markup (three times the cost of your labor). Have a minimum for smaller events, and make sure you have a missing/damaged items policy in the contract.

Event and Wedding Planning: Some florists offer full event planning services. They hold the hand of the bride or host and walk them through the entire process: selecting the venue, invitations, flowers (of course), linens, etc. They are also on hand the day of the event to make sure that it goes off without a hitch. Many of these florists even have certified planners on staff.

"Day of" Wedding or Event Coordinator: Don't want to take on the whole planning process? Then offer your services as a same-day event coordinator. You already know how to pin on corsages and boutonnieres, lay aisle runners and calm a bride's frazzled nerves. With a little training, you can pick up the rest of the skills that are needed. Start by offering these services to smaller events, and then as your skill and confidence grows so will the size of the events.

Prop Rental: If you don't already rent props, consider doing so. If you do rent props, expand your offerings and constantly add new rental items. Most vase and tabletop rental items can pay for themselves with the first rental; each subsequent rental is pure profit. Larger rental items may take two or three times to pay for themselves, so plan accordingly. Be sure to keep props that are in style or timeless; for those that are out of style or a fad that has passed, sell them to make room for more items that are in style.

Linen Rental: Although linens are a competitive market with a lot of inventory, they can be a good revenue generator for a flower shop and yet another way to simplify the process for the bride while keeping more of the event under your control. Start by renting them yourself to provide for the event and charging an additional 10 to 20 percent to the client. In this case the margin is low, but you don't have to invest in or deal with a large inventory of linens.

Wedding Officiant: Consider becoming, or have someone on your staff become, an ordained wedding officiant. This can be accomplished very easily in most states, online, with a small fee. Officiants earn on average about $250 per service.

In addition, florists are also adding a lot of services that are not event related, but still can generate significant revenue. Consider some of the following:

Priority Delivery Services: If a customer needs a delivery within a certain time frame, say four hours, charge an extra $5 to guarantee it within that time. (Within a two hour window, charge an extra $10.) Timed deliveries can force you to reroute your drivers, add extra drivers or maybe keep a driver late. All of this will drive up your costs, so you need to be compensated. If the timing is not that important, the consumer will opt for regular delivery; however, more often than not they will pay the higher fee for a delivery you would have most likely delivered on time anyway—they are just paying for the guarantee.

Out of Area Delivery: Consider using a courier service to deliver your product outside of your normal delivery area. A customer who loves your work will pay extra to send it to that someone special. Mark up the courier fee by whatever you can to stay competitive.

Educational & Design Classes: These can range from the highly instructional, where real "learning" happens, to more of a social hour for ladies looking for a night out with friends. Your fees will vary, depending on cost of materials, staff time and whether you regard the classes as a profit center (in which case you should apply a 3.5-time markup to total costs) or part of your promotional budget, in which case you may opt to break even or make a modest profit.

Service Fees for Outgoing Order Handling: If you are among the florists that are still lucky enough to have outgoing orders, be sure to charge for the service you are providing your customer. It is getting more and more time-consuming to find a filling florist that will treat your customers fairly, so make sure you get paid for the service. The average service fee that I see in the marketplace, excluding delivery, is $8.95.

Service Fees to Assist DIY'ers: As the DIY craze continues to grow, don't fight it. Charge fees to use your design facilities, coolers, supplies, etc.— and by all means, try to sell them the flowers (mark them up three times to cover your processing costs). There is money to be made here with just a little creativity.

Don't Do This

Many florists don't charge for extra labor and services because they don't want to jeopardize their relationships with customers. This is especially true when dealing with price-sensitive shoppers. However, most of the time customers will gladly pay for extra and extraordinary service. By charging the proper prices for your labor you can provide the services to those who value them. For those who don't, offer DIY.

Derrick P. Myers, CPA, CFP, PFCI, is vice president of Crockett, Myers & Associates, a financial management and accounting firm that has been working with florists for more than 30 years.
derrick@crockettmyers.com

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BY PAUL GOODMAN, CPA, PFCI

PRICING FOR PROFITS

What Makes Pricing Tricky?

Setting a price is a matter of taking the cost of the product you are going to sell and marking it up to adequately cover your labor and overhead, leaving enough to make a reasonable profit. Most non-floral retailers utilize a formula close to a double markup. If a shirt costs $10, they try to sell it for $20. A double markup is called a "keystone" markup.

Retail florists, however, are different from other retailers. Most retailers buy finished goods, products that are already made. They simply put them on the shelf, mark them up and sell them. A retail florist, on the other hand, takes raw products, manufactures (designs) the finished arrangement and then sells it. Consequently, the retail florist must mark up its products more than the regular retailer in order to cover the extra cost of designing.

Best Practices

There is no single industry standard for pricing in the floral industry. There are simply too many different types and sizes of operations.

Some shops offer high-priced, customized designs and products. Others are "bucket shops" trying to give the most value for the lowest price. Different markets and different COGS standards lead to different pricing structures. There is no "right" or "wrong" formula. The correct pricing structure depends on the market being served.

The most common pricing formula charges for four items: labor, container, supplies, and flowers and foliage. Three different pricing markups are normally used in this formula.

The charge for labor is set at 20 percent of the retail price. The container and supplies are marked up double. Finally, flowers and foliage are marked up 3.5 times.

Most Common Pricing Formula
Retail Price = $49.95

	Total Cost	Markup	Retail Price
Labor (20%)			10.00
Container and Supplies	4.50	2.0x	9.00
Flowers and Foliage	8.84	3.5x	30.95
Total	**13.34**		**49.95**

Another benefit of properly dividing each category is the ability to change your formula easily for different kinds of arrangements. There is a great deal of difference in labor cost associated with a standard arrangement versus the labor that goes into a bride's bouquet or something that is hand-wired and taped, like a corsage.

The formula for a bride's bouquet that utilizes a premade floral foam holder can be adjusted to 35 percent for labor instead of the usual 20 percent. Labor can be upped to 50 percent for items that are hand-wired and taped. This easy change assures you of getting the proper amount to cover the varying amounts of labor.

Although arrangements constitute approximately two-thirds of the total sales of the average retail florist, there are many other items that must be priced as well. Here are samples of the kinds of pricing used on those other items.

Green/Blooming Plants

Markups between 2.5 and three times are the most common, giving a COGS of 40 percent down to 33 percent. Once you have factored in the cost of supplies (foil, etc.), total COGS for plants usually ends up between 38 and 45 percent.

Gifts

Most hard goods in retail flower shops will get a two times (double) markup. After accounting for breakage and theft, a final COGS of 53 percent is common. This formula applies to plush, cards, candles, and supply items that are sold.

Balloons

Balloons are normally marked up three times to cover the cost of supplies (gas and clips). The end result is COGS of approximately 43 percent.

Gift Baskets

A double markup is the most common when baskets are premade. Most retail florists find that making up their own baskets is not worth the effort.

Wire Service Charges

It is common to see charges from $6.95 to $9.95. Order gatherers charge from $13.99 to $14.99. Of course, they offer 24/7 service, which allows them to charge a bit more. Any service charge of $6.95 or more will be profitable for the retail florist.

Delivery Charges

Entire articles have been written about delivery charges. It costs an average of about $5.00 to make a delivery depending upon the size of the market you serve. Larger cities are more expensive due to higher labor rates and farther distances. The most common delivery charge today is $9.95 to $12.95.

Finally, a reminder: Always mark up an item based on full, landed cost. In other words, add the cost of freight to the item before marking it up.

Don't Do This:

Some might mark up the flowers and foliage by a multiple of 5.6 as opposed to 3.5-plus and be done with it. "After all," they say, "it will give the same ending price." Although that might be true in many cases, it is not always true.

The reason for dividing up the formula into its various parts is to account for varying amounts of each product type. For example, many florists use a variety of containers. Some are expensive. Some are not. To make sure they are getting a proper amount for each container, it needs to be priced separately. In addition, the prices of various items may vary over time. By having separate categories, you can easily adjust for any changes.

The Payoff

In one sense, pricing is a "defensive" ball game. Ultimately, the market sets the price. Over time, competitors adjust their prices in an attempt to win more customers. If prices are higher than what is necessary to make a decent profit, one or more competitors will cut them down to size. If prices are too low, some competitors will go out of business or lose their profitability. Those remaining in business will adjust prices up.

Eventually a reasonable price level is reached. The price is maintained at a fairly stable level until some new factor enters the marketplace. One of the competitors, for example, discovers a new technique or buying source that lowers her costs. She can now cut prices and still make a good profit. By lowering the price, she attempts to attract more customers and make even more profit. Everyone else has to follow suit, or run the risk of losing customers.

Paul Goodman, CPA, PFCI, is 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**

STOP THE SHRINK

BY DERRICK MYERS, CPA, CFP

What Is Shrink?

"If you want to be profitable, watch your cost of goods sold (COGS)."

That sentence is a constant refrain for retail florists, right? But how many florists understand what keeping COGS in check entails? To really monitor your COGS, you must understand the difference between COGS and purchases.

In a nutshell, COGS is the cost of the items that you have sold; purchases are the cost of the items you have bought that have not been or will never be sold. Notice that subtle difference? Purchases include perishable products and durable goods that are now in inventory, as well as items that have been broken, damaged, stolen or given away. It also includes product that has died or disappeared by some other means. Collectively, this category of goods is called "shrink."

Most florists actually do a pretty good job of pricing the product so they make a profit. So why do so many flower shops have COGS that are higher than they should be? The answer is "shrink." Unless you have shrink under control, your COGS will never be.

An acceptable shrink percentage for fresh product is 5 percent or less, which is calculated by writing down everything you throw away and then relating that back to purchases. Alternatively, you can look at the total cost of flowers and greens compared to total fresh sales. As long as it's 25 percent or lower, you've hit your target and shrink on fresh product is not a problem.

What Makes Shrink Tricky?

Florists are in the business of feelings and artistry; designers want their work to be beautiful. They want it to be admired, talked about, photographed, pinned and ultimately requested again or duplicated by someone else. Sometimes, they can get so caught up in the creation that they don't pay attention to the actual cost of the products they've used, or they just estimate.

In my experience, most florists also want to exceed people's expectations and be as generous as possible. Unfortunately, many of these well-intentioned impulses are ultimately bad for business.

Best Practices:

Here are some strategies to help florists get a handle on the most common shrink areas:

Broken, damaged: Thanks to changes along the supply chain and, frankly, increased competition among retail florists and their competitors, broken and damaged flowers are less of a problem today than they were in the 1990s. Nonetheless, flowers are often fragile and accidents happen. To minimize damage in your shop, promote proper care and handling of fresh flowers. Also make sure breakables are stored properly and safely to reduce careless accidents. If you receive damaged goods from suppliers be sure to immediately contact them to arrange for credit.

Dead: Again, thanks to advances in flower processing and cold chain management, dead flowers are less of a problem today compared to 15 years ago. Still, challenges remain. For instance, poor planning can result in over-purchasing, particularly for events. Florists are left with more flowers than they need and not enough time to sell them. One solution is to create and use a proper budget, a topic which will be addressed in a future article.

Stolen: Florists tend to be kind and look for the good in everyone, but there are some people who will take advantage of your trust. Have cameras throughout your stores and stockrooms to watch over your goods. You never know whether employees are removing something without your permission. Employees have been known to walk out of shops with just about anything, from a few flowers to office supplies. I once heard about a staff member who was putting cases of sellable product out with the trash, then picking it up and taking it home when they left for the day. So put systems in place to keep "the honest people honest," including periodically checking the trash to ensure that only dead and damaged product is being disposed.

Given away: Florists are constantly giving away flowers for legitimate business reasons, such as promotions, donations and customer acquisition. Always evaluate the giveaway, ensuring that you are receiving the recognition from it that you deserve. Another concept is to give a gift card instead of product (be sure the card has an expiration date on it). Many gift cards are never used, and when they are redeemed you have the opportunity to upsell the customer beyond the value of the card.

Stuffing: The biggest problem florists face when it comes to shrink is stuffing. It falls on owners and managers to gently rein in designers and keep them on budget. The only way I know to do that is to have them count the flowers and greens that they use in the arrangements. All of the flowers should be priced in the design room so that the designer knows the retail cost. They must also know the formula that you are using to price the arrangements, including the percentage of labor, amount of hard goods and supplies, and finally how much they can use in greens and flowers. Each arrangement needs to have an inventory sheet of its content and someone needs to count it and price it to make sure the amounts are appropriate for the sale price.

Don't Do This:

Because stuffing is the biggest shrink challenge florists face, I can't emphasize this final point enough: Don't allow designers, even those who are very experienced, to estimate or "eyeball" an arrangement. The strategy doesn't work. Designers who guess routinely underestimate a purchase price for the arrangement they have created, or they use too much product for the price point that was already set. Either way, your store loses.

Derrick P. Myers, CPA, CFP, PFCI, is vice president of Crockett, Myers & Associates, a financial management and accounting firm that has been working with florists for more than 30 years.
derrick@crockettmyers.com

BACK TO BASICS • ACCOUNTING 101

CASHFLOW FORECASTING

BY PAUL GOODMAN, CPA, PFCI

What is a Cash Flow Forecast?

Without cash, you can't pay your bills. Your business will fail. It's as simple as that. Many businesses have experienced great sales volume only to find that too much of it was charge business. The sales weren't yielding cash quickly enough. Those businesses often don't survive. A cash flow forecast can help you avoid that scenario. It is one of the most important forecasts you can make, but it's often neglected.

Traditionally, a large percentage of a flower shop's business is charged. Many florists get 80 percent or more of their daily sales over the phone or via the internet. All these sales are charged. Some to credit cards, and the balance to House Accounts. Managing your receivables is critical. Making sure that the money owed to you comes in as quickly as possible can be the difference between failing and surviving.

Cash flow forecasting tells you both how cash will come into the business and how it will go out. When you put the two together, you get a picture of what your cash situation will be each month of the year.

What Makes Cash Flow Forecasts Tricky?

The single most common reason a business fails is under-capitalization; not enough cash to run the business. Your cash flow forecast will show you approximately how much capital will be required in addition to that produced by daily operations. It may take several years for the operations to generate enough cash for the shop to maintain itself. The cash flow forecast will tell exactly how much cash you will need upfront to get from here to there.

For an established business, a cash flow forecast will show in which months, if any, you will temporarily be in a negative cash position. You will know how much cash you need on hand to get through, or when you will have to make other arrangements to keep operations running smoothly.

Best Practices:

Pull out your financial data from the previous year (or two). This data will be the basis of estimating your cash flow:

Project Sales. Look at last year's records and adjust for any increases or decreases you are experiencing. Make sure that you are counting only 20 percent of Outgoing Wire Orders and 73 percent of Incoming Wire Orders in your sales. If you are already doing that for your Income Statements, your job is easy. If not, you'll have to back out the 80 percent of Outgoing Wire Orders and 27 percent of Incoming Wire Orders that are included in your sales numbers.

Next, determine the percentage of sales that will be received immediately in the current month. They will be cash, check and credit card sales. Then what percentage will be received in the next three months from House Charges and wire activity? If you are not sure, it's fairly safe to assume you will get 60 percent of these receivables in the first month, 30 percent in the second month, 9 percent in the third month, and the remaining 1 percent will most likely be bad debts so you needn't count it. Your revenue for each month will be a combination of that month's cash, check and credit card sales plus the revenue received from each of the previous three months' House Charges and wire activity.

Project Your Cost of Goods Sold. If you've been in business a few years, this step will be fairly easy. Look at your total COGS percentage for the previous two years, take the average and assume that will be your COGS percentage for the coming year. To get the COGS for each month, multiply this estimated percentage by the sales for each month.

Project Expenses. You can make a comprehensive list of each expense item to help you estimate expenses for each month of the year. Alternatively, you can take a broader approach. Simply take the total expenses for each month during the previous year (not including COGS) and adjust slightly for any increase in rent or payroll due to raises.

Total Cash You're Going to Use. After you've totaled the expenses for each month, add the COGS for each month and you will have the total amount of cash you expect to use each month.

Cash Flow. The final step is to subtract the total cash spent from the total cash available each month. If the answer is positive, you're doing OK. If it is negative, you know that you are going to be short in that month. You'll either have to figure out how to cut expenses or bring in some extra cash.

Don't Do This:

Don't forget to set aside cash to cover months when you come up short. It is typical, for example, for retail flower shops to run short of cash in holiday months. Expenses are up. Cash from house charges won't start to show up for one to six weeks after the sale depending on how often you send invoices. If you don't set aside enough cash, you will need to borrow money to make up the difference. You can do that for a month or two. Beyond that, you will probably lose the business. The goal over time is to build up the necessary cash reserve to get you through the entire year.

Paul Goodman is 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**

RESOURCES

Download Paul Goodman's customizable spreadsheet to help better forecast cash flow at **safnow.org/moreonline**.

Or, if you want to do it yourself, here are general instructions. You'll need 16 columns: Three from the end of this year, so you know the amount of House Charges and wire activity that will generate cash for the first three months of the year. Twelve months for the current year. One added column to total the activity for the 12 months. You'll need 10 rows.

- Cash, check, cc sales
- Month 1 charge sales
- Month 2 charge sales
- Month 3 charge sales
- Total Cash Received
- COGS
- Expenses
- Total Cash Used
- Net Cash for Month
- Cumulative Cash

At the end of each month, enter the data for each row, total the cash received and cash used amounts. Subtract the cash used from the cash received and you'll have your net cash for the month. Add that to the cumulative cash balance from the previous month and you will have your new cumulative cash flow. (For the first month, add that month's cash flow to your beginning cash to get the cumulative cash flow at the end of the first month.)

DAILY CONTROL OF CASH

BY PAUL GOODMAN, CPA, PFCI

Why Daily Cash Control Matters

Cash is the fuel that keeps your shop's engine running. It pays the bills, buys the flowers and covers your wages. It's also one asset that changes every day. To be in firm control of your business, you must track your money throughout the year: How much is coming in? What's the breakdown between cash sales, credit cards, house charges and payments on account? And what are all the receipts for? You can't wait and answer these questions once a year, once a month or even once a week. Cash control must be a daily affair.

Why should you check your sales receipts every day? There are at least two reasons.

Safety. If someone is stealing a few dollars here and there, or a salesperson is ringing up sales incorrectly, that situation needs to be addressed immediately. You don't want to find out you are missing money a week or a month after the fact. With daily cash control, you can spot and correct little problems before they become big ones.

Ease. Verifying 40 payments from a day's worth of sales is much easier than waiting until you have 200 at the end of the week. A mistake or voided sale will be easy to spot in the smaller group. The same mistake is more difficult to locate when you have to go over hundreds of transactions.

What Makes Daily Cash Control Tricky:

Some florists neglect daily cash control measures because they think they're too busy to add one more "cumbersome" task to their day. The truth, however, is that if you understand and use this simple formula, you'll be well on the way to sound daily cash control:

Taxable Sales

+ Non-Taxable Sales
+ Sales Taxes
+ Received on Accounts (ROA)

Must equal

+ Cash
+ Bank Cards
+ Travel Cards
+ Gift Cards/Certificates
+ Discounts
+ Paid Outs
+ Charge Sales

If your daily totals add up perfectly, congratulations! If your cash is over or under for the day by more than a few dollars, find out why. Do you just need a small adjusting entry to **"cash +/-"** or is there a real problem you need to locate and solve?

Best Practices:

There are actually two parts (or sides) to the formula just laid out: **"what to account for"** and **"how it was paid."** To control daily cash, the two sides must balance.

"What to account for" has four components: taxable sales, nontaxable sales, sales taxes and ROAs (or the payments on charge accounts).

This breakdown makes sense. You make sales. Some of them are taxable. Some are not. Along with the taxable sales you count the sales tax (provided your state has a sales tax). Finally, you collect payments for previously charged sales. Add all four together, and you have the total amount of money you need to account for.

The next step is to match the total you have to account for with the various ways the customers paid you. Open up the cash register and take out any change fund with which you began the day. The remaining coins, currency and checks are your basic cash receipts for the day.

Non-cash receipts are the second major type of payment. They come in five separate varieties:

Bank cards/travel cards are just as good as money in the bank. You deposit them directly to your bank at the time of the sale. The bank will take out its discount fee later on, but that expense doesn't affect your daily cash totals today.

Gift cards/certificates used to purchase products should also be included in non-cash receipts. (Note that this doesn't mean the sale of a gift certificate. Instead, this type of receipt happens when a customer pays for one of your products with a gift certificate that was previously purchased from you.)

Discounts could be a couple of things. When a customer buys a $40 arrangement with $35 cash and a $5 coupon, you would show two forms of payment. The $35 comes under cash receipts. The $5 coupon is a discount. Same thing if you give employees a discount.

Paid outs are a bit more complicated. You need to track how much of your cash you spent each day and what you spent it on by putting receipts in the cash drawer.

Charges are for sales on which you aren't paid immediately: house accounts and incoming wire orders. You create a receivable at the time of the sale. Be sure to use the full gross value of incoming wire orders. Do not deduct the sender's share of the order. That doesn't have anything to do with the daily cash control process. When you add wire-ins and charge sales to your cash and non-cash receipts, the total should match the amount you must account for.

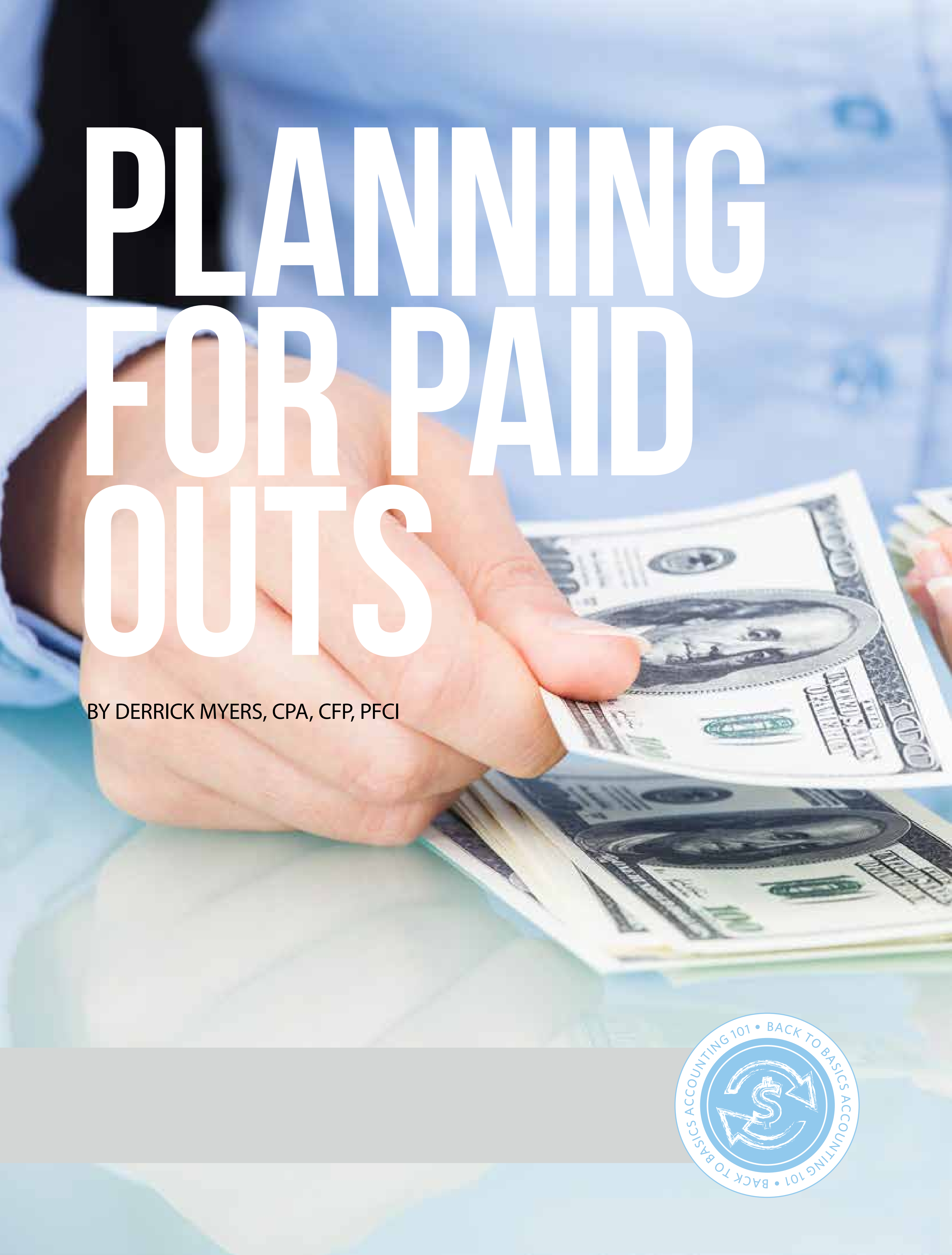
Occasionally, you will receive money for something other than sales and payments through your POS, such as wire service rebate checks or a refund from a supplier. These need to be handled separately. Simply fill out a deposit slip and enter the information into your accounting software.

Regardless of how often you make deposits at the bank, balance each day's cash activity daily, and make out daily deposit slips. If you don't have time to go to the bank that day, just hold the slips until you do.

What to do when it's "off"

Notice I said that cash receipts, non-cash receipts and charges should equal the total amount you must account for. If these are occasionally off by a minor amount, don't worry, it's part of doing business. Just add a "Cash Over/Under" line to make up the difference. If you are under more than a few dollars or if you are $5 or $10 short almost every day, there's probably a different problem. A big but isolated shortage may have a simple explanation. Perhaps a voided sale was not corrected at the register. But a pattern of being consistently under can be a sign that an employee is helping himself to a few dollars whenever the opportunity arises. In that case, see if the problem disappears when certain employees are absent. Don't let the bleeding continue.

Paul Goodman, CPA, PFCI, is the founder of Floral Finance Business Services, based in Tulsa, Oklahoma;



PLANNING FOR PAID OUTS

BY DERRICK MYERS, CPA, CFP, PFCI

What Are Paid Outs?

Many florists are confused by the term "paid outs." It basically refers to business expenses that are paid using the company's cash. Most business expenses are now paid with a company check or via an electronic transfer. As a result, paid outs are becoming less of a consideration for many businesses, although some expenses must be paid at the time the service or product is purchased. Often in those situations, cash is quicker and easier.

What Makes Paid Outs Tricky?

The trickiest aspect of paid outs is the recordkeeping and tracking of these expenses. There are basically three ways that this can be accomplished.

The first method involves a true petty cash fund. To do this, the company must first establish the fund by deciding on a dollar amount and putting the cash somewhere accessible to pay any cash expenses necessary for the daily operation of the business.

Let's assume, for example, that the company determines it needs a $1,000 fund. First the owner places the cash in box, drawer or other designated place that authorized personnel can access to make payments. Each time money is taken out to pay an expense, a receipt should be put in the box along with any change. At any time, the cash and receipts, when added together, should add up to $1,000 exactly. When the cash begins to get too low, the receipts are added up, and a check is written for that amount and cashed, and the cash is placed in the box, making the cash balance $1,000 once again. The check is then coded based on the receipts and entered into the general ledger (accounting books), itemized into the appropriate expense accounts.

Using this system, let's assume that throughout a given month, there are 10 gas receipts that total $423, along with receipts for a $275 refrigeration repair and $140 in subcontracted flower deliveries. After paying these expenses, our cash balance is only $162. We now need to replenish our petty cash fund, so we write a check for $838, which is the total of all of the receipts. The check is then cashed and the money, $838, is put back into the petty cash box, bringing the balance back to its original $1,000. In our general ledger, we code the check to the appropriate expense accounts: gas $423; repairs $275; and subcontract delivery $140. This process will continue for as long as you keep the petty cash fund.

The second method is to run the cash register as the petty cash fund. It basically works the same way as the first, but you don't maintain a set balance or replenish the fund each time it is used. It works like this: You start the day with a certain balance in your cash drawer. Throughout the day, you conduct business and the cash grows in the drawer as sales are made, people come in the store and make payments on house accounts, etc. If you need to pay for gas, you take the money from the register and replace it with the receipt. At the end of the day when you close the register and prepare your deposit, you are short by the amount of the gas expense. You adjust the deposit to account for the cash that was used to pay for the gas expense, and record that expense as part of your sales entry for the day. Therefore, you show the expense for the gas instead of the register being short (which is an expense also). Each day you balance out the register to make sure that your cash and receipts exactly equal the money that you should have collected for the day.

WHATEVER YOU DO, DON'T SIMPLY IGNORE YOUR PAID OUTS. YOU NEED TO KNOW WHERE YOUR MONEY IS GOING, AND YOU ALSO NEED TO MAKE SURE THAT YOU GET THE TAX BENEFIT OF THESE DEDUCTIONS.

The third method of handling paid outs is for the owner of the company to pay the expense using his or her own cash. Then at the end of each month the receipts are remitted and a check is paid to the owner to replenish his/her personal funds. This method is most often used when the cash in the register is too low to pay the daily expenses; the owner provides a short-term loan to float the cash requirements.

Best Practices:

With almost all florists now having POS systems, a lot of the recordkeeping and tracking can be done automatically by these systems. The POS programs can be set up to have categories of expenses for all of the various expenses that are paid out of the register, and the systems will then track these amounts for you.

In many cases, these systems will create the entries for the sales and expenses for you to put in your general ledger, some will even interface with programs like QuickBooks and put the entries into the general ledger directly, making the recordkeeping and handling of paid outs automatic.

Don't Do This:

Whatever you do, don't simply ignore your paid outs. You need to know where your money is going, and you also need to make sure that you get the tax benefit of these deductions. Regardless of the paid outs method you choose, be diligent to make sure you capture all of the deductions that you are entitled to.

Derrick P. Myers, CPA, CFP, PFCI, is president of Crockett, Myers & Associates, a financial management and accounting firm that has been working with florists for more than 30 years.
derrick@crockettmyers.com

STAFFING FOR PRODUCTIVITY

BY PAUL GOODMAN, CPA, PFCI

BACK TO BASICS • ACCOUNTING 101

What is Staffing for Productivity?

The single biggest reason for low designer productivity is scheduling too many design hours each day, i.e. staffing too high. In our consulting work many shops have one to two more designers than they need.

Deciding how many design hours to schedule each day requires knowledge of two items:

- Design volume per day
- Output per designer per hour

What Makes Staffing for Productivity Tricky?

While the retail flower business is typically thought to be very cyclical, sales volumes are actually fairly constant most of the year. The months of February, April, May and December are really not holiday "months." They are months that contain a holiday. There is a difference.

The Valentine's Day rush, for example, lasts from three to five days for the average retailer. It's certainly not the whole month of February. Administrative Professionals Day/Week will also last three to five days. Mother's Day will typically be seven to 10 busy days. Christmas can be 20 to 25 days, though still not the entire month.

Admittedly, these periods include very busy days, but the rest of the month goes back to normal, non-holiday volume. Annually, increased holiday volume comes into play for only 29 to 43 days of the year. The rest of the time, your business is made up of fairly level, non-holiday sales volumes.

In other words, up to 11 months of the year involve predictable and flat sales. In the typical retail flower shop, holiday volume accounts for approximately 23 percent of annual sales. A big 77 percent is everyday business — birthdays, anniversaries, sympathy, get well, events and other occasions.

That means for every $100,000 you do in annual design work, $23,000 will be holiday volume and $77,000 will be non-holiday. If you divide that $77,000 by 52 weeks, you get approximately $1,500 of non-holiday volume per week for every $100,000 of annual design volume you do. A shop doing $300,000 in design work per year would do approximately $4,500 per week in non-holiday designs. A shop doing $500,000 in annual design volume would experience $7,500 per non-holiday week.

The average flower shop does approximately two-thirds of its sales in arrangements. The rest is green plants, blooming plants, gifts, delivery, wire outs and other miscellaneous items.

If a shop is doing $500,000 per year in total sales (slightly higher than the average shop in the United States), it would have on average about $333,333 of design sales. Using our formula ($1,500 of sales per week for every $100,000 in annual sales), you will get $4,500 of design sales per week.

If this shop is open six days per week, that would be an average of $750 per day. However, we can't stop our analysis here, because sales will vary by day of the week. The good news is that just as non-holiday weekly sales are fairly predictable, average daily sales are also consistent.

Best Practices

Sales are not level every day. Our research shows that non-holiday daily sales are amazingly predictable from one week to another. To find the pattern for your shop, take four non-holiday weeks. Add up arrangement sales for all the Mondays, Tuesdays, Wednesdays, etc. Divide each day's total by four and you'd get your average non-holiday sales for each day of the week.

One note: When calculating your average non-holiday daily volume, do not use four consecutive weeks in January or July. These are typically a bit slower than the other months. Do not include weddings or events in your sales numbers. These are special planned events that do not fall into the everyday category.

Once you know your approximate design sales volume for each day of the week during the 11 months of non-holiday sales, you can determine how many design hours to staff each day and how much can you expect a designer to do in an hour.

Let's assume, for instance, that the average designer will actually be designing for six hours per day. That's 75 percent of the available time. How much can a solid designer produce, on average, in those six hours?

We have asked that question many times in seminars across the country. The answer is almost always the same. A designer moving along at a reasonable speed can put together an average arrangement in 15 minutes. Four per hour. Or 24 in a six-hour day.

If the average order is $55, that translates to $220 per hour or $1,320 in six hours. More can be expected in a production environment where multiple versions of the same arrangement are being made.

Once your analysis is complete you might find that your average Tuesday is only $500 and your average Friday is $1400 with the others somewhere in the middle. This is why you shouldn't think of the design room in terms of number of full-time designers. Instead, think in terms of the number of design hours you need each day. One person can be scheduled for three design hours and three hours doing other activities.

Don't Do This:

Make sure you aren't over-staffing for the amount of business you have. If you do, there is no way your designers will be productive.

You're probably shaking your head and thinking: "That may be true in the theoretical world of averages, but I run a real live flower shop with various crises occurring on a weekly basis."

That's true. Emergencies can never be eliminated; yet it doesn't make sense to staff daily for the unexpected. If it's busier than expected, bring in extra people. If you find emergency days are becoming more the rule than the exception, however, you'll need to adjust your overall allocation of design time.

Doing a non-holiday staffing analysis by day of the week will take less than an hour of your time. If you're not satisfied with one sample, do another one from another time of the year. Say, one from March and the other from September.

The results will most likely be similar and should give you a greater comfort in the numbers. Once that's done, all you have to do is look at the most common objection.

Paul Goodman is 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**

DESIGN ROOM Efficiency

BY DERRICK MYERS, CPA, CFP

Why Does Design Room Efficiency Matter?

Efficiency is the root of high performance. If you don't provide an environment where your employees can function at full capacity, without unnecessary distractions, wasted motion or missing tools and equipment, they can't deliver the production you require to make your company profitable.

Florists, like other business owners, are always looking for ways to increase sales as the solution to all of their financial problems; however, if underlying processes are not running efficiently, then greater sales may just exacerbate the problem. So let's take the time to analyze the design room, where lost productivity can really hurt your bottom line.

What Makes Design Room Efficiency Tricky?

Flower shops don't run at peak efficiency for many reasons. Most important, few people take the time to study how designers spend their time at work. Are they diligently working at the design table or are they spending hours looking for flowers and supplies? Maybe they have to answer phones and wait on customers throughout the day or break up dedicated design time with trips to fill vases. Those trips and tasks add up. Every minute a designer is away from the design table costs you money.

No one understands the distractions and frustrations that the designers run into better than the designers themselves. That's why it's important to begin any conversation with the designers. Ask them what tasks, processes and setups are causing wasted time. Let them help guide you toward the changes necessary to make things run more smoothly.

Still, don't forget to look at yourself and evaluate the impact that you have on your staff's use of time. Perhaps you are the root of some of their distractions. Do you often interrupt or redirect your key designers in a way that removes them from their primary functions? Often, our reliance on our key personnel can have a detrimental effect on their efficiency.

By being aware of your actions, watching what your designers actually do during the day and talking with them about where they are losing time, you will be able to find ways to save the designer time and increase their time at the design table. This increased attentiveness will make the company more money and the designer more valuable, which ultimately means more money for them as well.

Best Practices

A first step to improved efficiency: Have your production, or designer output, goals clear at the beginning of the day. Each designer should know what his or her production level is — approximately 10 times their pay rate. Designers also must know any specific expectations and direction for the day, including any special events or arrangements that need their attention. Managers should use the "production levels" of their designer to extrapolate the design hours required to handle the anticipated production for the day, week and month, when making up work schedules. For example, a $15-per-hour designer should produce $1,200 of product (not counting delivery income) in an eight-hour shift ($150 times eight hours).

Recipes and standardized designs can work wonders in this area. After all, the whole reason that anything gets standardized is to make its replication simpler and increase efficiency. Most florists already use this approach for holidays, but it works well for everyday designs, too. Having your head designers create standard arrangements, which can then be replicated by less skilled junior designers, will make your business much more profitable. Standardized arrangements on your website, and reducing the overall number of options, will also make production, purchasing and inventory more efficient. In addition, standard arrangements, at different price points, should find their way into your cooler. That way as soon as your designers have completed the day's work, they can quickly identify what needs to be done to refill the cooler.

On a related note, don't let designers design from flowers buckets. Have them pull flowers they need for the arrangements before they start to design, based on recipes or event planning notes. This will help them design more quickly, and they won't stuff the arrangements. (Adding just one extra stem in each design can raise your costs by $10,000 or more in a year.)

To pinpoint lost time or opportunities for improved efficiency, have your designers track their time for one busy or holiday week and one normal business week. Find out how often and for how long they leave the design table to get supplies, fill vases, answer phones, etc. Use this information to determine if it would be less costly and more productive to hire a helper/runner to assist your designers. Whenever possible in your shop, strive for a clear separation of duties. Having lower-paid employees answer phones, process and pull flowers, manage inventories and deal with customers will allow your higher-paid designers to function more efficiently and stay on task.

Make sure that the design area is organized and clean. I can't tell you how many shops I have been in where there is stuff piled everywhere. This makes it difficult to navigate the store and almost impossible to find anything. Think about the time you waste in your shop looking for items you know you have — or worse, the money you waste replacing them. People function better in a clean, clutter-free environment. If you have clear, consistent organization, everyone knows where everything is. So if someone is out or the manager is busy, no one is held up waiting for answers or trying to find something. Clear aisles not only help with efficiency, they are imperative in regards to safety.

If possible have a water source at each design table. Much of the designer's day can be lost walking back and forth to the sink to fill vases for arrangements. Having a source at their workstation is efficient and profitable.

Make sure that the designers have the proper tools and they are clean, sharp and in good working order. If those tools tend to wander, label each with the designer's name.

Analyze the layout of your store and design room. Make sure that the space is being used as productively as possible. I have seen shop owners turn their business around simply by reconfiguring their store and giving the business a fresher, more streamlined and modern look that was also more efficient in its design.

In this age of technology I have seen different ways of handling technological interruptions, like cell phones and texting. It's up to the owner/managers to decide what will work best at your shop. I have seen both extremes, meaning policies where no one is allowed to have cell phones at their workstation to policies where, not only are devices allowed, they are necessary for looking up designs online and even marking arrangements completed in the POS system. As long as production levels are where they belong, I would not worry too much about the occasional texting.

Don't Do This:

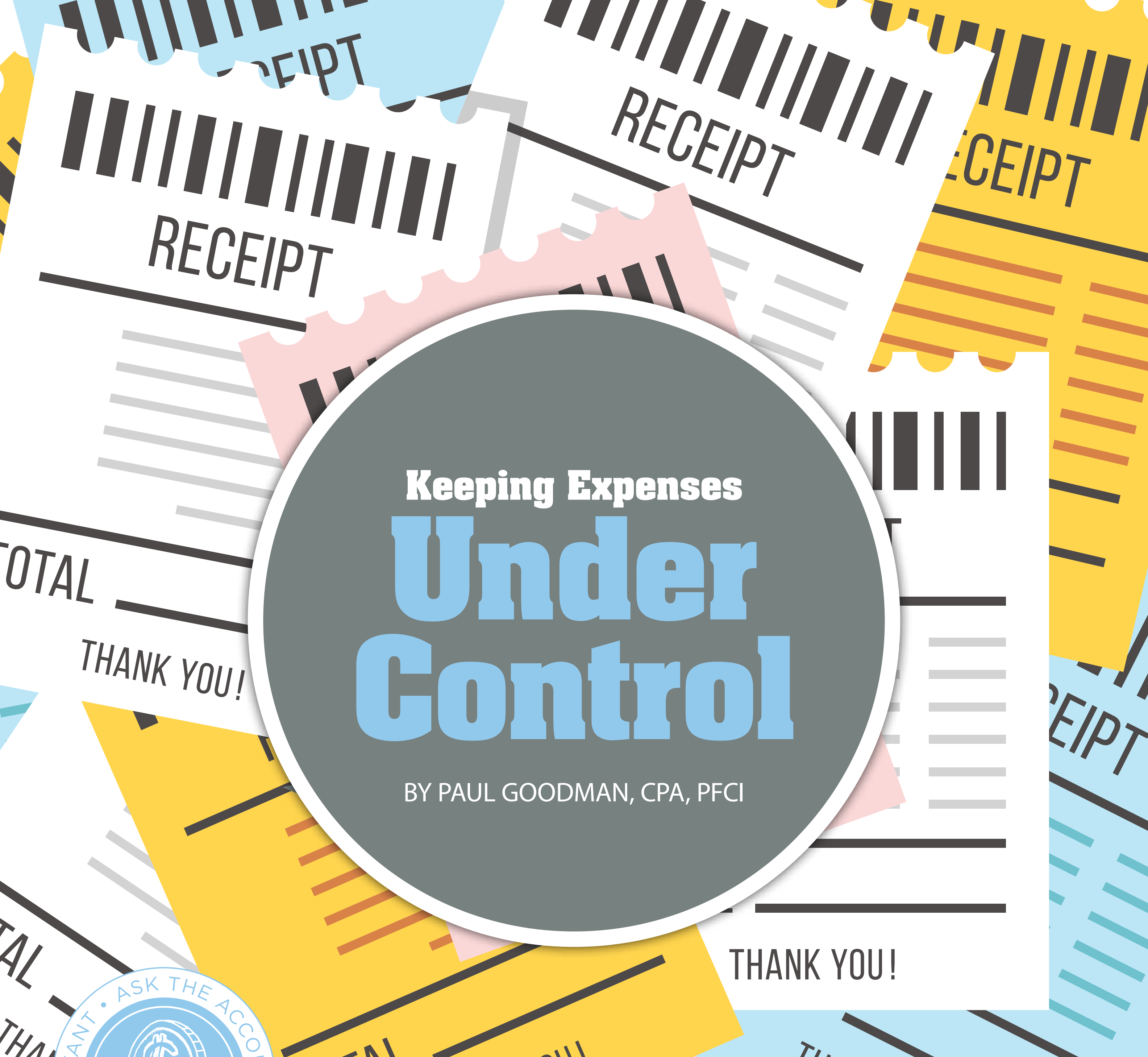
Don't simply allow your designers to set their own pace. It is human nature to make a task fill the time that you have available; therefore, you need to encourage your staff to look beyond the immediate task and be thinking about what's next. For instance, make it standard practice that if a designer doesn't have enough orders to keep them busy for the day, they should start working on filling the cooler.

Where possible, create an air of friendly competition so that your designers challenge each other to heights of higher production. Also consider stimulating production through the use of incentives. Just remember that incentives are still a part of payroll, and need to be processed as such and included when analyzing production results. Look for more on incentive-based pay in a future article.

Derrick P. Myers, CPA, CFP, PFCI, is president of Crockett, Myers & Associates, a financial management and accounting firm that has been working with florists for more than 30 years. **derrick@crockettmyers.com**

GO DEEPER

Floral Management has covered shops that experimented with incentive-based pay. Find out more at **safnow.org/moreonline.**



Keeping Expenses

Under Control

BY PAUL GOODMAN, CPA, PFCI

ASK THE ACCOUNTANT

Expense Control: Why It Matters

How would you feel if someone walked in this afternoon and purchased $1,000 worth of your beautiful flowers? Someone you weren't expecting. Someone who paid in cash on the spot.

You'd be ecstatic. That's a big sale. A great and unexpected boost to your revenues. If you are achieving a 10 percent net profit, that sale would mean $100 straight to the bottom line for the month.

If you can find such a customer, congratulations. If not, you can give the same boost to your bottom line another way. How? By cutting $100 worth of unnecessary expenses from your operation. A little bit of cost control can have a substantial impact on a flower shop's profitability. And, in most floral businesses, there are savings to be had.

What Makes Expense Control Tricky?

Facilities. Advertising. Vehicles. Telephone. Insurance. Wire service. So-called "repeating opportunities" are the expenses that can hurt your profitability the most because they repeat, usually every month. If you make the effort to control these potential bottom-line busters, you can come out way ahead of the game.

The general size and repetitive nature of these expenses make them especially important for you to control. Overspending in even one area can add up to a substantial dent in your results over time.

Best Practices

Here are some basic tips to help you stay in control of each area. In each case, you'll see that the answer isn't complicated. It's more a matter of persistence.

FACILITIES Facility expenses are the third-largest expense category in the typical flower shop. You can't do much about them in the short run; however, over time they can be changed.

Your facility expenses (rent, facility insurance, property taxes, repairs/maintenance and utilities) should not exceed 10 percent of your gross revenue. The average shop has facility expenses in the 8.5 percent area.

If your facility expenses are too high, you must get them under control or you will never see a good bottom line. If you have too much space, look to downsize when the lease is up. Talk to your landlord to see what options are available. Check out other locations if that is the only option.

ADVERTISING The best way to control your advertising expenses? Set a budget for advertising and stick to it. Then target your efforts so that you get the most from your money.

In today's market, the bulk of your advertising money needs to go into your web presence and social media. A budget of about 3 to 4 percent of sales may be on target for an established shop. You probably will need to add one or two percentage points if you're just starting out.

VEHICLE EXPENSES Vehicles are a necessary expense. You have to deliver your products efficiently and professionally. But this area can easily get out of hand. A common mistake is too many vehicles. You need to know how many deliveries you make each day and how many vehicles are needed to meet that demand. Beyond that, however, don't have extra vehicles sitting around waiting for a holiday crunch.

At holidays, you can either rent the needed extra vehicles or hire drivers who use their own vehicles. When buying a vehicle, get only what you need and nothing extra. You don't need quad leather seats and stereo sound.

TELEPHONE Total telephone expense in most shops should stay in the 1 percent range of gross revenue.

Make sure you're putting all your telephone lines to good use year-round. Cutting one unnecessary line could save $50 or more a month. That's $600 a year.

Adding a line for busy times and then disconnecting it during the slower seasons may provide a cost savings. And then there are cell phones. Make sure you use them as needed, but not in excess.

INSURANCE It's important to have insurance that will cover you, your property and your employees in case of a loss. But it isn't helpful to have insurance you don't need.

Review your vehicle insurance. Look at deductibles versus premiums. Make sure you have non-owned vehicle insurance for those times personal vehicles are used for shop business.

You'll need a good business owners policy. Most of what you need to cover will be under one policy: liability, loss of income, theft, fire and other miscellaneous coverage. You may also want to add an umbrella policy. It's not expensive. Ask your agent.

Health insurance is a big one these days. You'll have to keep up with the latest laws. If you decide you need or want to offer health insurance, make sure you set it up so that the employees share in the cost. That way, only the insurance that is needed will be taken.

WIRE SERVICES Wire services make it possible for you to send and receive long-distance orders effectively and efficiently. In addition, they provide great products and services, especially in the technology arena. But how many do you need? They are expensive.

Most florists today are opting for just one wire service. Select the one that not only gives you the coverage you want, but provides all the other services you expect, such as technology.

If you decide on more than one, you can only justify it financially based on the volume of incoming orders. The gross volume must exceed four times your annual cost of belonging to that wire service (including advertising) to break even.

Don't Do This:

Don't make expense reviews an annual action item. Instead, give these repeating expenses consistent attention. Watch them. Review them. Control them. Here are a few additional tips, based on common mistakes I see at shops:

- **Don't assume energy costs are fixed.** Review your utilities and see if there are some ways to lower them through greater efficiency.
- **Don't do the "same old, same old**." Particularly with advertising, new tools exist to help you review and benchmark campaigns. Be wary of yellow page advertising or traditional print ads. You can easily spend too much and not get the results you expect.
- **Don't ignore the "check engine" light.** Make sure you do all the required maintenance on vehicles as recommend by the factory. Proper maintenance, including oil changes and tire rotation, will do more to save money than anything else you can do.
- **Don't neglect research. Deals abound for people who are persistent.** With cell phones, check out the various calling plans for the best deals available. Control your insurance costs by studying your policies. Make sure you aren't paying for duplications in coverage or excess coverage.

Paul Goodman , CPA, PFCI is 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**