



Are You Selling Yourself Short?

2108 SAF Annual Convention

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Introduction

Most florists price according to a cost-plus formula where prices are based on costs.

In this session we're going to look at how you can increase sales and profits simply by making some small adjustments to your pricing... at how we can discount a little to get some additional and/or bigger (but still profitable!) sales, sales you would not have had otherwise. And at the other end we're going to look at how you can make bigger sales and bigger profits by letting people spend more money. We're going to look at how we account for all of this.

When you leave here you should have ideas you can put into practice as soon as you get back to your shop. We're not talking about hiring a social media expert and starting a long campaign. We're not talking about spending money on AdWords, or writing long blog posts. We're just talking about little changes to your prices.

1.0 The Cost-Plus Model

A review of the cost-plus model, the predominant approach to pricing in the retail flower business.

2.0 Value-Based Pricing

Introduction of the value-based pricing model, which aims to generate new/bigger sales at the lower end and more profitable sales at the higher end.

3.0 New/Bigger Sales At The Lower End

Techniques for generating new/bigger incremental sales to customers that will not pay full price, without cannibalizing more profitable sales to customers that will.

4.0 Accounting For Discounted Sales

A look at how to properly account for discounted (but still profitable) sales.

5.0 Raising Prices To Increase Profits

Strategies to create bigger, more profitable sales at the higher end without alienating customers not willing to pay those prices.

6.0 Accounting For Higher Prices

A look at how to properly account for higher margin sales.

7.0 The Cost-Plus Model Revisited

A look at the overall effect of both lower and higher margin sales on cost-plus reporting and overall profitability.

1.0 The Cost-Plus Model

A review of the cost-plus model, the predominant approach to pricing in the retail flower business.

The industry standard is:

- 3.5x Markup on Fresh Product
- 2.5x Markup on Hard Goods
- 20% off the top for Labor*

* Labor percentages are increased for more elaborate work, such as weddings and event work.

Sales Category	Sales	Sales Percentage By Category	Target Percentage COGS	Target Weighted COGS
Fresh Flowers	\$225,000	76.9%	25.0%	19.2%
Plants	\$35,000	12.0%	33.0%	4.0%
Balloons	\$3,400	1.2%	25.0%	0.3%
Dried & Silks	\$8,000	2.7%	40.0%	1.0%
Fruit & Snack	\$12,000	4.1%	40.0%	1.6%
Gifts	\$7,000	2.4%	50.0%	1.2%
Cards	\$2,000	0.7%	50.0%	0.4%
Design Materials			8.0%	8.0%
TOTAL	\$292,400	100%		35.7%

2.0 Value-Based Pricing

The value-based pricing model, which aims to generate new/bigger sales at the lower end and more profitable sales at the higher end.

The cost plus model is great at assuring healthy gross profit. You're multiplying your unit cost by roughly three so you're definitely making a gross profit on every single unit you sell.

And it's pretty good at assuring net profit. As long as your sales volumes and fixed costs fall within industry norms Derrick can assure that there will be a little left over after you pay all the bills.

Unfortunately cost plus does nothing to help with salability. It can assure we won't lose money on an item, but it makes no promises about whether we'll be able to sell an item at that price. Nor does it address the fact that we might be able to sell that same item at a higher, and more profitable, price.

Profitability vs Salability

Profitability is based on the relationship between cost and selling price – the cost-plus model. Salability is based on the relationship between price and the amount the customer is willing to pay (their valuation).

If you charge more than what the customer is willing to pay you don't get the sale. If you charge less than what they are willing to pay you give up profit. Only if you charge exactly what they are willing to pay have you priced optimally.

Here is a closer look at the three potential outcomes:

Your Price > Customer Valuation

When you charge more than the customer is willing to spend there is no sale, and no chance at profit. That's unfortunate, because you may have been able to make a less-but-still profitable sale.

Your Price < Customer Valuation

If you charge less than what the customer was willing to pay it's not as bad. You made the profit you wanted, but still less than you could have. This is called 'leaving money on the table'.

Your Price = Customer Valuation

If your price matches what the customer was willing to pay you have an optimized sale – one that was as profitable as it possibly could have been. Ideally every sale you make would be optimized.

The Goal of the Value-Based Pricing Model

The goal of value-based pricing is to optimize every sale by aligning price not with cost, but with what the customer is willing to pay. That means selling more to people with lower valuations – these sales will be less profitable, but you'll still be generating profits you would not have otherwise. And, at the other end, you'll be making higher margin, higher profit sales to the people that are willing to pay more.

3.0 New/Bigger Sales At The Lower End

Techniques for generating new/bigger incremental sales to customers that will not pay full price, without cannibalizing more profitable full price sales to those that will.

Rather than just giving up on the people that are not willing to pay a price based on the full 3X markup suggested by the cost-plus formula, the value-based model looks for ways to sell to these consumers, and these consumers alone, at discounted prices.

Sometimes that may mean discounting in order to get a sale. Other times it may mean discounting additional units of a product to get a bigger sale.

Rules

The goal is to generate still profitable sales we would not have had otherwise. Keep these two rules in mind.

Never Sell Below Cost

The price always needs to cover the cost of the item and, for the most part, maybe double the cost of the item. We can go under the 3X markup typically used in the cost-plus model in this industry because these are additional “incidental” sales we would not have otherwise. But we never, ever, go below cost – beware the siren song of “brand building” or “building market share”.

Only As Needed

Remember - we're trying to activate buyers that will not pay full price. We don't want to give away discounts to people that will pay full price. Typically this should be approached on two fronts – only mention discounts to people you think require discounts, and use the techniques mentioned below to further discourage anyone that might be willing to pay full price.

3.1 Selective Discounting: Demographics

Some businesses offer discounts to specific groups like students and seniors. It seems very generous of them, but generosity has nothing to do with it.

These discounts reflect the fact that members of certain groups generally have less disposable income and are likely unable to purchase at regular prices. Discounts are the only way to turn these people into customers. It does however look generous, which is good for reputation.

You may also see discounts for other groups – sometimes school teachers, first responders, nurses, active duty military, etc. Should you offer these groups discounts as well?

It will really depend on how well they are compensated in your area and in relation to your typical customer. If you have a very high end shop with a wealthy clientele, and you notice the groups just mentioned rarely shop at your store, it may be because their compensation makes your prices unaffordable. In this case you may want to consider special discounts for them. But remember – this is not about being nice, it's about creating additional sales to customers that would not buy from you otherwise.

It's worth noting that restaurants may offer discounts to first responders for reasons that do not apply to retail floral. First responders often work, and eat at, odd hours. If you own a diner there is value in having customers that come in at off peak hours, and first responders are great at that.

Another common identifier is membership in Automobile clubs like AAA. You've likely seen that almost all hotels offer special AAA rates. It is generally accepted that these members are more likely to be comparison shoppers that are interested in value.

In Your Flower Business

The goal is to identify groups that typically have less disposable income, making them less likely to be your customers. If it is easy to reach groups of these people so much the better.

Students and seniors are the most common examples. Students can be reached through schools, seniors can be reached through local groups and assisted living facilities. Always remember the goal is to avoid cannibalizing full price sales, so don't promote these discounts to upscale private schools or more expensive seniors homes.

Other groups should only be approached if you believe that your standard prices are out of their reach, or you believe they can do an outstanding job of spreading the word and bringing in new customers.

3.2 Selective Discounting: Hurdles

Designed to deter all but the most serious bargain hunters, hurdles help ensure that you discount only when absolutely needed to make a sale.

Hurdles are used to prevent cannibalization of sales at full price. A well constructed hurdle will deter all but the most price sensitive customers from taking advantage of discount. A figurative hurdle is placed as an obstacle in their path; if they jump over the hurdle they have proven that they would not have paid full price and earned their discount.

An example is the “in-store only” specials at Pizza Hut. For most people an important feature of pizza is convenience – it can be delivered or, at the very least, be awaiting pick-up.

The in-store specials offer a significant hurdle in that you have to place the order in person and wait while it is cooked. This is designed to discourage anyone that would be willing to pay full price from taking advantage of the discount. Sales at full price are not cannibalized.

Early bird specials at restaurants are another example – if you are willing to eat dinner at 4:30 you are rewarded with a discount. This appeals to a different type of customer, one that would probably not pay full price later in the evening.

Coupons are another kind of hurdle, rebates an even more effective take on the same idea. Only the most determined shoppers will take advantage of the discount.

In The Flower Business

There are several hurdles that have been used and refined in the flower business.

Pick-Up Only (basic)

One of the great things about flowers is delivery. Taking that away and offering discounts on in-store purchases is a very effective hurdle. This is most effective if you target customers that usually order for delivery in an attempt to get them to spend more often.

Pick-Up Only (advanced)

A store in the city that has very limited parking, most of it on the street, offers a discount on in-store purchases between 4pm and 6pm each day. Why? Because there is no street parking during these times, meaning parking is almost impossible. The special only appeals to those who really need the discount.

Food Drive

The local BIA runs an annual food drive; the member florist offers a discount on in-store purchases to anyone that brings in a non-perishable food item. This is an upscale store, and this promotion brings in customers that do not shop there otherwise. It also generates great publicity for the store.

Container Refill

It is generally accepted in this business that recipients will spend less on flowers for themselves than their senders. An effective hurdle involves having them bring in a container to be re-filled while they wait (the hurdle), and some stores target recipients several weeks after they deliver their flowers.

Friday Office Delivery

Some shops that have concentrated business areas will offer discounts on Friday deliveries to that area. Because it is Friday the recipient will generally choose to haul the flowers home for the weekend and, hopefully, politely suggest to the sender that they would rather receive flowers earlier in the week.

Advance Orders

Discounts for orders placed very early can be an effective hurdle. Customers that are prepared to pay 30+ days in advance are likely to be very serious about saving money.

Coupons

Coupons are a hall-of-fame hurdle, and allow for a number of complimentary hurdles – must be redeemed in person, only applicable to certain types of sales, minimum purchase, etc.

A shop set out to increase their average order value to \$75. The good news is that they were successful. The bad news is that they also realized that their order volume had gone down. There were selling larger but fewer orders, likely because some of their more price sensitive customers got scared off when higher prices were suggested.

Coupons are absolutely perfect in this situation. In this case the first step was to find customers that...

- had not purchased in the last year
- spent less than \$75 on average

... and then send them a discount coupon. If price was indeed the issue the coupon would hopefully “activate” them.

Bad Weather

If you don't want to go out in extreme weather your customers won't either, making it a very effective hurdle. In the Northern winter that might mean a “blizzard special”.

If weather is working against you it's more important than ever to try and generate sales. Many of the sales lost to a day of bad weather will never be recovered, so you can't afford to approach it as a quiet “get some paperwork done” day. You need to stimulate sales.

Discounts, using weather as a hurdle, are a perfect way to do that.

Important Note

A well-designed hurdle should deter anyone that would be willing to pay full price. Don't make them easy or you are simply cannibalizing full price sales and giving away your profit.

3.3 Discounting To Generate Bigger Sales

Get customers to spend more by discounting only additional units they were not intending to purchase.

There are a few different ways to increase sales. You can sell to more customers. You can get those customers to purchase more frequently. You can also increase the size of each of those purchases.

But how? How do you get the customer that called looking for one dozen roses to purchase eighteen or twenty-four roses?

Some vendors (like the snack bar at the movie theater) use discounting – larger sizes are discounted significantly. Others, like the gas station, do not discount at all. What is right for flowers?

Again it starts with an understanding of your product and the value it offers the customer. The three key considerations are as follows:

Flowers Offer Diminishing Marginal Utility

“Utility” means the benefit a product provides, which in the case of flowers is “pleasure”. The reality (remember, the goal is to understand the value our product provides) is that twice the flowers do not provide twice the pleasure; 24 roses will not make the recipient twice as happy as 12.

Flowers Are Perishable

Like movie theater popcorn or ice cream cones (and unlike gasoline) flowers are perishable. This is an important consideration because it means they cannot be stockpiled or “saved for later” – a customer can’t take advantage of a volume discount at Valentines and save half the flowers for Mother’s Day. Also known as the “inventory effect”.

Flowers Are A Discretionary Indulgence, Not An Essential Staple

Unlike fuel or water flowers are, in most cases a discretionary purchase – the customer does not have to buy them.

When a product is discretionary and offers diminishing marginal utility, additional units are usually discounted to compensate, bringing the price in line with the value the customer places on the product.

The only concern is cannibalization – you don’t want to sell discounted additional product now if the customer can save and use it in the future instead of making another purchase at full price. Because flowers are perishable this is not a concern.

Together this means that flowers are a perfect candidate for volume discounts that motivate the customer to purchase additional product.

In Your Flower Business

Offering this kind of discounted upgrade is an excellent way to increase sales and profits. For example a customer that chooses one dozen roses at \$60 should be offered an extra six roses for \$15 more and an extra dozen for \$30 more. The customer that asks for a \$50 arrangement should also be offered one twice as big at \$75.

3.0 New/Bigger Sales At The Lower End

The profit margin on these incremental sales will be lower, but by discounting you will sell more of these upgrades.

It is important to present these upgrades in such a way that you do not cannibalize larger, higher margin sales. Imagine a customer calls and says they wish to order roses. You might reply with something like:

We have our signature 25 Rose Spectacular at \$125 and our premium dozen at \$60.

The 25 Rose Spectacular gives the customer a chance to spend more money and also introduces the anchor effect, making any subsequent smaller offer seem like a better deal. And it deliberately does not involve any kind of volume discount, in fact just the opposite. It is not designed to appeal to the buyer looking for the lowest per-rose price (we'll get them later with the upgrade). Instead it is designed to appeal to the customer looking for a spectacular presentation.

If the customer goes with the more expensive 25 Rose Spectacular... fantastic. If instead they go with the dozen we follow up with our discounted upgrade like this:

Great. We have a special right now – would you like to add 6 roses for an extra \$15 or an extra dozen for \$30? It's an extra dozen roses for just \$30 more.

This kind of value (100% more flowers for 50% more money) is very attractive to buyers. If \$60 for one dozen seemed like a good deal then two dozen at \$90 seems even better and some customers will upgrade just to "save" money and/or "average down" the cost of their flowers.

It only works if the discount is big enough to be meaningful. If you try and have it both ways, by trying to sell upgrades at a very small discount, you won't get many takers. Imagine you are the customer and ask yourself what kind of discount it would take you to radically change your intended purchase amount.

Sales Note

Upgrades should always be presented as a "special", in part because just the use of the word makes the offer more appealing but also so that customers don't call expecting the special. If they call wanting two dozen roses you want to sell them the higher margin 25 Rose Spectacular.

4.0 Accounting For Discounted Sales

A look at how to properly account for discounted (but still profitable) sales.

The key is to remember that these are additional incremental sales that only occurred because of the discount. Because we're assuming that your fixed costs (rent, insurance, etc.) are already covered by existing full price sales we only need to cover the variable cost (product and labor) on these items.

That means that overall sales will be higher, and overall profit higher as well. But because of the new lower margin sales your profit margin will be slightly lower.

Think of it like a pizza, with the size of the pizza representing overall sales and profit margin being one slice. Before you had a medium pizza with one slice representing about ten percent of it. You now have a larger pizza (because of the extra sales) and a narrower slice of profit (maybe 9% of the total)... but that slice is bigger than it was before.

Because of this departure from industry norms we need a way to break out discounted sales so as not to throw off overall percentages.

Lower Margin Products Get Their Own Sales Account

If you have products that intentionally have a lower profit margin for the purpose of generating incremental sales (like a value/discount line, or discounted six or twelve rose add-ons) they should be assigned to their own COGS account so they don't drag down the performance of your full margin floral categories.

Keep Track Of Discounts And Coupons

If you discount full price products make sure that you have a way of monitoring how much (and, if possible, why) you are discounting. This will allow you to "reconstruct" your full price sales and margins.

Use the Target COGS Generator™

The Target COGS Generator™ from Crockett Myers & Associates Inc. is a great tool for keeping track of your margins. Use one of the two fields at the bottom to keep track of discounted product.

5.0 Raising Prices To Increase Profits

Strategies to create bigger, more profitable sales at the higher end without alienating customers not willing to pay those prices.

In this business we can get so consumed with price sensitive customers who are considering the grocery store and other cheaper alternatives that we forget that there are customers willing to pay more.

Consider groceries before the rise of Whole Foods and the organic aisle. Nobody was walking around thinking "I wish there was a way I could spend a lot more money on groceries!" but, when given the chance in the form of organic/non-GM/free-range/local/sustainable (take your pick) options, people were suddenly willing to do just that. They happily chose to pay a much higher price for a slightly more expensive version of the same item.

Every year we spend billions of extra dollars on premium gasoline for cars that don't require it. But it's not just that we spend it, or that we spend it even though the manual says not to, but the dealer usually says DON'T DO IT! And some of us wink and say, yeah, sure, thanks, but I'd rather pay more. If they said don't use cheap oil we listen. When they say don't use expensive gas we don't. And course we don't even understand it. Who really understands octane numbers and their relationship to spark timing and detonation? Mechanics. And they don't buy premium. But some of us... we see premium and we're interested. We see a higher price and we're sold.

The goal is to offer slightly different versions of a product at very different prices – a relatively small increase in your cost with a much larger increase in your price (and profit). Instead of marking your costs up by say 3X, you're going to mark them up by 3.5X or more.

Different versions are typically defined by changes in attributes – a quality, characteristic, or property. This is very common with food, where subtle changes in attributes go alongside large changes in price.

In Your Flower Shop

The goal is to come up with attributes that can be attached to versions of products – attributes for which you can charge more.

An attribute can be as simple as a name: Premium, Platinum, Signature, etc. If you have a line of "Signature" products people will expect them to be more expensive, and customers willing to pay more will be attracted to them.

You can use other attributes for your fresh product – you could draw attention to the fact that it's local or, conversely, highlight that it comes from an exotic, faraway land. If there is some other attribute related to growing, sustainability, chemicals, etc... you can use that too.

The same thing applies to hard goods. Maybe they are locally sourced or made in USA – an attribute you can use to raise the price. Maybe they are made of recycled or biodegradable materials – again people will pay more for those attributes.

There are design attributes as well. Do you have an AIFD designer, Sylvia Cup competitor or local celebrity designer on staff? Their credentials become another salable attribute.

Even your services can have attributes. For example – timed delivery. Delivery confirmations. Look for differences in attributes that have a small impact on cost but allow for a relatively large change in price.

6.0 Accounting For Higher Prices

A look at how to properly account for higher margin sales.

No client gets fired or chastised for having higher than average margins!

That means that overall sales will be higher, and overall profit higher as well. But because of the new lower margin sales your profit margin will be slightly lower.

Again you have a bigger pizza (because of the higher priced sales), but this time you also get a bigger slice of profit (maybe 12% of the total). More margin on bigger sales... there is only good news here.

Because we are once again departing from industry norms it is best to break out higher margin sales so as not to throw off overall percentages.

Higher Margin Products Get Their Own Sales Account

Higher margin product lines should be assigned their own COGS account so they can be analyzed on their own, and without artificially pulling up the performance of your standard margin floral categories.

Use the Target COGS Generator™

The Target COGS Generator™ from Crockett Myers & Associates Inc. is a great tool for keeping track of your margins. Use the second field at the bottom (the other is used for discounted sales) to keep track of higher margin product.

7.0 The Cost-Plus Model Revisited

A look at the overall effect of both lower and higher margin sales on cost-plus reporting and overall profitability.

When you put it all back together the percentages look much like they did when we started. We have some lower margin discounted sales reducing profit margins, some higher margin sales pulling them back up, and a lot of traditional margin sales in between.

The slices on our pizza look just like they did when we started, but you now have a party size pizza.

Notes

What Techniques Will I Use To Selectively Discount In My Shop?

What Demographic Discounts Can I Employ To Create New Customers?

- AAA Members
- First Responders
- Military
- Students
- Seniors

In each case the majority of the target group should be less affluent than your current customer base. You want to add new customers not discount sales to existing customers.

What Hurdles Can I Employ To Create New Customers?

- Advance Orders
- Bad Weather
- Container Refill
- Coupons
- Pick-Up
- Food Drive/Community Effort
- Friday Office Delivery

How Will I Define/Present Higher Margin Product Versions In My Shop?

Appeal To Status

- Diamond Line
- Platinum
- Premium
- Prestige
- Signature

Appeal To Cause

- Eco-Friendly
- Fair Trade
- Green
- Local
- Sustainable

What Attributes Can I Use To Differentiate My Higher Margin Versions?

- Accredited/Award-Winning/Celebrity Designer
- Container
- Materials

Other Resources

Resources to help florists be more profitable from a pricing and accounting/financial management point of view.

Crockett Myers & Associates Inc.

Crockett Myers & Associates Inc. help florists across the county make more money, pay less taxes, keep long term financial plans on track and help them feel in better control of their business and expenses. They strengthen florist financial literacy so they feel empowered by the numbers on their financial statements and not discouraged by them. CMA helps florists of all sizes plan and execute professional and personal milestones. They care about the floral community and are active participants in and supporters of the Society of American Florists and several state floral associations.

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Beyond Cost Plus

Sophisticated pricing strategies surround us. These strategies, developed by the biggest and most successful companies in conjunction with the smartest and most respected researchers, consultants and academics, are incredibly effective at driving sales and increasing profit.

Beyond Cost Plus exists to help small businesses in general (and retail florists in particular) understand and take advantage of these same pricing principles to increase sales and profits.

beyondcostplus.com

About The Speakers

Derrick Myers CPA, CFP, PFCI

In 1989 joined forces with Norris (Dave) Crockett and Crockett, Myers & Associates was born. Derrick pioneered a comprehensive software & accounting system for florists, Floral Accounting. Over the years CMA has expanded their services to include Accounting Services (including software support), Tax Planning and Preparation, Management Advisory Services, IRS Representation and Financial Planning. In addition to being a Certified Public Accountant and Certified Financial Planner Derrick is a member of Professional Floral Communicators International and generously provides valuable educational content at industry conventions all over North America.

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Mark Anderson

A floral industry veteran of almost thirty years Mark started with a national floral franchisor, then spent a decade with a multi-unit family store before creating the FloristWare POS system for retail florists. He is also deeply committed to the retail floral industry. FloristWare is a member of many industry associations including SAF, AIFD, MFA, FSFA, WUMFA (among others), and also supports many industry events and sponsors educational content at trade shows and conventions in order to help florists be more successful.

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