NURTURING YOUR DEPARTMENT'S FINANCIAL ROOTS

Follow this guide to profitability, and your floral business will reach new heights.

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Yes, it's easy to do. We get so busy sawing down the tree that we forget to stop and sharpen the saw. With so much work and focus required to keep shelves stocked and product in the hands of our customers, the financial roots of the business can easily become necrotic and undependable. It starts with the tree slightly leaning, and if left unchecked, once-flourishing profits can fall like a large California redwood thundering to the ground. The sound is deafening.

The financial wellness of a floral business requires a sharp saw, a precise approach and the strength of a lumberjack. As they say, "No lumberjack ever talked down a tree," so let's roll up our plaid shirt sleeves and chop away!

1. sales

There's nothing more important than sales dollars. The foundation of all financials is based on sales dollars, and a weak sales trajectory will make it very difficult for the rest of the financial lines to thrive.

As a result, 90 percent of the actions around the management of financials should be centered on driving sales. As daily decisions are being made, always ask, "How will this drive sales above and beyond the sales we already have?" Although there's a time to worry about 2-cents-less cost on a sleeve and 5-cents-less cost on a bouquet, top-line sales likely will suffer if those decisions, alone, become the first line of defense.

THE TRUNK: Think of sales as the trunk of the tree, tall and strong. Your financials can't live without it.

2. gross margin

Gross margin is the money that's left over to pay the bills after product is sold. Here's where we go back to sales being the king of all financials! Without sales growth, there is very little potential for gross margin growth, either. Without a strong gross margin, it will be difficult to pay the other bills of running a floral department, such as labor, insurance, delivery service, wrap supplies, helium and so on.

Gross margin is the determining factor between running a profitable business and running a bankrupt one. How is gross margin calculated? **Sales** minus **cost of sales** equals **gross margin**.

THE BRANCHES: Think of gross margin as the branches of the tree, extending far out from the trunk to position its leaves in perfect light.

3. cost of sales

Referred to as "cost of sales," "cost of goods sold" or COGS, this financial line is easy to calculate but intricate to manage. It contains the "devil in the details," where one wrong move can cause substantial financial loss. Here's the formula to calculate cost of sales: **(A) beginning inventory at cost** plus **(B) cost of merchandise purchased** minus **(C) cost of merchandise in ending inventory** equals **cost of sales**.

Here are definitions of those components:

A. Beginning inventory at cost: This is the total inventory dollars counted at the previous inventory. Once posted, it becomes the "beginning inventory" for the following period because what was counted in the previous period is the same number that will begin the process for the next inventory. It's your starting point.

B. Cost of merchandise purchased: Now that we have the inventory dollars brought in from the last inventory count (the "beginning inventory"), the next step is to determine how many more dollars were purchased this period in addition to the inventory that was brought in. Add them together—(A) beginning inventory at cost plus (B) cost of merchandise purchased—to figure out how much product volume in total should be accounted for.

C. Cost of merchandise in ending inventory: This is the inventory dollars counted at the end of the current period, and it's the final number needed in the cost of sales calculation.

THE LEAVES: Think of cost of sales as the leaves of the tree. It isn't the tree trunk (sales), and it isn't the branches (gross margin), but cost of sales works as the leaves of a tree, providing food and nutrients to the system at large.

Now we have everything we need to calculate gross margin for a given period: **sales** minus **cost of sales** equals **gross margin**. Once gross margin is calculated, then we know what the available funds are to cover the "operational bills" of the department such as payroll, insurance, supplies/wraps, delivery costs, wire fees, membership fees and such.

If there are not enough gross margin dollars left to pay operational expenses, then the department is in an unprofitable state. If there are enough gross margin dollars to pay all "operational bills," then the department is deemed profitable. The amount of gross margin dollars remaining after "operational bills" are paid is called "net profit," which is reported as a percentage of sales and also as a dollar amount.

4. shrink

So what about shrink—where does that fit in? Shrink simply means a loss of inventory and is calculated as a percentage of sales. Here's how to calculate shrink: **Lost inventory dollars for the period** divided by **sales dollars for the same period** equals **shrink**.

Following are some important tips to sharpen the saw in your shrink management:

- Floral shrink percent should never be compared to shrink in other departments. The business model in floral is quite different from the nonperishable, higher-volume departments. However, shrink averages and other financial components in the floral department are normally similar to other specialty departments such as deli, bakery and seafood.
- There are two kinds of shrink:

1. Necessary shrink: These are losses that are required to rotate product and keep it fresh for the customer. When a floral or plant product is dead, it should be thrown away. When a product is outdated, it should be thrown away. This type of shrink is "necessary" in order to provide customers with the best experience and the freshest product.

2. Unnecessary shrink: These are losses caused by over-ordering, poor product maintenance, poor pricing disciplines, theft and even incorrect inventory counts. This is the shrink that must be trained, monitored and reduced, and should not be confused with the "necessary shrink" needed to maintain fresh floral departments and satisfied customers.

Shrink is one factor of a successful financial operation, but it never replaces the importance of sales growth. In fact, an over-emphasis on shrink alone can cause inexperienced floral managers to "quit ordering so much," instead of looking at the many other unnecessary shrink factors that could be happening in their departments.

Sales and shrink work in tandem. Think of this as rowing a boat, where rowing the left oar represents sales and rowing the right oar represents shrink. What happens to the boat if we row stronger on the shrink oar than we row on the sales oar? The boat will go around in circles. Even and steady rowing on both sides will get the boat to its final destination.

THE INSECTS: Think of shrink as the insects of the tree. There are good insects and there are bad insects. The key is first defining them and then taking proper action on the bad ones.

5. pricing and markup

Pricing (or markup) is the difference between the product cost and the price for which the product is sold to the customer. The formula to calculate markup is **retail** minus **cost** divided by **retail**.

As an example, if a bouquet is purchased for $4 and it's sold for $10, then your markup would be calculated as such: $10 minus $4 divided by $10 equals 60 percent markup. Most floral operations set a goal of 50 percent to 75 percent markup depending on the category. Promotional items are on the lower end of markup while balloons and hard goods are generally on the higher end.

6. labor and upcharge fees

Labor and upcharge fees are applied for custom services above and beyond the retail price of the basic product. These labor/upcharge services include store-made arrangements, weddings, gift baskets, balloon art and other product enhancements. The additional labor fees for these services vary depending on the retail channel and demographic location, but upcharge fees generally range from 20 percent to 25 percent in additional labor fees for nonwedding work and 30 percent to 45 percent in additional labor fees for wedding and event work.

THE FLOWERS: Think of pricing and upcharge fees as the flowers on the tree. If managed well, they provide a value-added to the overall financial result and also provide customers with specialized pieces that separate one retail floral establishment from any other.

At the end of the day, the numbers don't lie, and the measure of your business' success is dependent upon the frequency of the sharpened saw. Train those around you to embrace the financial model you have created for your departments, and continue to cultivate each component of its success. After all, we're each part of the same root system, growing in many directions but remaining as one. **sf**

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