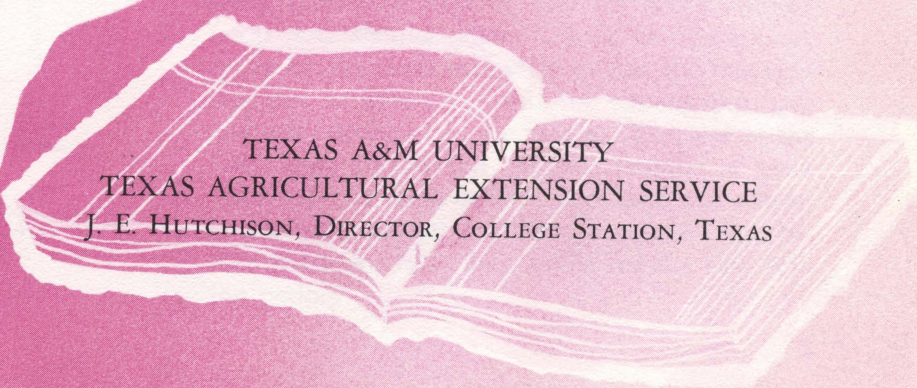




# *Management Practices*

for retail florists



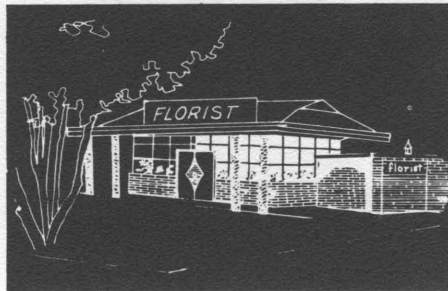
TEXAS A&M UNIVERSITY  
TEXAS AGRICULTURAL EXTENSION SERVICE  
J. E. HUTCHISON, DIRECTOR, COLLEGE STATION, TEXAS



A. F. DeWERTH, H. B. SORENSEN, A. B. WOOTEN

*Respectively, professor, Department of Soil and Crop Sciences, associate professor, Department of Agricultural Economics and Sociology and economist, Texas Agricultural Extension Service, Texas A&M University.*

# Management Practices for Retail Florists



The successful operation of a florist business depends upon competent management, adequate capital and competitive prices of its products and services. Inexperience or incompetence of management is the principal cause of business failure. This weakness is reflected often in below-average sales, overinvestment in fixed assets, improper handling of purchases and other phases of the business operations.

# Management Principles

## ORGANIZATION OF THE BUSINESS

Organization is planned control of the business. It consists of breaking up the job of operating the business into its parts. A manager must be able to make successful plans for the time, method and responsibility for getting each job accomplished.

## PERSONNEL MANAGEMENT

A successful store manager trains his employees to accept detailed responsibilities so that he can devote a major portion of his time to larger aspects of building and improving his business. He organizes his business so that each employee knows his duties and performs them with little detailed supervision.

It is the responsibility of good management to build employee interest and knowledge of the business. This can be achieved several ways.

- Employees may become interested in cooperating with other employees because they are interested in what the group is doing.

- Some managers encourage interest by their employees in the progress of the business by confiding in them on:

- How the business is developing.
- Plans for getting new business.
- Problems that lie ahead.
- New improvements being planned.



- Inviting suggestions from all employees on possible improvements can be rewarding.

The manager should begin training employees the moment they are hired. Each employee in a retail flower shop requires a knowledge of at least the following:

- His duties and place within the organization.
- Policies of the store.
- The quality and characteristics of the flowers and other goods and services handled in the shop.
- How to deal with people in a pleasant way.
- The correct procedure for all transactions and how to record those transactions properly.
- Routine work of the shop.

## RECORD KEEPING

A complete set of records is one of the most useful tools in the retail florist business. The Department of Internal Revenue insists on a record of all financial transactions, income and expenditures. But more important to the manager are records with enough detail that a periodic analysis can point up the weak and strong parts of the business.

Records are kept on an annual basis. However, the year does not have to be from January through December, but may be for any 12 month period (called a "fiscal year").

The major consideration in selecting a fiscal year is the seasonal pattern of the business. Total sales, purchases, expense and net profit for the fiscal year should reflect one or more complete cycles of purchases and sales so that the information can be used as a basis for making purchase and sales decisions in the future. The end of the fiscal year should fall between periods of peak sales, after inventories have been sold and almost all customer adjustments have been made but before purchases have been made for the new selling period.



There are two general methods of keeping records:

- **THE CASH SYSTEM**

This system records cash receipts classified according to source and cash expenditures according to purpose. Transactions are recorded only when cash is received or expended. For example, property taxes owed at the end of the fiscal year but not paid cannot be deducted as an expense.

- **THE ACCRUAL SYSTEM**

This system records *all* transactions regardless of whether cash is involved. Transactions are classified in the same way as in a cash system except that the transactions are recorded at the time they take place. For example, property taxes owed at the end of the fiscal year, but not paid, are a deductible expense.

A good management practice would be to consult a qualified accountant for advice in selecting the particular accounting method and choosing a fiscal year for the business.

## Buying

### BUYING TO SELL PROFITABLY

The retail florist needs to have special knowledge about the plants and flowers he handles. He should know the best methods of handling cut-flower stock, flowering pot plants and foliage plants. He also needs to know customer preferences. He should know, for example, whether they change their buying choices slowly or frequently.

The buyer in a flower shop should know reliable sources of supply, proper methods of handling the products, how they are sold, current

### STOCK RECORDS

Adequate stock records are not difficult to keep and they provide useful information for intelligent purchasing and planning in a retail florist shop. Basically, stock records provide information about the quantity and kind of flowers, plants and other products sold during a given period.

From this the following information can be obtained:

- Kinds of flowers, plants and accessories which sell best during each season.
- Rate of turnover for each kind of flower and plant.
- Whether too many of a given flower or plant were purchased, resulting in excessive spoilage; or too little, resulting in lost sales.
- Grades that account for most sales.

The simplest system of stock recording consists of keeping a card or sheet for each type of flower or plant showing the following information:

NAME	QUANTITY	STYLE
Size or grade	Date delivered	Material
Date purchased	Selling price	Complaints
Cost price	Markdowns	Suggestions
Profit or loss	Color	

All records should be easy to use. They can be on cards, sheets, ruled binders, books or in mechanical trays or drawers. Systems used in conjunction with cash registers are particularly effective as buying aids.

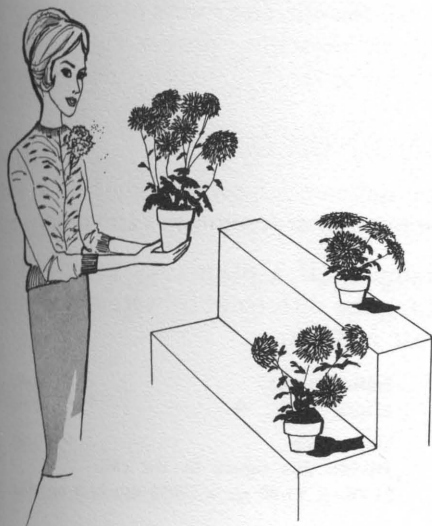
prices, terms and discounts and other information that affects the market and competition.

The buyers' knowledge of his business should include the following:

- Working capital and available credit.
- Buying policies based upon past experience.
- What to do in case of emergency shortages.
- Estimated volume of business during the period for which he is buying.

He should also know:





- The quantities of individual flowers, plants and supplies on hand.
- Goods ordered but not delivered.
- Past sales for the corresponding period.

#### HOW MUCH TO BUY

The quantity to buy is almost directly proportional to the rate of turnover. The greatest increase in profits can be expected when turnover is rapid; at least once a week in the average retail shop.

The buyer who can take cash discounts is the one to whom real bargains will be offered. A retail florist with a strong cash position and ample bank credit can get the best stock from a buyers' market.

#### WHAT TO BUY

The most critical job of buying is to decide what to sell. The most profitable items are not always the cheapest or easiest to get, nor the kind

the florist likes best; rather *they are the ones the customer wants*. Buy stock on quality, past performance and consumer demands.

Be aware of inquiries from customers for items not in stock; this will serve as a guide for new items to try out in the future.

#### WHERE TO BUY

A retail store buys *more than just merchandise* from the wholesaler. It also buys service. Too much attention is often given to price, which may prove disastrous. Try to obtain not only the lowest price and the most favorable terms but also adequate service consistent with satisfactory quality.

In most cases purchases should be confined to a few firms. Regular customers often are rewarded with preferred treatment when stock is scarce, extension of credit or accumulative quantity discounts.

Wholesalers are a good source for technical information. Consult them regularly.

#### FOUR RULES FOR BUYING

- Make purchases frequently to avoid shortages, to have fresh stock and to get maximum stock turnover.
- When the demand for a given type of merchandise is falling, purchase smaller quantities to avoid shrinkage, markdown and capital tie-up in inventories.
- When prices are rising, do not speculate but buy to protect your competitive position.
- Buy the proper kind of merchandise for your business; stock record cards are useful guides.

## Pricing

#### MEANING OF TERMS

To understand proper pricing it is necessary to understand the exact meaning of certain terms:

#### • SELLING PRICE

Price for which goods are sold. The prices should be high enough to include the cost of merchandise, all operating expenses and desired earnings of the business.



• OPERATING EXPENSES

Amounts paid out, or liabilities incurred, for any and all expenses which occur in operating the business. However, this does *not* include the cost of merchandise. The following expenses generally are included as operating expenses:

- Managers' compensation
- Employees' wages
- Occupancy expense or rent
- Bad debt losses
- Supplies
- Commissions on incoming Florist
- Telegram Delivery orders
- Telephone and telegraph
- Postage and office expense
- Delivery expense
- Depreciation on fixtures and equipment
- Professional services
- Maintenance of store equipment
- Interest on investment taxes

• COST OF MERCHANDISE

*Total cost* of getting the goods into the store. In the case of a retail florist, it includes the wholesaler's price less any discount, plus the transportation cost when paid by the retailer. In the case of a retail grower, it includes all the production costs involved in getting the plants and flowers ready to sell.

• MARKUP

Difference between selling price and the cost of the merchandise is a percentage of either the cost of the merchandise or the selling price.

There are two different ways of expressing markup on cost or selling price. The two methods are *not* to be used interchangeably.

• MARKUP ON COST

The difference between selling price and cost is expressed as a percentage of the cost.

Example: If a plant costs \$1.00 and is sold for \$2.00, the difference between the selling price and cost is \$1.00.

Selling price	\$2.00
Minus cost	1.00
<b>Difference</b>	<b>1.00</b>
Divide this figure by the cost:	
$\$1.00 \div \$1.00 =$ a 100% markup on cost	

• MARKUP ON SELLING PRICE

This is where the difference between selling price and cost is expressed as a percentage of the selling price.

Using the preceding example:

Divide the difference between the selling price and the cost by the selling price:

$$\$1.00 \div \$2.00 = \text{a 50 percent markup on selling price.}$$

As a further illustration, suppose the selling price for a plant that cost \$1.00 was set at \$3.00. The difference between cost and selling price would be:

$$\$3.00 - \$1.00 = \$2.00$$

Divide this figure by the selling price:

$$\$2.00 \div \$3.00 = \text{a 66 } \frac{2}{3} \text{ percent markup on selling price.}$$

**HOW TO DETERMINE A SELLING PRICE**

The use of a percentage figure as a markup on cost is a convenient way of computing the sales price on any given purchases. However, it should be revised constantly in view of circumstances, such as an especially low wholesale price or changes in the method of merchandising, such as cash and carry.

A convenient way to use markup on cost percentages as a base from which to estimate selling price is to divide the merchandise you handle into different groups according to characteristics such as perishability, average rate of turnover and cost of storage.

Each of these characteristics affects the cost of handling the particular class of merchandise.

An item such as roses, which are highly perishable, should have a higher markup than chrysanthemums, which have a lower rate of perishability. Merchandise that has slow turnover ties up working capital for longer periods of time, consequently justifying a higher markup. Merchandise that requires special storage facilities, such as refrigeration, should carry a higher markup.

A set of classes consistent with the above characteristics which could be used in most florist shops are:

- Cut flowers
- Potted plants
- Gifts and accessories

A standard base markup on cost should be established for each of these three classes to be used in estimating the selling price. From this base the selling price could be increased or decreased to take advantage of special circumstances.

Once each year, perhaps at the end of the fiscal year, the owner should evaluate the markups to see whether the average for each class is being adhered to and whether any should be changed.

#### HOW TO DETERMINE PRESENT MARKUP ON COST

- Divide total annual sales into the three groups.
- Divide total annual costs of merchandise into the same three groups (include all charges required to get the merchandise into your store).
- Subtract costs from sales to get the difference for each group.
- To get average markup on cost divide the difference by the cost.

Adequate working capital is of major importance in operating a retail florist business. The most important aspect of financial management is stock turnover. Working capital tied up in idle stock costs the business dollars. It may mean that discounts for prompt payment on purchases cannot be taken or that regular monthly expenses have to be postponed.

<i>Example:</i>	CUT FLOWERS	POTTED PLANTS	GIFTS AND ACCESSORIES
a. Sales	\$8,000	\$5,000	\$4,000
b. Less cost of purchases	3,000	3,000	2,000
c. Difference	5,000	2,000	2,000
d. Markup on cost (c ÷ b)	167%	67%	100%

#### PRICING FLORAL ARRANGEMENTS

Any sale which involves more than just loose flowers requires special attention to the price charged. Time spent in the workroom on design and arrangement should be considered in the cost. The cost of any item which includes more than just loose flowers should be computed by adding:

- The wholesale value of the flowers.
- The wholesale value of supplies used.
- An approximate hourly charge for the time required in the workroom.
- The standard markup added to this total cost.

#### MARKDOWNS

A markdown is a reduction from the original selling price of an item. It is used to clear inventories of merchandise that is not selling at the original price and release the working capital for more profitable uses. Any merchandise that does not sell within a reasonable time at a price including the regular markup is a buying mistake. Marking down an item is merely recognizing the mistake made at the time of purchase. If the item is perishable, the spoilage cost will far exceed the gain by keeping the price up. If the item is nonperishable, it ties up valuable working capital in inventories which are earning nothing.

## *Financial Considerations*

#### BANK CREDIT

Most businesses find it necessary to borrow money during periods of heavy expense or low income or to acquire financing for a program of expansion. It often is necessary to borrow to take advantage of purchase discounts. The local bank is an excellent credit source. It is cheaper to borrow money from a bank at 6 to 7 percent





interest a year than from your wholesaler at 24 percent a year. This is what happens when the business does not take advantage of a 2 percent discount offered for payment within 10 days. The practice of taking discounts creates a good credit rating which is a valuable asset for any business.

#### **PAYING ACCOUNTS PROMPTLY**

Never expect wholesalers to finance the business. When invoices run past the due date the wholesaler is forced to act as the banker. That is not his business. Some wholesalers charge in-

terest on past-due accounts. When this happens the business loses in two ways; by not being able to take the purchase discount and by paying a high rate of interest. In an emergency if the business is forced to rely on the wholesaler for short term credit, make detailed arrangements with him. Most suppliers not only are interested in keeping their customers, but keeping solvent customers.

#### **CUSTOMER CREDIT**

Credit is extended to customers by most retail florists. This service can become costly if bills are not collected when due. To protect the business against too many bad debts, an effective credit policy should be established.

- Be sure that the customer is a good risk for the amount of credit extended to him. Check his credit rating with the local retail credit association.
- Watch collections carefully and do not let accounts become old.
- Send statements promptly each month and always request payment of an overdue account.
- A courteous suggestion that an overdue account was overlooked will not offend a customer who plans to pay.

## *Advertising Principles*

The primary purpose of advertising is to sell goods and services. There are three basic principles of advertising that will deliver results if properly followed.

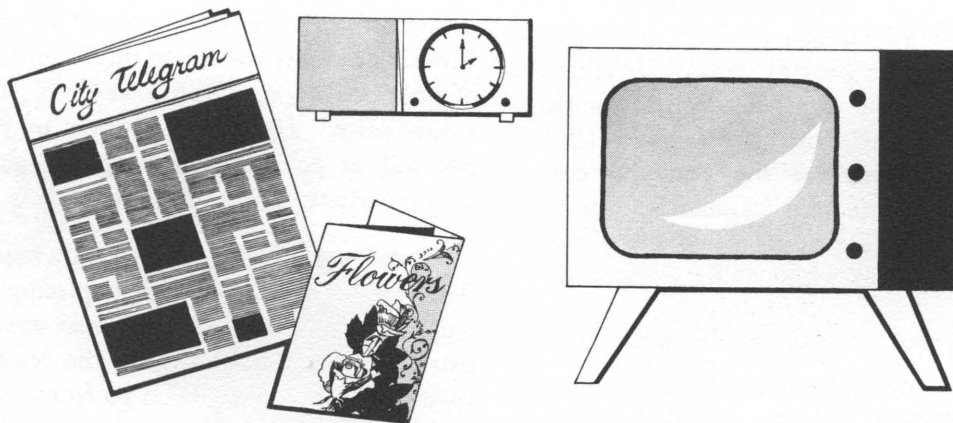
- *Good advertising* aims to inform the customer and help him buy more intelligently.
- *Good advertising* tells the truth, avoiding misstatement of facts as well as possible deception through omission or implication. It makes no claims which cannot be met in full.
- *Good advertising* conforms to the generally accepted standards of good taste. It seeks consumer acceptance on the basis of the merits of the product or service rather than belittling competition.

#### **ADVERTISING**

Four basic steps to a good advertising program have been developed from the experiences of hundreds of successful advertisers:

- Get all the facts. Know all about the plants, flowers or services to be sold. Find out as much as possible about the prospective consumers, and the media that most likely will succeed for the specific situation—newspapers, direct mail, radio, television or other means.
- The retail florist should set up a valid and adequate objective for each advertisement and for his total advertising program. The best reasons for an advertisement are derived from customers or prospective customers' wants, likes or dislikes. This information is rapidly becoming more wide-





ly known and understood through recent market research on consumer preferences for flowers, plants and florist services.

- When the objective of the advertising program is established, the individual advertisement and the general program should give all information to support this objective or purpose through copy, illustrations and layout. Give clear details that may be vital to the message, but do not include a large quantity of minor details and technical information which will be meaningless to the potential customer.

- Appeal to the self-interest of readers or listeners. Any boasting, unsupported claims and vacant generalities create an embarrassing impression of a shop talking to itself in public. Present the story from the potential buyers' point of view. *Show him what is in it for him.*

**ADVERTISING COSTS**

How much to spend on advertising is determined by the florist and the size of his business.

Flower shops located in out-of-the-way places have to spend more for institutional advertising to create customer traffic than shops located on busy streets or in shopping centers.

Experienced retail florists usually determine advertising costs as a percentage of expected sales. In general, the longer the shop has been in business, the smaller the percentage that may be re-

quired for advertising. This, of course, is a result of the cumulative effect of good advertising.

A practical method of determining the amount to be spent on advertising in a retail flower shop that has never operated with an advertising budget is to set aside 3 to 5 percent of the expected annual sales.

**ADVERTISING MEDIA**

- **NEWSPAPERS**

The effective life of a newspaper ad is brief, usually only a day or two. Therefore, the manager of a retail shop should do most of his advertising when the prospective purchaser is likely to react quickly.

Timeliness perhaps is the chief characteristic of newspaper advertising, but the advertising must be persistent to be effective.

- **DIRECT MAIL**

This type of advertising has the advantage of pinpointing a message to a specific group who are interested in the products or services for sale. The best way to build a mailing list is by recording on 3" x 5" file cards the names of customers and visitors to the store.

Mailing pieces should always be timely, well written and preferably illustrated in color. This type of mailing piece is expensive unless it is bought from a printing or advertising firm which makes up stock items.



## *Your County* **EXTENSION AGENTS**

• can furnish you the latest information on farming, ranching and homemaking. They represent both Texas A&M University and the United States Department of Agriculture in your county. •

• Most county extension agents have their offices in the county courthouse or agriculture building. They welcome your visits, calls or letters for assistance. •

• This publication is one of many prepared by the Texas Agricultural Extension Service to present up-to-date, authoritative information, based on results of research. Extension publications are available from your local agents or from the Agricultural Information Office, College Station, Texas. •

