Profitability Paradox: Custom vs. Recipe Work

BY PAUL GOODMAN, CPA, PFCI

Q: “CAN A FLOWER SHOP DOING 100 PERCENT CUSTOM DESIGN WORK BE PROFITABLE?”

> Absolutely! It’s a matter of numbers and control.

First, let’s look at the numbers. If you want to make a profit as a retail florist, you must control three basic things: facility expenses, Cost of Goods Sold (COGS) for arrangements and payroll expenses. Facility expenses (rent, utilities, insurance, repairs and maintenance) need to stay below 10 percent of sales. This shouldn’t be a problem given that the industry average is about 8.5 percent.

COGS and payroll expenses are where the problems lie — too many flowers put into arrangements and low productivity from designers. Starting with COGS and a typical pricing formula, the “Most Common Formula” table shows that COGS comes in at 26.5 percent of the retail price.

A 26.5 percent COGS number on arrangements is very good. In fact, it’s so good that very few florists actually hit it. Why? Because, although most florists “say” they use that formula, very few actually control the design process close enough to achieve it. In other words, designers put in more flowers than the formula allows. They stuff arrangements.

Assuming you control payroll properly to 30 percent of sales and manage COGS to meet the formula, your shop will absolutely be profitable. In fact, it will easily hit 10 percent on the bottom line. But there are two other factors to ask when setting your pricing formula: How productive will my designers be and how much do I need to pay those designers? Here is where the 100-percent custom shop will have higher expenses than a recipe shop. They must attract and pay designers capable of producing the kind of product that higher-end customers demand, which normally means a higher hourly rate. In addition, the retail value of the work done per hour will usually be lower than a production shop. These two factors mean a higher labor cost.

To offset the higher labor cost, the 100-percent custom florist could opt for a pricing formula with a lower COGS, such as in the “Lowest COGS Formula” table. It allocates more for labor — 25 percent — than the “Most Common Formula” and less for COGS — 25 percent. However, once again, this formula is only as good as the controls that are in place. If all stems are counted and no extra flowers are placed into arrangements, then this formula should help offset the higher labor costs associated with purely custom work.

Pick your formula and stick to it with proper design room controls that require counting stems for every arrangement. Staff at a level that keeps your design room humming (see More Online, p. 6) and you should reap profitability as your reward. With proper controls, including counting stems, your bottom line should shine.
Q: “IS IT MORE PROFITABLE TO DO CUSTOM DESIGNS OR RECIPE ARRANGEMENTS?”

Generally speaking, it is more profitable to do recipe arrangements than custom designs for two reasons. Recipe arrangements can almost always be completed more quickly than custom designs because the designer doesn’t need to take the time to be creative. By following recipes, you can make multiple copies of a design much faster than you can make multiple custom arrangements. In addition, you don’t need as skilled a designer to do recipe work, compared to custom designs and consequently shouldn’t have to spend as much for your design talent. (Even though custom shops can choose to charge more for their work, they most likely will produce fewer arrangements in the same amount of time than a recipe shop will. If so, a custom shop won’t come out ahead.)

Even if your shop is smaller and you don’t have separate designers for custom versus recipe work, your designer will still put out more product in less time doing recipe work. Consequently, recipe designing should yield a better bottom line. However, that is not always the case.

Remember, the two most important cost factors to control are COGS and payroll. Assuming the recipes were set up correctly in the first place (you followed the pricing formula when creating the recipe), then controlling COGS is easier with recipe designs. There is no room for stuffing as long as the recipes are followed. So the main way recipe shops could lose money is if they don’t control payroll properly. If you have too many designers for a given amount of work, your payroll will cut into your bottom line. The recipe shop has to manage payroll just as much as the custom shop does.

The “Recipe Formula” table shows how you could profitably give customers fuller arrangements. Theoretically, a shop that is doing a lot of recipe arrangements should have a lower payroll than a custom shop. They are more productive and generally have lower hourly labor rates. So the recipe shop could turn this cost advantage into a pricing advantage by purposefully giving the customer more flowers. Change from a 3.5x markup on flowers and foliage to a 3x markup.

This change will raise your COGS number for arrangements to 29.5 percent. But anything below 33 percent is acceptable. The recipe shop can give their customers 17 percent to 21 percent more flowers and foliage than under the other two pricing formulas for the same amount of money spent, presumably attracting more customers.

The bottom line is that both types of shops can be profitable if they control costs appropriately. Serve the customer base you have with the products they desire, control your costs and profitability will follow. ☛

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