Editors’ Note: Paul Goodman, CPA, PFCI, and Derrick Myers, CPA, CFP, love a good financial management challenge, however big or small. Send your questions to fmeditor@safnow.org, and we’ll challenge the experts to tackle them in an upcoming article.

Minimize Shrink

By Paul Goodman, CPA, PFCI
Q: We let our employees take some flowers home at the end of the week, to enjoy in their homes – flowers we would not have used anyway. Is this OK?

> It’s only OK if they pay for them; otherwise, you are contributing to your shrink percentage. Shrink is defined as perishable product that dies or leaves the shop (whether to the dumpster or out the door) without being paid for by the customer. When you or your employees take flowers home without paying for them, it’s essentially theft.

The most effective way to stop this kind of theft is to have the following policies:

- Everyone, including owners, has to pay for the flowers and greens they take.
- Give a generous discount, such as 50 percent. You don’t need to make money on these sales.
- No one rings up his or her own purchases — even the owners.

Q: Is giving away flowers, or making an arrangement for a first-time customer extra special, a good way to advertise?

Giving away flowers — for a charity event or, say, dropping an arrangement off at a salon to display — can be a good way to advertise, but when you do it, be sure to ring it up as a sale that is expensed by the customer. When you or your employees take flowers home without paying for them, it’s essentially theft.

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Q: We’re vigilant about using recipes and double-checking designs, but my gut sense is that we’re throwing too many flowers away each week. How do I know for sure?

An absolute do-not-exceed target for shrink should be 10 percent, but a shop that practices good flower processing will get it down to 5 percent and lower. In order to know how much shrink you have, you must keep dump sheets. Write down every item that is thrown away; include the number of stems and the retail price. At the end of each month, total all the fresh product thrown away and use your pricing formulas in reverse to see how much the cost was. Check that against what you bought for the month to see how well you are controlling your shrink.

If it’s near or above that 10 percent target, it’s time to take action. Flowers and greens get thrown away in three areas: the receiving cooler, the sales cooler, and the design room. Let’s look at each one:

The receiving cooler: Flowers age out here for one of three reasons. You bought too much in the first place. Flowers weren’t rotated properly (newest flowers were used first). Buckets were dirty and care and handling procedures were not followed properly. The solution here is fairly simple. Don’t overbuy product. Make sure you have a rotation system whereby older product is used first. And always follow good chain-of-life procedures.

The sales cooler: Arrangements aren’t sold quickly enough. This also should rarely happen. First, the sales staff should know and sell what’s in the cooler. A good salesperson can listen to the needs of the customer and lead them toward one of the premade arrangements in the cooler. You also have incoming wire orders that often can be filled out of the sales cooler. In fact, most sales made to customers that come into the shop should be made out of the sales cooler, which should be stocked with a good variety of items at all times.

The design room: Throwing away flowers in the design room is understandable. Breaking flowers is a part of the design process. Save some flowers for use in other types of arrangements, but some will inevitably be thrown away. I call that “legitimate shrink.” And it’s OK to have legitimate shrink.

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