An Oregon florist looks for the answer to improved profitability through performance-based pay across departments.

BY MARY WESTBROOK

PHOTOS BY MICHAEL SCHMITT
Somewhere around 2013, Keith Hill of Beaverton Florists in Beaverton, Ore., came to terms with an unsettling truth. Five years into the recession — and with most signs pointing to a recovery nationally and locally — his business wasn’t turning a profit, and he wasn’t on a path to change direction soon. In fact, according to his calculations, from October 2008 to September 2013 he’d suffered more than $150,000 in net losses.

Keith, along with his wife, Sheri, and son, Andy, had known the situation was bleak, but they hadn’t realized exactly how bad things were. “We knew then that if we didn’t make changes, we wouldn’t be around for much longer,” Keith explained. “We did some serious soul-searching.”

The obvious question, of course: What kind of changes? How could they return the shop to profitability, particularly at a time when new challenges from inside and outside the industry seemed to crop up daily? The solution they eventually implemented (after a lot of planning, hard work, and their fair share of mistakes and missteps) has changed how the shop operates, reducing costs while increasing productivity and, most important, improving profitability. In fact, Beaverton ended 2014 $142,000 in the black, a big turnaround from the shop’s $10,000 loss in 2013, and one that Keith credits to a critical change: performance-based pay for sales, delivery and design departments.

‘Hidden’ Costs Revealed

For the Hills, changing their business started with an in-depth look at their financial statements — one that went beyond the routine reviews they’d always engaged in to track and project sales and order product. Inspired in part by Manny Gonzales of Tiger Lily Florist in Charleston, S.C., who had recently implemented performance-based pay with successful results (see Go Deeper, p. 30), Keith and Andy were on the hunt to find hidden costs and potential ways to make the business more productive, efficient and profitable. While Gonzales’ plan emphasized Tiger Lily’s wedding department, the Hills began to wonder about expanding...
In late 2013, the Hill family set out to create a performance-based pay plan that would work for Beaverton Florists. While the principle of the plan was consistent company-wide, they came up with specific solutions (and saw specific results) for each department (design, delivery and sales.)
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The same idea, with adjustments, to their own more traditional shop.

“The whole idea came from our talks with Manny,” Andy said, “but we knew we’d have to tailor his framework” to Beaverton Florists.

Once they started their review, it didn’t take long to tease out one major roadblock to improved profitability. Experts such as Floral Management contributors Derrick Myers, CPA, CFP, PFCI, and Paul Goodman, CPA, PFCI, have long advised florists that, to make a target 10 percent profit annually, they should cap wages (as well as COGS and overhead) at 30 percent of sales. In 2013, Beaverton’s wage costs hovered near 35 percent, but the Hills had convinced themselves that a few percentage points wouldn’t make or break the business. One problem? The business had become overstaffed, so that even on a relatively slow day (less than $3,000 in sales), for example, a team of four designers might be on the schedule. The same scenario played out in sales and, especially, delivery, too.

“I knew we had too many people [some days] for the work we were doing, but I didn’t realize how much over we were,” Andy said. “Honestly, in retrospect, I wasn’t as engaged [in scheduling] as I should have been.”

HEIR APPARENT In instituting performance-based pay, a big motivator for Keith Hill, right, was the need to ensure the family business was sustainable for the next generation, including his son, Andy. “We did a lot of soul-searching,” Keith said about the entire process.

Since taking over the 70-year-old florist in 1997 from Keith’s parents, Sheri and Keith had committed themselves to creating an enviable workplace, offering eligible employees competitive wages, paid time off and 401(k)s, among other incentives (and occasionally keeping an employee on staff simply because he or she was so darn likeable). As a result, by 2013 they had a professional, hard-working team with high morale and low turnover. They’d also fallen into what Keith now calls “the good employee” trap, where owners, confronting the reality of a business bleeding cash, double down and run themselves ragged while employees (typically not clued into the nitty-gritty details of a business’ financial state) continue working without any of the owners’ sense of urgency.

“As a business owner, it’s easy to think that because your employees (are) on time, thoughtful, talented, etc., (that) — everything is going to be OK. But those qualities, on their own, aren’t enough for a small business to be profitable.”

Keith Hill

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TESTING, TESTING

Summer 2013: Inspired by the efforts at Tiger Lily Florist in Charleston, S.C., Keith and Andy meet with Manny Gonzales to discuss that store’s basic template and how the framework might work for Beaverton Florists.

Fall 2013: The Hills begin drafting possible plans for sales, delivery and design. Using real-word data from previous years, pulled from their POS system, the Hills plugged in numbers to evaluate how employees would have fared in previous years under the new system.

January 2014: The Hills introduce the new plans to employees at an all-staff meeting, followed by department meetings and then one-on-one sessions. The new system begins on Jan. 6. By year’s end, the company had paid $39,000 in bonuses companywide while reducing yearly payroll total, which includes the $39,000 in bonuses, by more than $30,000. -M.W.
“Customers understand. I can’t believe we didn’t make that change sooner.”

To comply with Oregon minimum wage laws, drivers are guaranteed at least $9.25 an hour, but the new system makes it possible to earn significantly more: Before implementing the system, the Hills calculated that, based on previous years’ numbers, one delivery driver can make 24 deliveries in an eight-hour shift. Even if all of those deliveries happened to fall in the closest zone, they would make $10.50 an hour under the new system.

Overall, in 2014, delivery department hours were down almost 35 percent but deliveries per hour were up 58 percent. In addition, fuel costs are down $15,000 annually — a tremendous savings that Andy and Keith credit to that improved efficiency (no more darting back and forth across town with only a handful of orders.)

Beyond their two regular drivers, the Hills have another “very part-time” driver for backup and they also maintained their relationship with the outside delivery service (“It doesn’t make sense to send one of our drivers to the outside edge of our delivery area for one or two orders,” said Andy), but they discontinued their membership in the delivery pool in March 2014 when it became apparent to Andy that they were putting more into that relationship than they got out of it (i.e., basically delivering other shops’ designs without adding much from their own store.)

The change to pay-per-piece almost immediately resulted in turnover, but Andy said that wasn’t necessarily a bad thing: In delivery, as in other departments, Beaverton had been overstaffed for years. As the five drivers on the books in 2013 were asked to become more efficient, their number of work days naturally fell, in some cases to one day a week, and two of the drivers moved on.

For those who stayed, the system is working; the average wage in delivery is $12 to $15 an hour today and their starting hourly wage in delivery is $10 an hour. “If you do a good job, you’ll make more,” Andy said. “But even on slow days, you’ll never make less than minimum wage.”
Andy’s first solution, that designers log non-design time in a pre-formulated tab through the POS, was a bust: The system only allowed one non-design task per day per employee, and designers needed to be able to input multiple entries (15 minutes cleaning, 10 minutes manning the sales desk). Instead, he came up with an old-fashioned solution — a chart and pen for each designer to track their hours — which, coupled with POS entries by Andy and the designers, has proven to be sufficient and allows Andy to subtract eligible non-design hours from the total prior to calculations. (The clearly labeled sheets also provide for some gentle managerial oversight — think: a designer who re-

COMMUNICATE, SUPPORT AND EMPOWER

To keep employees informed and engaged about the shop’s progress, the Hills have also implemented another change: more formalized communication.

Today, the shop has regular staff meetings and annual one-on-one coaching sessions with staff members. Before, they had a far more informal system. But the change to performance-based compensation helped crystallize to the Hills just how important it is to communicate expectations to staff.

Keith Hill offered these tips for keeping meetings manageable:
- Limit all-staff sessions to a maximum of one hour.
- Don’t wing it. Use a pre-set agenda and stick to items listed.
- If you assign tasks, be sure to follow through at an agreed-upon time.

“It’s about accountability,” he said. Remember that transparency and updated information is critical to employee buy-in when it comes to incentives. When working on payroll, Andy Hill makes sure to clearly identify the bonus as a line item, per day, and he said it’s a good idea to encourage (or require) employees to track relevant information (e.g., sales over $100) so that they are excited about the prospect of the bonus even before it pays out. (At Beaverton, that happens every two weeks, though Paul Goodman, CPA, writing on p. 36, suggests once a week is even better.) — M.W.

PRODUCTIVITY PUSH Designers such as Conner Nesbit are encouraged to clock out and head home when the work is done, rather than hanging around and waiting for the next order to come in.

In fact, the only “casualty” of the system may be Andy himself, who has taken on a far more active role in delivery since moving to pay-per-piece. Before, and especially during, the period from 2011 to 2013 when the shop lacked a delivery manager, he often relied on the drivers to manage their roles. Today, with both drivers on the road for their entire shift, far more responsibility falls on Andy’s shoulders. After all, he’s often the only member of the “delivery team” in the store — and delivery is never the only thing on his mind. His daily role in delivery has turned him into an even more engaged owner, he said.

“I realize now that, before, I really wasn’t as involved as I should have been,” he said, recalling how he used to marvel at their former delivery manager’s deep knowledge of local addresses. “I used to be shocked at how accurately our manager could pinpoint an address. I’m not to that level yet,” but with all of the extra time spent setting up the new system and managing it, “I’m getting closer and closer.”

Design

CODE TO CRACK: Increase Productivity

RESULT: In 2014, design department hours were down more than 32 percent while designs per hour were up 44 percent.

In the design room, the Hills knew they wanted to increase productivity to hit another mark suggested by experts, including CPA Derrick Myers (the shop’s accountant): designers should produce 10 times their wage cost on a daily basis. (Wage cost, in case you need a reminder, is the sum of all wages paid to an employee, as well as the cost of all employee benefits and payroll taxes, insurances, etc. paid by an employer).

Before implementing performance-based pay, the shop often had up to four designers in the store regardless of volume and, perhaps unsurprisingly since employees had little incentive to work faster, the day’s workload tended to fill the available hours.

Under the new system, the shop created production goals for each designer. For instance, if a designer earned $10 per hour and her wage cost was $1.30, her hourly production goal would be an average of $113 ($11.30 multiplied by 10). Over a two-week pay period, designers who hit their goal earned a bonus of 10 percent of production above the expected production. The shop currently pays designers a starting wage of $11 an hour, but “designers regularly increase their hourly wage to around $18 to $20 through productive work,” Andy said.

While the plan for the design room sounded straightforward to the Hills before implementation (and after they’d tested it before launching the plan), they realized that they hadn’t accounted for some key variables.

For instance, as designers soon noted, some of their time isn’t spent on design work, strictly speaking, but rather miscellaneous but important tasks such as straightening the cooler or cleaning up the design room. Including that non-design time in a calculation could make them appear less productive than they actually were.

“I know I can’t schedule three or four people and expect them to make their [goals]. Instead, we bring in two and know that they’ll make that bonus.”

Andy Hill
Cracking the Code on a Healthy Business

The Hill family’s primary goal behind introducing performance-based pay was improved profitability, which they’ve achieved. (Sales have held relatively steady at about $1.4 million annually.) To meet their goal, they used a few benchmarks from industry experts. Here are some of their before and after figures.

**WAGES**

- Before: 35.2%
- After: 30%

**COST OF GOODS SOLD**

- Before: 34.3%
- After: 30%

**OVERHEAD**

- Before: 1%
- After: 30%

**RECOMMENDED TARGETS**

- COGS: 30%
- OVERHEAD: 30%
- LABOR: 30%
- PROFIT: 10%

Per Derrick Myers, CPA, CFP, PPC, and Paul Goodman, CPA, PPC

**OVERHEAD**

- Before: 29.5%
- After: 30%

**PROFIT**

- Before: 10%
- After: 30%

**Sales**

**CODE TO CRACK:** Increasing Average Transactions

**RESULTS:** The shop has raised its average transaction from about $65 in 2013 to almost $72 today.

To motivate the shop’s two full-time sales associates to raise the average transaction, the family agreed to pay a
$3 commission on every non-discounted order greater than $100. (Weddings and event work, along with sympathy sales, which, by their nature, are higher ticket items, are also excluded from commissions.) For each additional $50 over $100 (and up to $500), employees would receive another $1, and for every additional $100 above $500, they would earn an additional $1.

Commissions are paid every two weeks as a bonus, on top of the employee’s base salary (between $9.50 and $11 an hour for sales associates). Under the system, it’s up to the employees to track and record sales higher than $100 and then to turn in their tallies on time to Andy (who routinely “spot checks” the records to square them with the shop’s POS results). If a designer happens to answer a phone and take a qualified order, she is also eligible for the sales commission.

Putting the responsibility on the sales associate to track and turn in bonus reports was a deliberate move on the Hills’ part.

“It’s about personal responsibility, but it’s also about transparency,” and an employee’s ability to see his or her bonuses clearly, as well as “building excitement. Before they get their paychecks, I want them to be excited about that bonus,” Andy said. (Floral Management contributor Paul Goodman, CPA, PFCI, agrees that when it comes to bonus payouts, speed and transparency are key. Read more of his sales incentive tips on p. 36.)

Still, the fact that employees had to track their bonuses and turn them in by a set time created some challenges. As the system was just starting, one associate missed her deadline, a situation that put the Hills in the unenviable position of having to decide whether to stick to the rules (and the deadline requirement) and withhold the bonuses, or make an exception so early in the program. In the end, they gave out the bonuses, but only after an uncomfortably public airing of the employee’s grievances.

“The situation kind of soured me on the sales incentive program for a while,” admitted Andy.

Compounding the problem, the store recently lost their original sales associates (both left for personal reasons unrelated to performance-based pay), meaning the Hills are starting from square one in implementing sales incentives this spring. One perk of the turnover, of course, is starting fresh, with a new team for whom the policy doesn’t feel like a dramatic change but standard operating procedure.

Between Keith and Andy, Andy so far is more tempered in his assessment of the sales incentive program and open to the idea of tweaking it in the future.

“I’m hoping the new sales associates really see the value [of the program],” he said. “But then again, there might still be another, better way out there.”

**Straight Talk for Owners and Managers**

By tying employee pay directly to performance (and supporting their team with regular all-staff, department and one-on-one meetings), the Hills have given their employees a better sense for how the business is doing and the important role each person plays in that business …

But any florist considering a similar shift should know that planning, implementing and running the plans require a deep commitment among the owners — to ensure things are not only profitable but also fair.

That’s Andy’s main caveat: This isn’t easy — far from it.

At least in the beginning stages, “It’s a lot of work for the owner or manager,” he said. (Beaverton Florists’ longtime delivery and design room managers retired in 2011, leaving a void in that middle level between staff and owners.)

Payroll, in particular, now consumes far more of Andy’s time. “For lack of a better word, I’m a bit OCD about it,” he said. “What used to take me 30 minutes now takes about three hours,” as he checks and rechecks numbers to ensure employees are getting their proper payout. “They’re trusting me to get it right, and I don’t want to let them down,” he said.

Overall, Andy, who complements his big-picture-thinking dad, Keith, as the more pragmatic partner, now spends 10 to 20 hours more a week at the business than he did before they implemented performance-based pay. (The other family members are also putting in more hours.) In addition to payroll, Andy’s oversight of delivery is much broader and he’s also far more in tune with daily operations in the design room, including insight on who is spending how much time consolidating coolers, etc.

Added to that, while the shop was certainly overstaffed before, its lean and mean efficiency can sometimes add to the owners’ stress. On a recent Saturday, for instance, the shop received a (welcome) deluge of seven sympathy designs. Before, with up to four designers on-site, handling the work would have been a
However, it was a major hustle to get the work done and one that required Andy to make runs to source last-minute flowers.

“Keeping wages at 30 percent sounds great, and I know it’s important,” he said. “But I don’t want to sugarcoat it either: It can be really tough. I’m here Monday to Saturday every single week, and if I have to be here more, I’ll be here more. Having such a dramatic drop off in wages means that, while those everyday duties that used to be taken for granted have not gone away, we as owners/managers have to pick up the slack ... And we have to do these as well as all of our managerial duties. This system only works if you are willing to make some serious changes and take on a lot more responsibility.”

That’s why, about a year and a half into this experiment, Andy hesitates to give an unqualified endorsement of performance-based pay to all florists, even if Beaverton’s results are enviable: Last year, the company paid $39,000 in bonuses companywide while reducing yearly payroll total, which includes the $39,000 in bonuses, by more than $30,000.

“I don’t want to say it will work for everyone, because I’m not sure it will — I’m not sure all parts of this are working exactly right for us yet,” he said. “But we are seeing progress, and it’s exciting to look back on some of our really horrific numbers and then see things getting better. It’s exciting to hear our accountant say, ‘Wow.’ Seeing such a dramatic turnaround in just one year keeps me motivated.”

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The Hills were inspired by the performance-based plan implemented at Tiger Lily Florist in Charleston, S.C. Read more about that effort in the August 2013 issue in the Floral Management digital archives.