Budgeting: Don’t Sweat the Small Stuff

By Paul Goodman, CPA, PFCI

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.
Q: I will admit it, I’ve never really done a formal budget for my business. It all seems so tedious. And futile. And where do I even begin?

> The word “budget” makes many people cringe, so you are not alone. But it is not pointless: A budget gives you a tangible reminder of what you’re trying to accomplish, so you don’t overspend. It can be tedious and complicated — but it doesn’t have to be. In fact, it can be easy.

Most people envision a budget as being a large spreadsheet of numbers: You start with projected revenue, and then you look at every expense item to figure out how much you’re going to spend for each month of the year. Now that IS a big task. But you can chip it down to something manageable by asking two questions: What’s important? And what can I control?

Three numbers represent about 75 percent of expenses at a retail flower shop: payroll, cost of goods sold and facility expenses. Ideally, payroll will be 30 percent of sales for a single location shop and 35 percent for those with multiple locations. Depending on your product mix, COGS will run from 30 to 38 percent of sales. Facility expenses should be no more than 10 percent of sales.

All of your remaining expenses — advertising, computer maintenance, credit card fees, vehicle expenses, office supplies, telephone system, etc. — should only total 17 to 22 percent of sales.

So you don’t have to do a full-blown budget that includes every paper clip and pencil you purchase. By focusing on only the large items, and those that you can control, you will have achieved 95 percent of the value of budgeting with a lot less work.

Let’s look at what you can control. Once you’ve signed a lease, your rent and utility fees are pretty much fixed. Until you change locations or renegotiate your lease, facility expenses won’t change much. Similarly, your computer (POS) costs and telephone expenses are set when you select your provider and options. Remember the warning the Grail Knight issued Indiana Jones in “The Last Crusade”: “He chose ... poorly.” Picking an expensive provider won’t literally turn you to dust (as in the movie), but it will erode your profit margin.

What you can manipulate: payroll and COGS. This is where creating a budget and sticking to it can have a significant impact on your bottom line. So stop worrying about all those other items.

Q: I’m ready to budget for those key, most critical items. Where do I begin?

Let’s start with COGS. Unless you buy a lot of items that don’t sell and just end up in inventory, the only purchases you have to monitor on a daily basis are fresh flowers and greens. This cost should not exceed 25 percent of sales.

If you’ve been in business a while, you can look back at your weekly fresh sales for the same month for past years, adjust for any sales increase or decrease you have experienced recently, and multiply by .25. That’s your “do not exceed” budget for fresh purchases each week. Don’t include weddings or events, since you plan them in advance and purchase separately for them. As long as your designers follow your pricing formulas and don’t stuff extra flowers and greens, budgeting 25 percent of sales for fresh product will be adequate.

As for other goods: Don’t overbuy for gifts or containers. Identify anything that is not moving — put it on sale, move it out and don’t buy it again.

Payroll is a tougher one to budget for, because you don’t buy employee time in small bunches like you do your fresh product. The trick is to realize that your sales will be very level for 10 to 11 months out of the year. The exceptions are holiday weeks. Set your permanent staff to roll, your budget target is 20 percent. (For larger shops over $500,000 in sales, the target is 23 percent if the owner/manager is not on the payroll.)

Advertising is a relatively small part of the budget, but I’ll mention it here because it’s one that can get out of hand quickly. The normal budget for advertising is 3 to 4 percent of total sales. If you want to be more aggressive, you can go to 5 percent, but remember that extra advertising will generally lower your profit. However, more-aggressive advertising could lead to faster sales growth. Allocate the amount you want to spend on advertising each month, and stick to it. Some florists save the bulk of their advertising for the holidays. Others spread it out evenly through the year. Experiment to see what is most effective for you.

Another often-ignored area in the budget: donations. As most florists know, it’s easy to get swamped with requests for flower donations. Set a budget at the beginning of the year by month. Give donations only to good customers. Once you’ve reached your budget, use that as your excuse to turn down additional requests. Remember that most donations should be a part of your advertising and expensed appropriately.

That’s it! Just set your budget on the most important and controllable items. A little work there will have a big impact on your bottom line.

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