

EDITORS' NOTE *Paul Goodman, MBA, PFCI, and Derrick Myers, CPA, CFP, PFCI, 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.*



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Price Check

Rising costs demand taking a hard look at what to charge.

BY PAUL GOODMAN

Lower product availability and increased freight costs are impacting the supply chain, and likely, your bottom line. If the idea of raising your retail prices makes you nervous, you're not alone. However, if you want to stay in business and be profitable, you need to take a second look. Let's look at what's happening with supply and demand, and then do some analysis on how much you need to charge.

Product Availability

Whether it's hardgoods or fresh product, there is no longer an abundance. There are several factors contributing to shortages, but they all stem from one source: the pandemic.

When COVID-19 hit in mid-March of 2020, many businesses shut down or severely limited operations. Workers were laid off and production dropped, not just domestically, but across the globe.

Suddenly shelves were empty. As businesses in the floral industry — including manufacturers, growers, importers and wholesalers — slowly reopened, they experienced a lot of snags along the way. Manufacturers couldn't produce as much due to limited inputs and a reduced workforce. Delays in shipping snarled what is usually a steady stream of imports. Backlogs at ports in the United States worsened. Growers had to replant crops to increase production. This all translates into fewer products available for florists.

Freight Charges

Although many products are produced domestically, a majority come from abroad. Container shipping was affected severely when manufacturers stopped or slowed production due to COVID outbreaks and a reduced workforce. That's because less manufactured product resulted in fewer shipping containers being used, and fewer containers in one direction means fewer containers in the other direction.

Importing fresh product became difficult as well. The floral industry depends primarily on airlines to get their perishable products from foreign growers to a domestic hub as quickly as possible. Airlines saw a steep drop in traffic and cut back on flights to South America. This caused freight prices to increase.

Flowers are also facing competition from other products for space aboard planes. Airlines charge for freight primarily based on the product's weight. That pricing is not favorable to flowers, which are a lightweight product but take up a lot of space. For example, it's more profitable for the airline to transport blueberries than it is to transport flowers, because the blueberries weigh more and take up less space. Once the flowers arrive in the U.S., the truck driver shortage is causing further delays.

Demand Is Up

No one could have predicted that the demand for flowers and foliage would be so great when the pandemic first started, but that is exactly what hap-

pened. When Mother's Day 2020 rolled around, it turned out to be a blockbuster for many florists. Orders easily surpassed what they had been in 2019.

How did that happen? In hindsight, it makes sense. People were staying home. Restaurants were closed or limited to carry-out. Entertainment venues closed. The competition for discretionary dollars disappeared. Add to that the fact that people were isolated but still wanted to connect with friends and loved ones, and flowers were the perfect answer. Florists continued to see a 15 percent to 40 percent increase in sales each month in 2020 compared with 2019 sales.

The increased demand isn't necessarily a problem, but it certainly is part of the challenge.

What's the Cost Increase?

It makes no difference where you get your hardgoods and fresh product. Whether you buy from a wholesaler or direct from a grower or manufacturer, your cost is increasing. The freight charges on fresh product flown from South America to Miami increased up to 50 percent in the last two years, according to an analysis of invoices from a reputable florist. Domestic transportation rate increased by 10 percent, according to the invoices. Of course, that doesn't mean you need to raise your prices by 50 percent or more. Freight is only a small part of what makes up your total product cost. Let's look at some actual numbers.

Suppose you are buying a rose directly from a farm in South America. There are three costs you need to consider: the cost of the rose, the cost of handling and freight from South America to Miami, and the cost of handling and freight from Miami to your shop. Here's what has changed:

	Cost Two Years Ago	Cost Today	Change	%
1 Rose	.96	1.05	.09	10%
International Freight	.10	.15	.05	50%
Domestic Freight	.043	.047	.004	10%
Total cost	1.103	1.247	.144	13%

The cost of the rose is the biggest expense in the total cost. So, even though international freight increased considerably, it doesn't affect your overall cost nearly as much from a percentage standpoint. There may be some variation in this example because while freight prices may be fairly steady, the cost of the rose can vary dramatically depending on how many stems you buy and when you buy them. As a rule, the lower the cost of the flower, the bigger impact the freight cost will have on the total cost.

Your Marching Orders

Although you could calculate each of these three items for every product you purchase, it doesn't have to be that tedious. What you do will depend on where you buy your products.

If you buy from a wholesaler, take your current price and simply apply your standard markup. All the increased costs will be reflected in the final retail price, and you will maintain your profit margins. If you are buying direct from a farm, use your total landed cost and then apply your standard markups. (Total landed cost is the combination of the cost of the product, plus any international freight and domestic freight.)

A typical pricing problem for retail florists is how to deal with prices going up and down. The best solution is to settle on a realistic average price for each product. Don't try to adjust your prices with each price variation. Adjust prices only when a pricing trend becomes apparent. 🌸

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