

JOSIE'S FLOWERS

Elizabeth M.A. Grasby revised this case (originally Maria's Flowers written by Marianne Vandenbosch) solely to provide material for class discussion. The authors do not intend to illustrate either effective or ineffective handling of a managerial situation. The authors may have disguised certain names and other identifying information to protect confidentiality.

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SYNOPSIS

In late April 2014, Josie Bailer was completing arrangements for the start-up of her retail box plant outlet located in a major Ontario city that had a population 350,000. Bailer had been operating this outlet from early May until mid-July for the previous four years. This year, however, Bailer's thoughts were not entirely on the sale of box plants. She was seriously considering expanding her business by opening a year-round indoor flower shop in a plaza, which would be opening the following year.

JOSIE BAILER

Bailer was the sole provider for her family of three children, aged 21, 17 and 15. Her home in one of the city's east subdivisions was fully paid for. Bailer was a talented seamstress and had done some professional sewing. Her main interest, besides plants and sewing, was singing and playing guitar in the church folk choir. Bailer also had work experience in a wholesale greenhouse operation. In addition to her work as the owner and manager of the retail box plant outlet, she was employed on a contract basis from September to May by a post-secondary institution in an unrelated job.¹

CURRENT OPERATIONS

Bailer was in charge of every aspect of the business, and any additional help required usually came from her family. For example, her children were involved in sales, and her brothers assisted in the set-up and dismantling of the outlet. The flower stand operated seven days a week from 9 a.m. to 9 p.m. There was no formal advertising apart from the signs at the lot; word-of-mouth advertising played an important role. The product line of Bailey's box plant outlet included primarily the following:

- Flowers and vegetables ready to be transplanted into home gardens
- Outdoor hanging baskets filled with flowers/plants
- Filled or empty outdoor planters and window boxes
- Fertilizer and garden care products

¹ Bailer earned Cdn\$30,000 each year under this contract. No benefits were paid.

Bailey attributed the success of her operation to the following factors:

- Good cost control
- High-quality products at competitive prices
- Good location
- Product availability
- Appearance of the lot

THE PROPOSED FLOWER SHOP

The idea of opening her own business had been in the back of Bailer's mind for some time; however, she did not consider the flower shop idea in earnest until she noticed the sign announcing the development of a new shopping plaza (also referred to as a strip mall) at the same location that her box plant outlet originally operated from. See Exhibit 1 for the location for the proposed plaza and the new location proposed for the retail box plant operation, and Exhibit 2 for the plaza's leasing details. Bailer thought that the location was desirable for the following reasons:

- Josie's Flowers was a relatively well-known name in the area and she had many satisfied and loyal customers.
- Traffic volume was very high at that intersection.
- Several new subdivisions had recently been constructed in the area.
- The location was close to Bailer's home.

The product line Bailer planned would be a relatively standard one: cut flowers, arrangements, some plants and novelty/gift items. She realized that her own experience with flower shops was limited, so she intended to take up her former employer's offer of free lessons in flower arranging.

Bailer was undeterred by the fact that there was a shopping mall across the street that contained a flower shop. She reasoned that two flower shops located close together could be an advantage. She believed that people looking for flowers would prefer to go to an area where there was more than one shop.

Although she believed that the flower shop in the mall was very successful, Bailer personally thought that the shop itself was of mediocre quality and that the service was poor. It was very small and consequently overcrowded, and the staff had limited knowledge of flowers and plants. Thus, she thought that her shop, which would be twice the size of the flower shop in the mall and would employ two part-time but knowledgeable sales staff² plus Bailer, would have little difficulty in attracting customers. While her immediate competition would be the flower shop in the mall, there were also other flower shops in the vicinity (see Exhibit 3).

Many of Bailer's plans were tentative, but there was one plan Bailer was certain about. She did not want to give up her box plant operation, and she would like to continue to have it located on the plaza's parking lot.

With respect to financing, Bailer knew she could get up to Cdn\$30,000³ without having to turn to a bank.

OTHER RESEARCH

² Part-time employees would work eight hours per day, six days a week for 50 weeks. Minimum wage was \$10.30 for students who worked less than 28 hours per week and \$11 for adults. Benefits (EI, CPP, etc.) for employees would average 10 per cent of their wages.

³ All currency amounts are in Canadian dollars unless specified otherwise.

Bailer had done some online research of her own about flower shops. Brick and mortar florist storefronts had declined by 25 per cent since 1999 due to the introduction of flowers to large grocery stores, the emergence of online sales by companies such as Teleflora and the economic downturn that accompanied the 2008 recession. During the recession, shops reduced their prices drastically to earn sales and customers had since become used to expecting discounts, making it tougher to raise prices. This had resulted in florist profit margins declining by around 1.2 per cent by 2012.⁴

Flower shops had four peak sales periods: Valentine's Day was number one, followed by Mother's Day, Christmas and Easter. It was recommended that the store design be modern with plenty of light and accent lighting to illuminate flower designs and attractive displays — preferably movable displays that would allow for easy and frequent redesign of the shop. Furthermore, a variety of clearly priced, attractive pre-designed floral arrangements and unobstructed glass window displays to showcase flower arrangements were also recommended.⁵

The cost of goods sold for florist shops had averaged 37 per cent over the past few years and most florists, after all expenses, earned a net income after tax between 2 per cent and 3 per cent of gross sales. About 70 per cent of the customers purchased flowers for themselves and visited a florist shop six to seven times a year. These customers spent an average of \$21 per purchase (before taxes).⁶ Bailer estimated the shop's supplies (floral foam and styrofoam, containers, baskets, glass, ribbon, wrapping supplies and preservatives) and bookkeeping to cost \$1,500 each annually. She also wanted to add an annual expense of \$750 for maintenance, repairs and office supplies. A general liability insurance policy would cost \$1,000 annually, and the telephone, internet and utilities combined would average \$1,500 monthly. After speaking with her friend about flower delivery costs, Bailer thought that she should assume a \$12,600 annual cost for this service.⁷ To advertise her new shop, she could choose among one or more promotional methods, such as flyers, gift samples, an online presence, telephone book yellow pages advertisement, newspaper advertisement and trade shows. Everything Bailer read had suggested that the florist shop owners needed to spend around \$2,500 to \$3,500 for advertising annually. Based on this information and the size of her proposed mall flower shop, she projected her investment costs to total \$23,300. Exhibit 4 provides the breakdown of these costs.

CONCLUSION

Bailer knew she would have to support herself and her family for some years. She saw the flower shop as an opportunity to earn a living while doing something she enjoyed. Such was not the case with her current contract employment. She thought that her box plant outlet provided her with good, although not complete, preparation for her flower shop venture. While Bailer was aware that the time commitment to the shop would be heavy, she hoped that it would not be as hectic as her springtime flower lot because she believed she could not sustain that pace all year round.

If Bailer decided to go ahead with her plans, she would plan to work for another flower shop in the city until her proposed store's opening the following year. This would provide her with valuable experience and contacts. Bailer knew she would have to make her decision soon in order to make arrangements for appropriate employment upon the closing of the box plant operation for the year.

⁴ www.theatlantic.com/business/archive/2012/02/roses-are-in-the-red-why-local-florists-are-fading/253079/.

⁵ www.bplans.com/florist_business_plan/company_summary_fc.php.

⁶ Customers who purchased flowers at grocery stores purchased flowers around four times a year and spent an average of \$6.90.

⁷ Mileage costs of 10 km/trip × \$0.50/km × 4 trips × 300 days + 2 hrs./day × \$11/hr. × 300 days for driver's wages.

EXHIBIT 1: JOSIE'S FLOWERS LOCATION

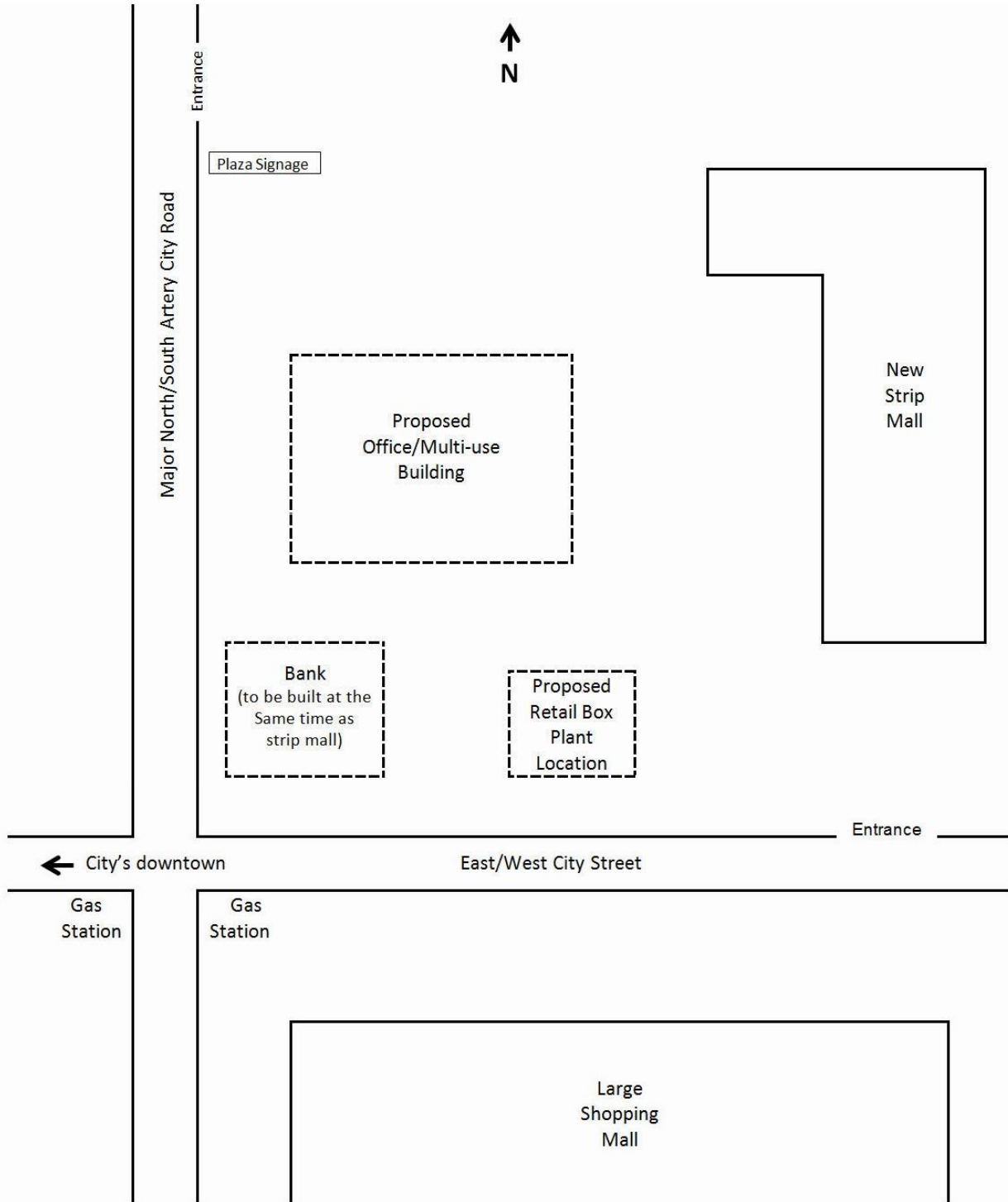
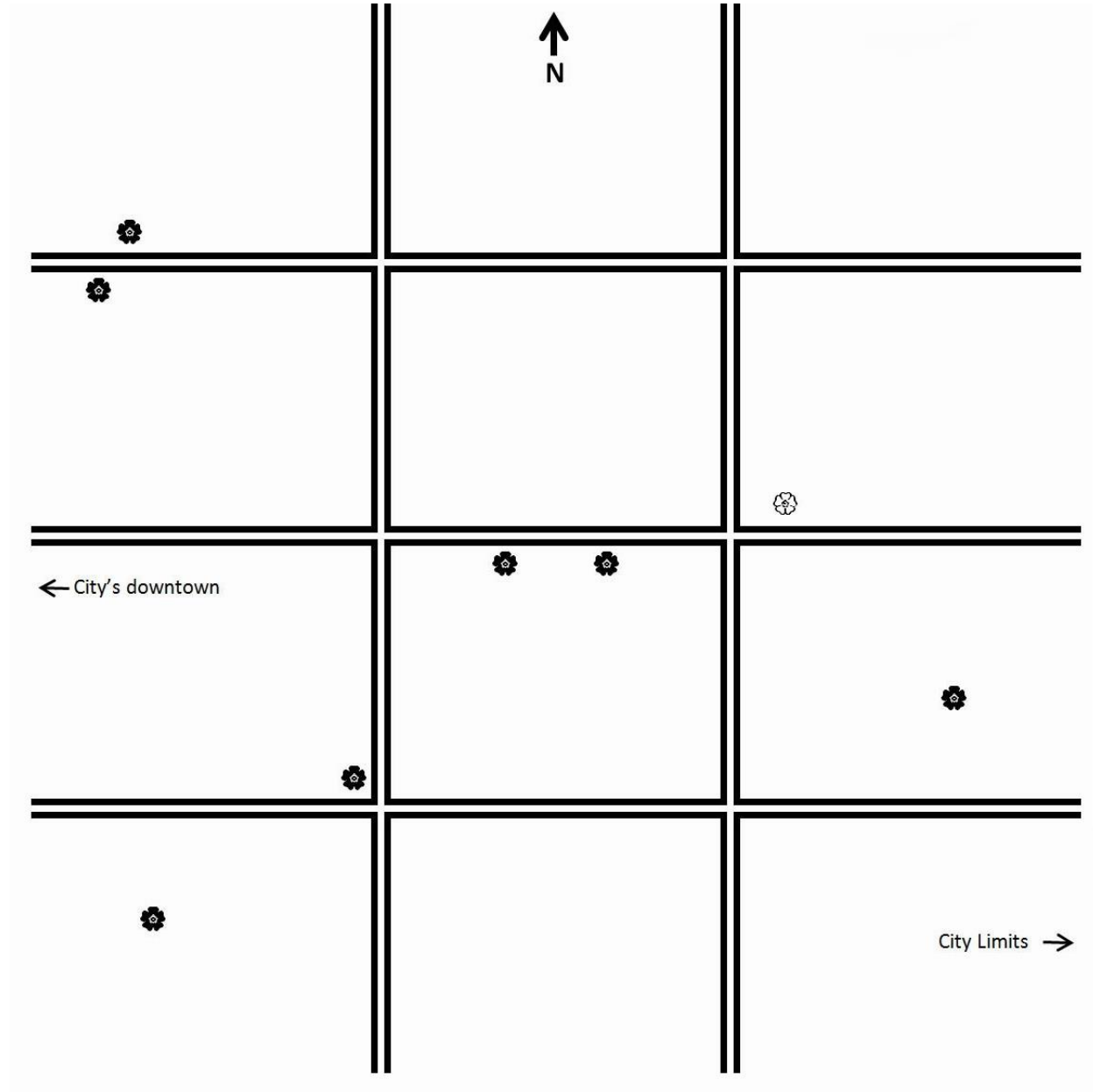


EXHIBIT 2: NEW PLAZA DETAILS

- Opening date: In 12 months
- One store (a variety store) has leased
- Office/multi-use building to be constructed at a later date
- Some short-term leases (one to two years) available
- Josie's flower store would be 820-square feet
- Rental cost:
 - \$22 per square foot per year plus \$10 per square foot per year for the common area maintenance
 - Premium cost for \$2 million liability insurance
- Lessee responsible for all costs incurred in set-up of operation (e.g., wiring, plumbing and shelving)

Source: Discussion with mall developer's agent.

EXHIBIT 3: NEARBY FLOWER SHOP LOCATIONS



- Josie's current (and proposed) box plant location
- Other flower shops in vicinity
- Major city streets

1.25 km

EXHIBIT 4: INVESTMENT COSTS FOR THE PROPOSED FLOWER STORE

2-line phone system	\$ 350
Point of sale system and software including backup devices	5,000
Laptop/desktop	1,500
Accounting and credit software	500
5 foot × 10 foot (1.52 metre x 3.05 metre) walk-in cooler	4,000
Other coolers and equipment (workstations and work counters, reception counter, shelving, display cases and fixtures)	2,500
Start-up costs including basic inventory	1,500
Leasehold improvements	2,750
Store signage — estimate between \$3,000 and \$5,000	4,000
Flower inventory	<u>1,200</u>
Total	<u>\$ 23,300</u>