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IN COOPERATION WITH COLORADO STATE UNIVERSITY

Dorothy Conroy, Executive Secretary

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## How to Make Your Money Work for You

by Elmar Jarvesoo<sup>1</sup>

To let your money - in modern times, also borrowed money belonging to other people - work for you is the implicit objective of every entrepreneur, large or small. Economists speak in their own jargon of "efficient use of resources," which in essence is the same thing, and this they declare the ultimate goal of economic science. We are all by nature, if not outright lazy, at least indolent (i.e., indulging in ease and comfort, and averse to exertion), and would rather "let George do it" - so why not let money do it for us? While passing "the buck" in business is possible to a degree, we must remember that money itself is an inactive agent in business operations. It needs the guidance that collectively has become known as the managerial function. It is the manager who indeed makes money work for the business firm - be it a flower growing operation, retail florist shop, wholesale florist business or what not.

How, then, to make money work for you? How to be a good business manager?

Briefly - by following the principles of efficient business management or sound business practices, by making appropriate adjustments and introducing innovations as the changing time and environment dictate. Efficient management is a current adjustment and decision-making process in business and not a

static, one-shot proposition.

Before coming to the discussion on some of the most important factors that affect a businessman's management decisions, and the methods of business analysis and decision making, let me emphasize one thing.

It is the operator's active interest in the business side of his enterprise that makes him a business manager.

If this interest is absent he or she will remain just a grower or a greenhouse operator and not a business manager in a true sense, or a flower designer and artist, but not a business manager of retail florist shop.

Unfortunately, this active business interest is ever so often lacking with the operators of small businesses and a change of this basic business attitude is badly needed. It should become a long-range educational goal of all the institutions and organizations concerned with the welfare of floricultural industry to stir the interest in business management. Just as there are bugs and fungi, molds and bacteria attacking your plants, there are bugs, fungi, molds and bacteria that attack and erode your prices, profits and business income. Most good growers have a good knowledge of how to protect plants from these pests. Do they have as good knowledge of how to protect the finances of their business?

What are some of the factors that cause and affect management decisions of a florist firm, be it a grower, retailer or a wholesale florist?

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<sup>1</sup>This article by Dr. Elmar Jarvesoo, Assistant Professor of Agricultural Economics, University of Massachusetts, is reprinted from Massachusetts Flower Growers Bulletin 96.

## Business Environment --

### Outlook of Changes

We are experiencing rapid economic and social changes that affect the floricultural industry. In the last 15-16 years nearly 50 million people have been added to the U.S. population, nearly one-third increase. At the same time our productivity (meaning also purchasing power) has been increasing at a rate of two to three percent a year, resulting in doubling of all goods and services per capita in 23-30 years, and a tripling in 37 years.

These two factors - the growth of production and productivity - assure demand for our products in the years to come. As the combined effect, the GNP (Gross National Product - value of all goods and services produced) rose last year from \$628 billion to \$672 billion, \$44 billion a year. Disposable personal income has increased nearly at the same rate.

A recent study showed that FTD wire orders went up at a rate of 12,000 orders per \$1 billion increase in disposable personal income. As expected, there is a close correlation between death rate and florist business: 4,400 additional wire orders were placed per 1,000 added deaths, i.e., 4.4 wire orders per funeral. Wire orders also went up when employment increased, at a rate of 74 orders per 1,000 persons added to the labor force. Finally, wire orders went down as the people's propensity to save increased at a rate of 19,000 FTD orders per \$1 billion increase in personal savings.

All indications are that the demand side looks bright for the florist industry.

How about the supply side that is equally important in shaping the prices and via prices, our incomes?

It is well known that in recent years flower production in other areas has increased by leaps and bounds and these increased supplies have had their effect on prices. Two states stand out in the growth of flower production - Florida and California. With reference to our carnation industry, sharp increases in carnation production should be also mentioned in Colorado. All three are shipping flowers to our markets and affect the prices our growers are receiving. In 15-16 years, California carnation production went up nearly ten times from 20 million blooms in 1949 to 190 million blooms in 1964. The tendency to grow is still evident. And this also includes such crops as pompons and standard chrysanthemums.

Florida has been supplying our flower markets with gladioli for a long time. But, it is only the last 10-12 years that Florida has also appeared as a major shipper of pompons, pot mums and a variety of foliage plants. In 1949 pompon and chrysanthemum production in Florida was nonexistent. In 1956 Florida produced 5.2 million bunches of pompons worth \$3.9 million, in 1959 - 7.6 million bunches for \$5.2 million and finally in 1964 - 9.4 million bunches worth \$6.4 million. Standard chrysanthemum production was approaching the \$1 million mark in 1964. Florida

growers are operating on a large scale, using efficient production methods and a vigorous push in marketing the products. Propensity for expanding chrysanthemum production is evident.

These are some of the main features illustrating how the environment affects our business and, consequently, business decisions. In making your money work for you firms in the flower business have to make appropriate adjustments as environmental factors change. These adjustments are mostly in the nature of reactions, as environmental factors are not under our control.

### Criteria for Efficient

### Business Management

In making adjustments in business or just in managing the current affairs we have to have yardsticks that will tell us just how good we are in our operations. We need to develop certain standards of performance. Then, if we measure up we have made our money work for us; if not - our money is not working for us as it should be.

#### I. LABOR PRODUCTIVITY (efficiency)

Efficient use of all productive resources (input) must be the foremost concern of any business manager. Efficient use of labor is, however, of particular importance because labor is the costliest of all inputs in all segments of the florist industry.

In greenhouse operations labor cost takes 35 to 40 cents of your sales dollar, in retail florist business about 25 cents, and in wholesale florist business a good half of the commission, or about 10-11 cents of the wholesale sales dollar.

It is important to make your employees earn their own pay plus something in addition to remunerate the capital and management that support the labor's performance. It is strictly the management responsibility to see that each employee will generate additional sales that will make their employment profitable.

How many of you, growers, retailers or wholesalers know precisely how much sales your employees produce for your business? How productively is your money working for you that you spend on wages and salaries?

Here standards of performance are very important for comparative purposes. Do your greenhouse workers produce at least \$10-12,000 worth of sales per full time worker in a year? Are your sales in a retail shop at least \$14-16,000 per full time employee per year and in the wholesale business at least \$50,000 a year per man?

If the actual performance does not meet these standards one of the following things will probably happen: 1) you cannot afford to pay competitive wages for your help; 2) if you do you are heading for insolvency, or 3) you may stay in business by paying

your employees from your own operators income or profits. This certainly is not a proper way to make your money work for you.

If an operator faces a situation like this - his earnings per employee are low - what can he do about it?

1. Mechanization, substitution of capital for labor, has been the traditional American way to correct labor shortages or high wages. Remember - mechanization causes expenses too and unless labor freed is actually saved in terms of wages paid, or used productively in other pursuits in the business, mechanization is not helping financially.

2. Labor saving methods and devices if they pay.

3. Expansion of business if it is too small for a given labor force.

4. Vertical integration by adding, for instance, retailing or jobbing operations to greenhouse operations. Big questions: Does retail-growing pay now-a-days? Under what circumstances can jobbing or truck-route operation pay?

Other more important methods of making your money work for you are:

## II. MANAGING ACCOUNTS RECEIVABLE

Accounts receivable are credit to your customers which is a traditional and sound business practice but it is often letting your money work for your customers and not for you. Where to strike the balance: give the customer a traditional credit service and not suffer yourself? Billing time, reminders and collection practices are important elements in managing accounts receivable. Average collection period of receivables is a ratio that helps you to evaluate the position of your business.

## III. MANAGING INVENTORIES AND PURCHASING PRACTICES

Proper management here means determining the cost-minimizing balance between carrying too large inventories on one hand and making too frequent purchases on the other. Both involve costs, but an attempt to save on one usually results in an increase in the other. Mathematical methods can be used to determine the cost-minimizing practice - inventory turnover ratio is the yardstick to measure if you are stocking up too heavily or too lightly.

Managing inventories is of particular importance in manufacturing and in distributive business (flower

retailing and wholesaling) but it is important in growing also.

Cooperative buying in large lots often brings considerable savings and growers are using it to procure needed supplies.

IV. EFFICIENT TECHNOLOGY OF PRODUCTION should never be forgotten. For growers who are mostly price takers, efficient production is frequently the most important factor in financial success.

## Summary

If you want to make your money work for you observe these steps:

1. Develop an interest in the business management of your operation.

2. Develop an appropriate system of accounting and financial control.

3. Develop efficiency yardsticks (standards of performance) for your particular type and size of business.

4. Get acquainted with modern methods of business analysis and evaluate periodically your own performance.

5. Get acquainted with the methods of modern business planning and use them to get where you want to by using what you have.

This is good business management and your money will gladly work for you.

## Colorado Florist and Grower's Conference, November 3, 4, and 5

A three-day conference on everything new and up to date in the growing and selling of our flowers and plants is in the planning stages as this goes to press. The Research Committee is lining up one of the most rewarding conferences ever held in the florist industry for November 3, 4, and 5, 1966. There will be a tour the first afternoon, followed by a dinner and an evening meeting. Meetings on the 4th and 5th will be in the Hilton Hotel, Denver. It is not too early to make reservations for those from out of town.

# TENTATIVE SCHEDULE COLORADO FLORIST CONFERENCE NOVEMBER 3-4-5, DENVER HILTON HOTEL

## NOVEMBER 3 - THURSDAY

Registration - 10:00 - 12:00 A.M.  
Lunch - On their own  
Greenhouse tours - 2:00 - 5:00 P.M.  
    Center Greenhouse  
    Euser Greenhouse  
    Kitayama - Refreshments

Hotel - Panel - 7:30 - 10:00 P.M.  
Dr. Dana Goodrich - 7:30 - 8:30 P.M.  
\*Coffee & Iced Tea break - 8:30 - 9:00 P.M.  
Expansion Panel - 9:00 - 10:00 P.M.

## NOVEMBER 4 - FRIDAY

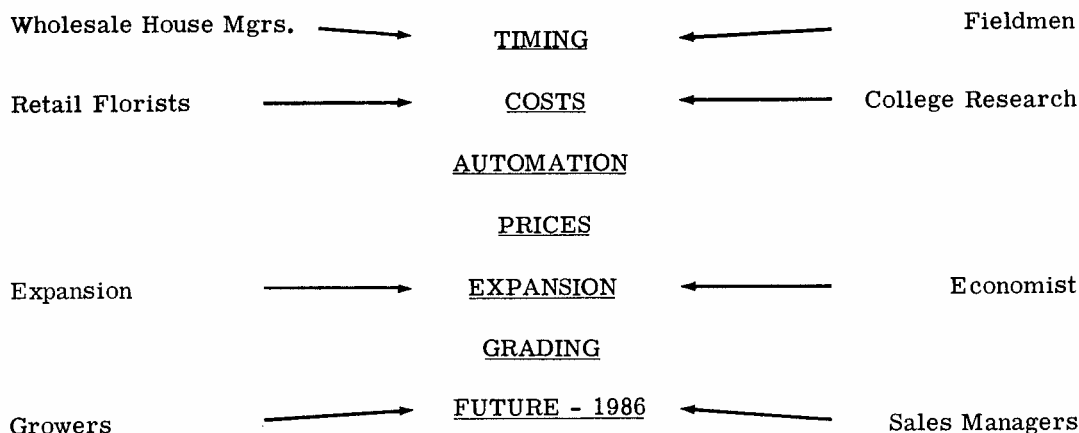
Retail Florist Panel - 11:00 - 12:00 A.M.  
\*Lunch (Hotel) - 12:30 P.M.

Wholesale House Mgrs. Panel - 2:00 - 3:00 P.M.  
\*Coffee & Iced Tea break - 3:00 - 3:30 P.M.  
Sales Managers Panel - 3:30 - 4:30 P.M.  
Fieldman Panel - 5:00 - 6:00 P.M.  
\*Dinner - Bar - 6:00 - 7:30 P.M.  
Dr. James Boodly - 7:30 - 8:30 P.M.  
Growers Panel - 9:00 - 10:00 P.M.

## NOVEMBER 5 - SATURDAY

Economist Panel - 11:00 - 12:00 A.M.  
\*Lunch (Hotel) - 12:30 P.M.  
College Panel - 2:00 - 5:00 P.M.  
\*Coffee & Iced Tea break - 3:30 P.M.  
\*Banquet - 8:00 P.M.  
\*Bar - 7:00 P.M.

## SUBJECTS AND PANELS



*Your editor*  
*W D Holley*

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