

## Lesson B2–11

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# Pricing Floral Design Work

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**Unit B.** Floriculture

**Problem Area 2.** Floral Design

**Lesson 11.** Pricing Floral Design Work

### **New Mexico Content Standard:**

**Pathway Strand:** Agribusiness Systems

**Standard:** VI: Use sales and marketing principles to accomplish an AFNR business objective.

**Benchmark:** VI-A: Conduct market research.

**Performance Standard:** 1. Evaluate methods of marketing products and services. 2. Apply economic principles to marketing (e.g., supply and demand). 3. Research products and service design(s).

**Student Learning Objectives.** Instruction in this lesson should result in students achieving the following objectives:

1. Explain the importance of effective buying.
2. Explain how to determine the costs for floral arrangements
3. Describe typical pricing strategies.

**List of Resources.** The following resources may be useful in teaching this lesson:

**Recommended Resources.** One of the following resources should be selected to accompany the lesson:

Biondo, Ronald J. and Dianne A. Noland. *Floriculture: From Greenhouse Production to Floral Design*. Danville, Illinois: Interstate Publishers, Inc., 2000.

**Other Resources.** The following resources will be useful to students and teachers:

Griner, Charles. *Floriculture: Designing & Merchandising*, Second Edition. Albany, New York: Delmar Publishers, 2002.

## List of Equipment, Tools, Supplies, and Facilities

Writing surface  
Overhead projector  
Transparencies from attached masters  
Copies of student lab sheets

**Terms.** The following terms are presented in this lesson (shown in bold italics):

Broker  
Combined pricing  
Cost of goods  
Gross sales  
Hard goods  
Labor  
Leader pricing  
Multiple price points  
Multiple unit pricing  
Nested baskets  
Net profit  
Odd end pricing  
Operating expenses  
Percentage mark-up  
Pricing strategies  
Ratio mark-up  
Retail price  
Tie-in pricing  
Unit cost of goods  
Variable ratio mark-up  
Wholesale cost of goods or wholesale price  
Wholesale florist

**Interest Approach.** Use an interest approach that will prepare the students for the lesson. Teachers often develop approaches for their unique class and student situations. A possible approach is included here.

*After completing an arrangement, students will often ask what was its cost, which is a natural lead-in to this topic. Students should find it interesting to compare the cost of making the arrangement to the retail price at the local florist shop.*

## Summary of Content and Teaching Strategies

**Objective I:** Explain the importance of effective buying.

**Anticipated Problem:** From whom do florists buy goods and supplies?

- I. Effective buying requires knowledge, organization, and planning, and a degree of flexibility. Retail florists must consider several factors in regards to suppliers and their products, which include:
  - A. A **wholesale florist** is a link in the marketing chain between the grower and the retail florist. Often referred to as wholesalers, wholesale florists might sell only fresh plant materials or they might provide one stop shopping, offering supplies, fresh flowers, and potted plants. To deal with a wholesaler, one must have a sales tax number or be tax exempt. Florists often use more than one wholesaler due to delivery times, product availability, customer service, and the opportunity to obtain the best wholesale prices.
  - B. Growers are the production end of the florist industry, and can be either domestic or foreign. They will sell direct to florists if quantities ordered are large enough. Valentine's Day is an example of a holiday time when a florist might buy direct from the grower, shaving dollars off of expenses at a time when demand will be high.
  - C. Flower markets exist in some large cities. All of the local wholesalers will be represented at the market. The florist is then able to compare and buy a wider variety of plant materials.
  - D. A **broker** is an agent who buys flowers and sells them to wholesalers and retailers. Brokers might purchase their flowers from growers or at an auction. They will usually never physically handle the flowers.
  - E. Other factors to be considered by florists in buying flowers include:
    1. People who are successful buyers are always knowledgeable about flower quality and pricing. The successful retail florist will keep track of wholesalers and growers that provide the highest quality at the least cost. Retailers need to inspect each shipment of flowers for the desired quality and freshness, and they need to keep the suppliers informed when satisfaction is not met; being honest and building a cooperative, working relationship with people will allow for successful relationships. Paying the suppliers' bills on time will also build trust in the relationship.

2. Buyers need to know bunch sizes for typical flowers: Bunch sizes are usually 10, 25, if not a single stem. Buying in larger quantities may cut the unit cost of an item. An example is Gerbera Daisies sold by the stem might run \$1.00 each, but by buying a full tray of 40, the florist might cut the unit cost to \$.85 each. By planning ahead and determining needs, florists can save money.
3. The florist needs to determine the unit cost of goods. The **unit cost of goods** is the price of a single item determined by dividing the overall bunch or case price by the number of items in the bunch or case. For fresh flowers, counting the physical number of stems when the shipment arrives may be the best way to determine the actual unit cost. The unit costs of goods will be used in determining the cost and price of an arrangement. **Hard goods**, which are supplies such as ribbon and floral foam, also have unit costs. The unit cost of goods is a wholesale cost, not a retail price. The **wholesale cost of goods or wholesale price** is the total of the unit cost of goods. The **retail price** is the florist's selling price, which is determined by marking up the wholesale cost of goods. Another method the florist might use is **combined pricing**, a method of adding the total cost of supplies used in a typical arrangement, and using this typical wholesale cost for each similar arrangement. This method can be a time saver on items that are purchased on a regular basis (bud vases, potted plants, corsages etc.).

*Explain the various types of buying methods and ways to obtain flowers. Have the students create a list of advantages and disadvantages of each type. Then have the students listen in on a floral order from the wholesaler that is used by your school, and if possible, visit the wholesaler's facility and have the students listen in on the other end of an order. You might conduct a role-playing exercise of ordering flowers. Use the overheads and the labs in teaching unit pricing and combined pricing concepts. Display TM: B2-11A to reinforce the sources for floral goods. TM: B2-11B and TM: B2-11C will aid students in comprehending unit cost and combined pricing. LS: B2-11A provides practice in calculating unit cost.*

**Objective 2:** Explain how to determine the costs for floral arrangements.

**Anticipated Problem:** How does a florist determine the price of an arrangement to the consumer?

- II. The three most common methods for pricing design work are ratio mark-up, variable ratio mark-up, and percentage mark-up. The method used will vary from one shop to another depending on the type of shop and the profit strategy.
  - A. **Ratio mark-up** is a method of pricing based on a predetermined increase from the wholesale cost of goods. The selling price is called the retail price. Typically the ratio for hardgoods is 2:1 and for perishable items 3:1; in other words, multiplying times 2 for foam and vases and multiplying times 3 for flowers and foliage. The ratios will vary from store to store and often will be higher for work that is more labor intensive, such as wedding design work. The draw back of this system is that no net profit is planned and no overhead costs are incorporated into the ratio calculations. Labor charges may be added

to account for design time when using the ratio mark-up concept; this charge is often based on the hourly wage, but, benefits might be added as well. For example, the labor hourly wage might be \$8.00, but with benefits added, the cost of labor might actually be \$12.00. Another method is to add a flat 10 to 20 percent charge to the final price to cover labor and overhead cost.

- B. **Variable ratio mark-up** has different mark-ups depending upon two factors—the type of design or the type of flower and the labor required to design with it. The strength of this concept is that the labor aspect of designing is included in the price calculations. However, net profit remains a guess. The downfall may be confusion with all the various mark-ups. Posting a list of the variable mark-up ratios will help in eliminating the confusion among employees.
- C. **Percentage mark-up** is a pricing method that plans for profit. This concept uses the wholesale cost of goods divided by the cost of goods percentage as reflected in the shop's financial statement. This method requires the florist to analyze the business' financial statement to determine the percentages of the major factors of gross sales. The calculations may require time, but once completed the percentage mark-up is easy to calculate. The aspects of gross sales will vary but usually are broken down into:
  - 1. **Gross sales**—total dollar amount that a florist shop sells.
  - 2. **Operating expenses**—the costs of running the business.
  - 3. **Labor**—operating expenses, which involve people and the time it takes them to produce the products.
  - 4. **Cost of goods**—the cost of merchandise and supplies.
  - 5. **Net profit**—the return on a florist's investment.

*Cover the concepts of pricing in a class discussion. Set up a list of the wholesale costs of particular goods or have the students create one. Then, whenever the students complete design work, have them price their designs. Use one strategy most of the time. When taking large orders that you and the students want a certain profit on, you might consider the percentage strategy. It will allow you to determine how much to spend on the flowers, foliage, and supplies. Use TM: B2-11D through B2-11G to reinforce the principles behind the methods of pricing design work. LS: B2-11B provides a worksheet for students to practice price calculations.*

**Objective 3:** Describe typical pricing strategies.

**Anticipated Problem:** What are pricing strategies?

- III. **Pricing strategies** are well-planned methods and practices of pricing intended to attract customers to the floral shop and to motivate them to buy. Successful strategies can increase sales volume and gross sales.
  - A. **Strategies to Attract Customers**—good retailers are always looking for ways to entice the consumer into their shops. Advertising and window displays are effective methods, along with open houses at various times throughout the year.

1. **Leader pricing** is a method of offering commonly purchased and recognizable items at a significantly reduced price compared to the competition. This will suggest to the consumer that all items are more reasonably priced. The key to making leader pricing successful is negotiating good buys from the wholesaler.
  2. **Multiple unit pricing** is a strategy to encourage the customer to come into the shop and then buy more by offering price breaks for purchasing additional items. One rose for \$2.00 or three for \$5.00 would be an example of this concept. Bouquet specials and buy-one-get-one-free offers are other examples of multiple unit pricing.
- B. Strategies to Motivate More Buying—everything in a store should be priced so that the consumer knows exactly what it costs; various stickers and tags can be used to achieve this. Signs can be created to make the consumer more aware of a special. Rounding odd prices upwards increases profits while making prices easily understandable to the consumer.
1. **Odd end pricing** is rounding a product's price downward, for example to \$12.99 from \$13.00. The theory is that the consumers will buy more because they perceive the product to be less expensive.
  2. **Multiple price points** is a method of pricing and displaying several related designs or products in varying sizes and varying prices to provide customer choice.
  3. **Nested baskets** are a multiple price point concept, using three baskets that fit inside of each other and varying the price of each so that the consumer will have more choices.
  4. **Tie-in pricing** is a method to encourage customers to buy related items by offering special discounted prices when the products are purchased at the same time. Examples might include candles and centerpieces, or two related floral items such a one-sided piece and a wreath to match.

*Using TM: B2–11H, cover the material in this section by holding a discussion of the various pricing strategies. Have the students cite examples of where they have seen these concepts used. The pricing strategies section in the recommended resource provides a good overview of pricing strategies.*

**Review/Summary.** The success of a floral business will depend on pricing. The importance of efficient buying from the wholesaler cannot be over-emphasized. Much of the material in this lesson is geared toward people operating their own businesses. Students should be encouraged to consider a career as a florist. The skills learned in this lesson will help them in achieving that goal if they choose it.

**Application.** Pricing strategies is an important part of this lesson, that can be applied whenever students conduct design work. The teacher and students need to maintain a wholesale cost of goods list and keep it up to date as new supplies and flowers are entered into the school's inventory. This will allow the students to have the greatest understanding of the relationship between wholesale costs and retail pricing. The accompanying lab sheets provide good practice in calculating costs and prices.

**Evaluation.** There are several ways to evaluate the students on the material covered in this lesson. By having a student complete the lab sheets, teachers will be able to evaluate their work. A small written quiz is also attached to test the knowledge of the students.

## **Answers to Sample Test:**

### **Part One: Matching**

1=j, 2=a, 3=i, 4=d, 5=e, 6=b, 7=g, 8=c, 9=f, 10=h

### **Part Two: Completion**

1. Buying
2. cities
3. quality
4. 10, 25
5. \$1.00
6. hourly
7. profit
8. nested
9. operating
10. gross

### **Part Three: Short Answer**

Leader Pricing

Multiple Unit Pricing

Price Everything

Rounding Prices

Odd End Pricing

Multiple Price Points

Tie-In Pricing

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# Test

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## Lesson B2–11: Pricing Floral Design Work

### Part One: Matching

*Instructions.* Match the term with the correct response. Write the letter of the term by the definition.

- |                     |                           |                            |
|---------------------|---------------------------|----------------------------|
| a. broker           | e. percentage mark-up     | i. wholesale cost of goods |
| b. combined pricing | f. ratio mark-up          | j. wholesale florist       |
| c. grower           | g. retail price           |                            |
| d. hard goods       | h. variable ratio mark-up |                            |

- \_\_\_\_\_ 1. A link in the marketing chain between the grower and the retail florist.
- \_\_\_\_\_ 2. An agent who buys and sells flowers.
- \_\_\_\_\_ 3. The total of the unit costs of goods.
- \_\_\_\_\_ 4. Supplies such as ribbon and floral foam are included in this category.
- \_\_\_\_\_ 5. A pricing method that plans for profit.
- \_\_\_\_\_ 6. A method of using the total cost of supplies used in a typical arrangement as a base for pricing.
- \_\_\_\_\_ 7. The florist selling price.
- \_\_\_\_\_ 8. The production end of the florist industry.
- \_\_\_\_\_ 9. A method of pricing based on a predetermined increase from the wholesale cost of goods.
- \_\_\_\_\_ 10. A method of using different mark-ups depending upon two factors—the type of design or the type of flower, and the labor required to design it.

### Part Two: Completion

*Instructions.* Provide the word or words to complete the following statements.

- \_\_\_\_\_ can be a challenging part of the floral business.
- Flower markets are found in large \_\_\_\_\_.
- Suppliers and buyers are always concerned with price and \_\_\_\_\_.

4. Flowers can be purchased by the single stem or in bunches of \_\_\_\_\_ and \_\_\_\_\_.
5. If there are ten tulips and the cost of the bundle is \$10.00, what is the unit cost of goods? \_\_\_\_\_
6. Labor charges are based on \_\_\_\_\_ wages.
7. Percentage mark-up allows for a \_\_\_\_\_ to be added in.
8. Three baskets that fit into one another are called \_\_\_\_\_ baskets.
9. The costs of running a business are \_\_\_\_\_ expenses.
10. Total dollar amount that a florist shop sells is \_\_\_\_\_ sales.

**Part Three: Short Answer**

*Instructions.* Provide information to answer the following question.

Name five pricing strategies.

TM: B2-11A

# SOURCES OF FLORAL GOODS

- **Growers**
- **Flower Markets**
- **Wholesale Florists**
- **Brokers**

# UNIT COSTS DETERMINATION

**Small design vase:** \$18.00 per case ÷ 36 (vases per case) = \$0.50

**Tulips:** \$7.50 per bunch ÷ 10 (tulips per bunch) = \$0.75

**TM: B2-IIC**

<b>COMBINED PRICES</b> <b>Supplies Needed and Costs</b>			
<b>6" PLANT</b>	<b>Costs</b>	<b>9" BUD VASE</b>	<b>Costs</b>
Foil		Bud vase	
#9 ribbon		Floral preservative	
Card, envelop, cardette		Card, envelop, cardette	
Care tag		Care tag	
Wrapping supplies		Wrapping supplies	
Wax tissue		Wax tissue	
Cellophane		Cellophane	
Ribbon		Ribbon	
<b>TOTALS</b>	_____		_____

# PRICING USING TWO METHODS

Typical Ratio Mark-up		
Perishables	Carnations	10@\$.30 = \$3.00 × 3 = \$9.00
	Leatherleaf	10@\$.10 = \$1.00 × 3 = \$3.00
Hardgoods	Vase	1@\$.90 = \$0.90 × 2 = \$1.80
	Floral Preservative	1@\$.05 = \$0.05 × 2 = \$0.10
		<b>TOTAL \$13.90</b>
Across-the-Board 3:1 Pricing Ratio		
Perishables	Carnations	10@\$.30 = \$3.00 × 3 = \$9.00
	Leatherleaf	10@\$.10 = \$1.00 × 3 = \$3.00
Hardgoods	Vase	1@\$.90 = \$0.90 × 3 = \$2.70
	Floral Preservative	1@\$.05 = \$0.05 × 3 = \$0.15
		<b>TOTAL \$14.85</b>

# HOURLY WAGES CONCEPT CHART

## Amount to be added to Price of Arrangement

<b>Time Spent (Hours)</b>	<b>Wage (Assume \$8 per Hour)</b>	<b>Wage with Benefits (Wage Rate + 50%)</b>
1/4	\$2	\$3
1/2	\$4	\$6
3/4	\$6	\$9
1	\$8	\$12

<b>Vase Arrangement Cost</b>	<b>\$15.00</b>
<b>Hours to Complete 1/2—</b>	
<b>Wages including benefits</b>	<b>\$ 6.00</b>
<b>Total Price</b>	<b>\$21.00</b>

# EXAMPLES OF VARIABLE MARK-UP

Type of Design	Mark-up
Basic arrangements, bud vases, boxed flowers, decorated plants	3:1
Creative designs, corsages	4:1
Wedding flowers, party flowers, special designs requiring time and attention	5:1 (or more)

Type of Flower	Labor Required	Mark-up
Form flowers (orchids, lilies, tropicals, standard or Fuji mums)	low	2½:1
Average flowers (carnations, gladiolus, roses — need de-thorning)	medium	3½:1
Filler flowers (spray mums, daisies, statice, baby's breath, heather, foliage)	high	4:1

		Ratio Mark-up	Variable Ratio Mark-up
Standard carnation	\$0.24/stem	\$0.72	\$0.84
Orchid	\$1.20/flower	\$3.60	\$3.00
Pompon spray mums	\$0.60/stem	\$1.80	\$2.40 (5–7 placements)

**Determining the price of an arrangement using the percentage mark-up concept.**

**Wholesale cost of goods—\$6.00**

**Cost of Goods Percentage—30%**

$$\mathbf{\$6.00 / .30 = \$18.00}$$

**Retail Cost = \$18.00**

**If the consumer wants to spend \$30.00, then to calculate the wholesale cost of goods:**

$$\mathbf{\$30.00 \times 30\% = \$10.00}$$

**Wholesale Cost of Goods = \$10.00**

# PRICING STRATEGIES

- **Leader Pricing**
- **Multiple Unit Pricing**
- **Price Everything**
- **Rounding Prices**
- **Odd End Pricing**
- **Multiple Price Points**
- **Tie-In Pricing**

# Lab Sheet

## Determining the Unit Cost of Goods

**Supplies—**

Pen and Calculator

**Problems**

Item	# Per Case or Bunch	Price	Unit Cost of Goods
Box of 12" Chimneys	24	\$36.00	
Long Stem Red Roses	25	\$29.00	
Bundle of Pittisporum	16	\$ 8.00	
Mini Carnations	13	\$ 8.00	
Floral Foam	36	\$14.00	
Wired Gold Ribbon	10 ft.	\$ 8.00	
Iris	10	\$12.00	
Orchids	6	\$14.50	
Candle Holders	24	\$ 8.00	
Statice	14	\$ 7.00	

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# **Lab Sheet**

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## **Pricing A Floral Design**

### **Worksheet**

<b>Flowers</b>	<b>Number</b>	<b>Wholesale Cost</b>	<b>Mark Up Ratio</b>	<b>Final Cost</b>
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<b>Foliage</b>	<b>Number</b>	<b>Wholesale Cost</b>	<b>Mark Up Ratio</b>	<b>Final Cost</b>
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<b>Hard goods</b>	<b>Number</b>	<b>Wholesale Cost</b>	<b>Mark Up Ratio</b>	<b>Final Cost</b>
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<b>Labor</b>	<b>Time</b>	<b>Wage per Hour</b>	<b>Final Cost</b>
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\_\_\_\_\_ **Total Cost**