

Playing By the NUMBERS

Find out how one successful garden center manages its cash flow.

By Dale Bachman

As I begin this article about the business management accounting systems we employ at Bachman's, I'm reminded of a story. There was a group of young men invited by a rich man to a party for his beautiful daughter. The rich father gathered the young men around a swimming pool filled with alligators. He promised his daughter in marriage, a sports car, two oil wells and a top position in his company to anyone who had the courage and skill to swim across the pool.

Immediately, a young man splashed in and swam like the blazes to the other side. The crowd went wild, clapping and cheering as the hero made it across. The rich father ran to his side, congratulating him, then asked, "Which prize do you want first?"

"First," the young man sputtered, "I want the name of the guy who pushed me into the pool!" At times we all need a push. Maybe not into a pool of alligators (although that's how

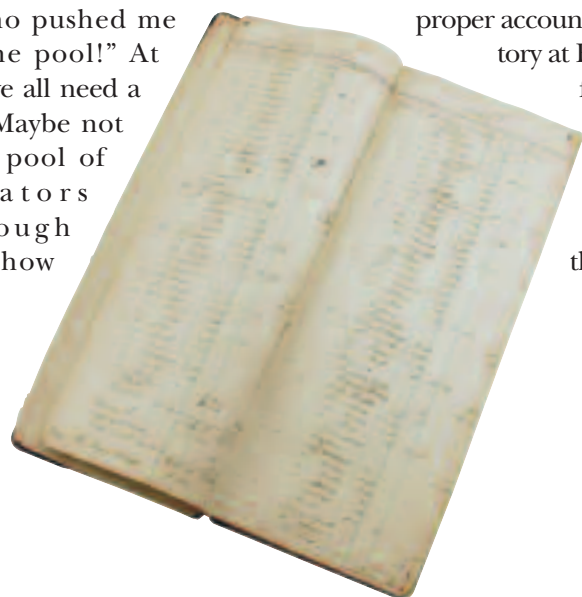
business feels at times), but a push in the right direction.

At Bachman's that push often comes from our accounting, treasury or information systems teams. They may be generating information that leads to making difficult decisions affecting the long-term future of the company. They may also be assisting in the development of a business plan for a new venture. The accounting team can produce information that reveals significant trends in product and service offerings, along with trends in profitability.

ACCOUNTING HISTORY

Bachman's, Inc., Minneapolis, Minn., was founded in 1885 as a vegetable growing operation by my great-grandparents, Henry Sr. and Hattie Bachman. Prior to arriving in America, Henry studied at a business school in Germany. The tradition of proper accounting has a long history at Bachman's. We are

fortunate to have copies of some of Henry's first accounting records from those early days. ▶



Top: Bachman's storefront. **Bottom:** Bachman's chooses inventory very carefully in order to have the items fly off the shelves and make money instead of gathering dust taking away from profits. **Left:** Henry Bachman, Sr.'s accounting records, circa 1886. (Photos courtesy of Dale Bachman)

In his own handwriting, you can see that 36 dozen heads of lettuce sold for \$12.75, and 18 dozen radish was bought for \$6.40 in March 1886. Coal in Minneapolis was purchased at \$3.50-4.25 a ton,

lumber at \$15 per thousand board feet. At one time, Henry kept 16 horses just to haul coal during cold Minnesota winters.

By 1910 Henry and Hattie's sons were assuming some control of the

business. Each found his niche according to his interests and abilities. Their first born, Fred, became the bookkeeper and ultimately treasurer for the second generation. Fred was a good choice and set a fine example of frugality for others in the family and the organization. My father tells me that Fred would keep the glue strip left after all the postage stamps were removed from a sheet and use it to dog-ear pages together, thereby saving on paperclips. He would also recycle used envelopes by cutting them open for scratch paper, generating enough for him and many others. Fred's son, Harold, assumed the duties of treasurer for the third generation. Today my brother, Lee, serves as vice-president-finance and treasurer. Lee

works closely with Mike Bonk, vice-president-administration. Mike's responsibilities include accounting, payroll, accounts payable and information systems, as well as our call center and our Internet site, www.bachmans.com.

ACCOUNTING TODAY

Today, Bachman's is a vertically integrated organization with 20 retail locations, including six Floral, Home and Garden Centers; interior and exterior landscaping services; a nursery wholesale center; more than 600 acres of nursery production; and 12 acres of greenhouse production. Employment peaks during the spring selling season and again prior to Christmas at approximately 1,600 employees. During the winter months total ▶

GROWER AND RETAILER — ONE GOAL

With more than 600 acres of nursery production and 12 acres of greenhouse, Bachman's produces the vast majority of its own green goods, and you have to wonder what affect the dual nature of their business — grower and retailer — has on the bottom line.

As Jack Bigej from Al's Garden Center said in the Industry Leader Forecast (see page 22) being a grower-retailer gives you an element of control. "Vertical integration with control over product mix, supply and quality gives us a definite advantage," he said. "We have a greater ability to move when necessary, and we can use our product to drive business. We can grow product for a promotion planned in advance or lower the price for a sale when the weather or economic conditions are not optimal."

However, cost accounting can be a touchy subject when it comes to grower-retailers. How do you keep the two divisions separate using separate financial books without losing sight of the desired outcome — a thriving single business? There are a few factors to consider.

Customers/Vendors. As a retailer, you likely have more than one green goods supplier. Are you paying your grower division as much as your other suppliers? Are you paying your grower division too much? If necessary do some cost analysis to determine how they compare and make the necessary changes so that both divisions are in the "normal" range.

As a grower, do you sell to anyone outside of the company? If you do, it could get tricky not separating product intended for your own retail from that of your other customers.

Marketing. Do you have a "home-grown" marketing program that tells your customers that the product was grown by your company? This situation is perfect for a grower-retailer because just like any partnership, this is a joint effort, and who better to partner with than yourself. To make it work, you have to make sure both sides are successful. Again, look at some of the national brands your retail may carry and make some comparisons in regards to prices and processes.

Taxes. Taxes can be tricky in any company and can be easily explained by a financial consultant, accountant or tax attorney. According to the IRS, "Taxpayers in the garden supply business who are not incorporated normally report their activity on Schedule C [forms]. However, taxpayers who grow their products may report this activity on Schedule F [forms]. Sometimes a taxpayer will file a Schedule C for the retail activity and Schedule F for the nursery business."

While these are just a few important topics, one thing to remember is that it is necessary for each division to treat the other as if they're separate businesses — appropriate prices, on-time payment, up-to-date and accurate accounting books. There are many benefits to being a grower-retailer; make sure you can experience all of them by being stringent with the logistics. — *Carrie Burns*

employment at Bachman's drops to about 1,100. In addition to the revenue departments, support areas include marketing/advertising, administration, warehouse, delivery, maintenance and production. Internally, the company tracks more than 70 departments for accounting purposes. Possibly our most famous accounting story is Department 56, known worldwide as a creative developer and distributor of home and gift items and collectibles.

As some of you know, Department 56 was born at Bachman's in 1976. Prior to that, in its very formative years, the business grew to a point where internally we wanted to account for it separately. Our accounting codes were in numerical order. To this day at Bachman's, the internal accounting code department 54 is our gift warehouse; department 55 is our shipping and receiving house for green and blooming plants. The next available descriptor on the computer back then was department 56. So internally that's how we described this wholesale business. As it grew, it became known publicly as Department 56. Department 56 was sold in 1992 to a new company formed by Department 56 management and a New York-based investment company that went public in 1993.

FINANCIAL OPERATIONS

Accurate inventory management throughout the company is critical. In our six Floral, Home, and Garden Center locations, we have used point-of-sale equipment for the last 12 years. Two years ago we invested in new software and equipment. In November 2003, we introduced a new Bachman's Gift Card program. Our merchandise system for purchase orders and inventory management allows us to manage more than 50,000 SKUs. This system allows us to offer special pricing promotions, including coupons, deal pricing and rewards for loyalty programs. As a result of this investment in technology, we have achieved a much faster, more accurate and reliable checkout experience for our customers. We have elected not to implement a rewards-for-loyalty program at this

time. We continue to analyze our overall customer relations management strategies. Twice each year we measure our retail inventory shrinkage by scanning our on-hand inventory. If a store has a high loss they are the subject of a shrinkage audit. Our goal is to maintain our unidentified loss to within an industry standard of 1 percent of cost.

Bachman's uses a fairly detailed annual budget process to plan and then monitor our sales and costs. A new fiscal year begins each February. Capital budget planning begins in October. We are both a capital- and labor-intensive business and seem to have an insatiable appetite for capital. It takes time to establish priorities, justify investment and plan lease vs. buy options. The list is documented ▶



Top and bottom: Good inventory and good, loyal employees help make profits rise year after year.

in December for presentation to the board of directors. As we enter the new fiscal year each item is reviewed once again by our operations committee just prior to investment.

Operating budget preparation follows shortly after the capital plan is complete. In December, we will make our sales estimates for the following fiscal year based on the economy, consumer trends,

sales history, industry trends, networking and “gut feelings.” We budget sales by location and product mix. We also budget labor by type of activity. Guidelines are established for expenses and prof-



itability by the end of December. In January, management in each of the approximately 70 revenue and support departments documents detailed budgets. The accounting staff finalizes this input so it's ready for the beginning of a new fiscal year in February. The final operating budget is presented to the board of directors in March after the results of the previous fiscal year are understood. During the year we report weekly sales results against plan and last year. Labor is reported against “standard hours” for the retail stores and last year. The use of “standard hours” is a tool to schedule the appropriate number of hours based on anticipated sales. We also monitor overtime and report those results biweekly.

Monthly operating statements are generated, and managers are required to explain all significant budget variances. Failure to respond to this monthly duty results in coffee with my brother, Lee. And he generally doesn't need any more caffeine. Each month we review net margin with our markup committee for all our major product categories. The markup committee is made up of buyers and representatives from the accounting department. This shows initial markups and all markdowns so we can compare net margin to last year. We generate a monthly spoilage report for the perishable product categories so buyers can see which SKUs are driving markdowns. We also prepare a monthly open-to-buy report for all of our gift categories. Cash flow is managed on a daily basis by Lee and our manager-cash control & sales audit. Bank balances at our



have one more story for you that has nothing to do with Bachman's.

A man wrote a letter to the IRS: "I have been unable to sleep, knowing that I have cheated on my income tax. I understated my taxable income and have enclosed a

check for \$150. If I still can't sleep, I will send the rest." ❧

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two major banks are monitored via the Internet. Based on Lee's extensive knowledge of the seasonality of our businesses, he balances the needs with our two short-term credit lines and makes decisions to borrow or invest.

To better understand how merchandise categories are performing, we prepare the "profit by product line" annually. This report tracks major category sales. All operating costs are allocated based on square footage of facilities used and estimates of labor and associated expenses. This analysis yields sales and gross margin-per-square-foot results, along with profit by product line.

PRACTICES

Bachman's practices open book management. After each major holiday and selling season sales results have been compared to the previous year, they are shared with all employees. Twice each year total company sales and profit results are shared with our key management group of approximately 135 people. We are fortunate to have a very professional and dedicated team of accounting, treasury and information systems personnel. You can probably tell by now that my expertise is not in accounting. I greatly appreciate the help that I received from Mike Bonk and Lee Bachman in preparing this article. I would be happy to discuss any questions that you may have but the best answers will probably come from Mike or Lee. As Mike Bonk said, "It's not any one thing we do; it's everything we do to account for and manage the business that makes the difference." If you've made it this far I