

Calyx Flowers: Managing Profitable Growth

John Gilbert, President and CEO of the Vermont Teddy Bear Company, was reviewing a report prepared by his marketing team. The report indicated that the financial performance of one of its subsidiaries, Calyx Flowers, had not reached its full potential despite gross margins of nearly 50%. To address the issue, the report identified several alternative action plans designed to improve Calyx Flowers' financial performance.

The Vermont Teddy Bear Company

The Vermont Teddy Bear Company was founded in 1981 on the premise of providing their customers "the best possible experience when they choose to send a gift to someone they care about."¹ In 2008, Vermont Teddy Bear's operations included four business units: BearGram gift delivery service, PajamaGram gift delivery Service, TastyGram gift delivery service, and Calyx Flowers.

The *BearGram Service* involves sending personalized teddy bears for special occasions such as birthdays, anniversaries, weddings, and the birth of a baby, as well as holidays such as Valentine's Day, Christmas, and Mother's Day. Vermont Teddy Bear positioned its BearGram gift delivery service as a "creative alternative to flowers." Teddy bears are offered in a variety of sizes and colors, and buyers may choose from approximately 156 different teddy bear outfits to customize the gift. Orders are placed by calling 1-800-829-BEAR or online at vermontteddybear.com. The BearGram gift delivery service is promoted primarily using direct response radio advertising, print advertisements, and nearly 2 million catalogs mailed primarily to BearGram customers. Approximately 66% of BearGram gifts are purchased by men, often at the last minute. For example, the day before Valentine's Day, the company shipped teddy bears at the rate of nearly 4,500 bears an hour, which generated nearly \$4 million in company sales in one day.

The *PajamaGram Service*, launched in April 2002, provides customers with a convenient gift chosen from a broad assortment of pajamas, gowns, robes and spa products. The service is targeted to appeal to female customers in order to broaden the Vermont Teddy Bear Company's predominantly male customer base. PajamaGram gifts can be ordered by calling 1-800-GIVE-PJS or ordered online at pajamagram.com.

The *TastyGram Service*, launched in October 2002, offers a variety of regional food specialties such as NY Carnegie Deli Cheesecake and Gino's Chicago Deep Dish Pizza. Customer orders are processed and forwarded electronically via the Internet to the supplier. The supplier then prepares the product for shipping, with TastyGram labeling a personalized card. Orders are placed by calling 1-800-82-TASTY or at tastygram.com.

Calyx Flowers, a flower delivery service that ships fresh flowers direct from the growers, was added to Vermont Teddy Bear's portfolio of services in September 2003 when it acquired the flower catalog company Calyx and Corolla. This acquisition represented an important component of Vermont Teddy Bear's growth strategy.

Calyx & Corolla shares our commitment to delivery of unique, top quality gifts. With the addition of exquisite Calyx & Corolla flowers to our product line, we can now offer a diversified selection of the finest delivered gifts appealing both to flower lovers and to those looking for an alternative to flowers... By adding "the flower lovers' flower company" to their already developed portfolio of gift giving products, The Vermont Teddy Bear Co. continues its quest to become the premier gift delivery business in the world.²

The Floral Distribution Industry

Most flowers are purchased on special occasions—birthdays, anniversaries, Valentine’s Day, Mother’s Day, weddings and funerals—as well as to alleviate guilt and for home or office decoration. Customers purchasing flowers care about a variety of factors, such as longevity, variety, presentation, speed of delivery, ease of ordering, freshness, and price. The demand for flowers is seasonal, with high peaks around holidays. The perishability of flowers and seasonal demand make efficient distribution crucial for the industry. The distribution process typically begins with growers selling flowers to distributors, who then resell them to wholesalers who in turn sell the flowers to retailers. Retail competition in the floral industry is fragmented, with competition that includes retail florists, 1-800-FLOWERS.COM, FTD, and supermarkets.

- *Retail florists* are one of the most popular outlets for the distribution of flowers. Retail florists prepare custom bouquets and usually provide flower arrangement services for special events. Some florists deliver on weekends and holidays in addition to regular business days, usually for an additional fee.
- *1-800-FLOWERS.COM* is a large flower distributor in the United States. The company advertises extensively through television, print, and billboards. Orders may be placed by phone (1-800-FLOWERS) or online (1800FLOWERS.COM and FLOWERS.COM) and are then transferred to the closest florist. The company relies on a hybrid fulfillment system which includes a network of approximately fifteen hundred florists around the country, as well as its own distribution and warehouse facilities. 1-800-FLOWERS.COM spends a substantial amount of its sales revenues on advertising, which appears primarily on television and in print, focusing on holiday-specific promotions.
- *FTD* (Florists’ Transworld Delivery) is the largest floral company in the world, connecting approximately twenty thousand North American retail florists and accounting for about 10% of all floral sales. FTD receives orders from customers through a toll-free number (1-800-SEND-FTD) or online (FTD.com) and then forwards each order to the florist nearest to the recipient. FTD spends nearly half of the revenue it receives from its handling fee on television, radio, and print advertising. Although FTD provides all of its member stores with a catalog for customer reference, since orders are forwarded to different florists depending on the recipient’s location, there is no guarantee that the flowers will be delivered exactly as they appear in the catalog.
- *Supermarkets* offer flowers at prices substantially lower than those of other floral distributors because they purchase flowers in bulk directly from growers and distributors. While they offer lower prices than florists, most supermarkets do not offer the same level of flower variety and service. Moreover, flowers in some supermarkets are not kept at an optimum temperature, which affects their freshness.

Calyx Flowers

Calyx & Corolla,³ the predecessor of Calyx Flowers, was founded in 1988 by Ruth Owades, a Harvard Business School graduate with substantial experience in direct mail. Established in 1988, Calyx & Corolla pioneered the concept of shipping flowers directly from the grower to the recipient. In 2007, Vermont Teddy Bear Co. renamed its flower delivery services Calyx Flowers, a name that, according to market research studies, was more appealing to its customers.

Orders for Calyx Flowers are received by phone via a toll-free number or through the website, calyxflowers.com and calyxandcorolla.com. After processing, the orders are transmitted directly to the grower where the flowers are arranged and packaged for shipment, along with a personalized greeting

card from the sender. The flowers are then placed in colorful gift boxes that are shipped directly from the grower's warehouse to the receiver. The majority of packages are shipped via Federal Express, using either overnight or two-day service (see Exhibit 1). This delivery method substantially reduces the elapsed time between when fresh flowers are cut and when they are delivered to the recipient. As a result, Calyx flowers tend to last longer than those offered by traditional florist delivery services.

Calyx Flowers has arrangements with eighteen growers, most of which are located in Florida and California. Certain varieties of fresh cut flowers are flown in from farms in Ecuador, Columbia and Holland to the growers' warehouses in the United States. Preserved items and floral containers are inventoried at Vermont Teddy Bear's distribution facility in Vermont and shipped directly to the receiver from that location.

Calyx catalogs include a wide variety of fresh flowers, plants, vases, and other floral accessories. A typical order averages \$80, excluding shipping charges of about \$16.95. Continuity programs are another important part of Calyx' marketing efforts. One of the most popular programs is "A Year of Fragrant Plants," under which plants are shipped to the customer-designated recipient every other month for a total price of about \$250 per year.

In the past, Calyx Flowers promoted its offerings primarily through the ten million catalogs, ranging in size from thirty-two to forty pages, mailed every year. Of the ten million, half were mailed to prior customers (six catalogues per year), two million were sent to flower recipients (six catalogues per year), and the rest of the catalogs were sent to rented mailing list names, selected because they had demographics similar to Calyx Flowers' current customers. Approximately 57% of Calyx Flowers' customers were women, ranging in age from thirty to fifty-five years old, with above average disposable income. The yields varied depending on the recipient group: current customer mailings yielded around 4.5% (per mailing), while recipient and rented mailing lists yielded around 1% (per mailing). Calyx Flowers' marketing expenses, which included \$0.68 for production and mailing of each catalog and \$0.06 per name for mailing list rental, were rather low by industry standards.

Vermont Teddy Bear's marketing team identified three strategies to improve Calyx Flowers' financial performance:

- *Increase the number of catalogs.* This strategy aimed to attract new customers by mailing an additional three million catalogs to potential buyers from the rented mailing lists.
- *Increase mass-media advertising.* This strategy entailed more aggressive advertising using traditional mass media such as direct-response radio ads, a medium used successfully to launch the Vermont Teddy Bear and TastyGram brands. This strategy also called for using television ads that emphasize the freshness and longevity of the flowers.
- *Increase Internet advertising.* This strategy involved more aggressive advertising on the Internet, capitalizing on the fact that online sales represented about 40% of Calyx Flowers' total revenues.

Mr. Gilbert also knew that the company lacked the resources to pursue multiple approaches in the coming year. To ensure future success, he had to identify the strategy that was likely to have the greatest impact on Calyx Flowers' financial performance.

Notes

¹ Vermont Teddy Bear Co Inc. (2004), *Annual Report*.

² Vermont Teddy Bear Co Inc. (2003), *8-K Report*, Filed August 29, Exhibit 99.1, SEC File 33-84586.

³ *Calyx* is the green 'cup' at the bottom of the flower. Before a flower blooms or opens, the calyx serves as the protective cover for the flower bud. *Corolla* is the name for all of the petals of a flower.

Exhibit 1: Calyx Flowers Service Information Sheet

The Calyx Difference Fresh from the Fields Calyx Flowers' fresh-cut bouquets and lavish plants are sent directly from the world's premier growers, guaranteeing freshness beyond compare and exotic varieties you won't find anywhere else. Exclusive Designs Our talented floral designers find creative inspiration in all parts of the world, and every Calyx bouquet is crafted to showcase the distinctive beauty of every bloom. Exquisite Vases & Cachepots We are renowned for the exquisite cases and cachepots we find to complement our luxury offerings. From hand-crafted, hand-painted ceramic to contemporary printed glass, our unique vessels make our gifts truly extraordinary. Patented Packaging To ensure your fresh-cut flowers arrive in perfect condition, they are carefully packaged according to each variety's unique needs. Our specially designed Weather Wrap™ by Airliner® surrounds your bouquet in a protective cushion while temperature packs maintain ideal conditions during transit. Your flowers arrive as exquisite as the moment they were picked. We guarantee it! From bud to bloom Our flowers are shipped to you while they're still in bud; this ensures that your flowers will last as long as possible. Within a few days, the petals will begin to open and fresh blossoms will emerge. The flowers exhibit a great deal of vitality, just as they would if they were growing in the garden. After a few more days have passed, your blossoms will be a full bouquet that will last for quite some time. First-Class Customer Service When you place an order with Calyx Flowers, you are treated to the first-class customer service for which we have become known. From helping you choose the perfect floral gift for any occasion to ensuring your absolute satisfaction, we are here to make sure your gift-giving experience is quick, easy, and carefree. Our 100% Satisfaction Guarantee Calyx Flowers has been delivering the finest floral gifts to happy customers since 1988. We take great pride in offering attentive service and fabulous, fresh-cut flowers to you and all the deserving people in your life. We know how important your Calyx Flowers gift is and we stand behind it 100%.	Call our Calyx Concierge™ Service 1.800.800.7788 For Expert Ordering Assistance 24 hours a day, 7 days a week. Or order online at CalyxFlowers.com SUBSTITUTIONS & ORDER CHANGES If a particular flower, plant, or color choice is not available for shipping, we will send a fresh selection of equal or greater value. We are happy to accommodate changes to your order whenever possible; however, once an order is en route, we are unable to change the order or stop delivery. GIFT CERTIFICATES The gift of choice is often appreciated more than any other. Gift certificates are available in denominations of \$50 or more and are sent in decorative presentation packages. Please call to order. Corporate Gift Giving Made Easy! Our Corporate Group is ready to make your Business Gifting needs as simple as our gifts are beautiful. Show your thoughtfulness with one of our exclusive wreaths, luxury bouquets or blooming plants. To learn more about our volume discount please call or email us. We'll happily work with you and your company to meet your every need. 1.800.497.6789 or Business@CalyxFlowers.com SHIPPING INFORMATION <i>Delivery Restrictions-</i> We regret that we cannot deliver to Alaska, Hawaii, Puerto Rico, outside of the United States, or to APO, FPO, or PO Box addresses. Fresh product deliveries cannot be made on Sundays or Mondays. <i>Protective Packaging-</i> All of our bouquets are delivered in protective boxes. For added protection during shipment, some bouquets and vases will arrive in separate boxes. <i>Future Delivery Dates-</i> We are happy to take orders for future dates. For special events, we recommend having products delivered prior to the date in order for them to rehydrate, for buds to open, etc. Whenever possible, we will deliver on the exact date you choose. <table><tr><td>STANDARD SERVICE (per item)</td><td>...\$16.95</td></tr><tr><td>Fresh-Cut Flowers, Plants, & Perishable Food Items: 2-Day or Overnight, depending on the need of the product being shipped</td><td></td></tr><tr><td>Preserved Floral Gifts & Nonperishable Food Items: Approximately 7 business days.</td><td></td></tr><tr><td>RUSH DELIVERY (Tues.-Fri.)</td><td>...add \$10.00</td></tr><tr><td>SATURDAY DELIVERY</td><td>...add \$10.00</td></tr><tr><td>"YEAR OF" PROGRAM DELIVERIES (Per monthly shipment)</td><td>...\$11.95</td></tr></table>	STANDARD SERVICE (per item)	...\$16.95	Fresh-Cut Flowers, Plants, & Perishable Food Items: 2-Day or Overnight, depending on the need of the product being shipped		Preserved Floral Gifts & Nonperishable Food Items: Approximately 7 business days.		RUSH DELIVERY (Tues.-Fri.)	...add \$10.00	SATURDAY DELIVERY	...add \$10.00	"YEAR OF" PROGRAM DELIVERIES (Per monthly shipment)	...\$11.95
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