

# **FAS** *Floral Accounting Systems, Inc.*

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Dear FAS Customer,

Most florists I have talked to over the last month or so have reported that they were pleased with their Valentine's Day performance. Although several shops reported disappointing sales, most shops said that Valentine's was better than they expected. In a few cases, shop owners said they had experienced one of their best Valentine's ever. The level of interest FAS is seeing from potential new customers and the level of system sales FAS is experiencing indicate that florists are optimistic about their futures, and they are willing to invest in their businesses. FAS and IFA attended the Northeast Floral Expo in Cromwell, CT, earlier this month. Attendance at the show was excellent, and florists there seemed to have an enthusiastic outlook as they shopped for new products and services.

With Administrative Professionals' Day the week of April 25th and Mother's Day the following week, florists should be preparing to take advantage of these sales opportunities. Using the mail code for businesses or commercial accounts, your FAS system can generate postcards to remind these customers of Administrative Professionals' Day and promote products you will be selling for that occasion. Or you can also use your FAS system to generate mail labels for your commercial accounts so that you can send them any other promotional piece you may have developed.

Similarly, you can use these features to remind your customers of Mother's Day. As discussed above, you can generate postcards or labels for any group of customers. You can also generate labels for just those customers who made a holiday purchase (as indicated by your occasion code) during prior Mother's Day seasons. FAS also allows you to promote your business to recipients of your products. The people have seen your work. You could send them a postcard saying, "We hope you found the gift that we delivered to you attractive. If you have any questions or concerns about your gift, please don't hesitate to call us. If you would like to send a similar gift to someone special for Mother's Day, we offer a range of products for every occasion. Don't forget. Mother's Day falls in the first week of May. Please call us at 555-1212 or visit our web site at [www.yourshop.com](http://www.yourshop.com)."

These postcards can be generated with minimal effort. Samples of the postcards can be viewed on FAS's web site, [www.fasinc.org](http://www.fasinc.org). The postcards may be purchased from Moore-Wallace. The postcards range in price from about 4 cents per card in a quantity of 1,000, down to about 2.5 cents per card for 20,000 cards. For those who might want to send a marketing piece offering a broader range of products, the FAS system can generate mail labels that can be used to mail IFA's spring and summer brochures. Samples of the 4-page and tri-fold brochures can be viewed at [www.myifa.org](http://www.myifa.org). Select "About Us" and then "Consumer Marketing". These marketing pieces are custom-printed with your shop information, logo, prices, and special promotional offer. The 4-page brochure costs 13 cents each, and the tri-fold brochure costs 8 cents each, with a minimum order quantity of 2,500. As I mentioned in an earlier letter, if you didn't want to mail the brochures, you could have your delivery personnel hand out the brochures to everyone they meet while making deliveries. You can create your own insert for the brochures announcing special occasions such as Administrative Professionals' Day or Mother's Day. If you need assistance in using any of the features mentioned

above, please contact FAS's support staff. You can contact Moore-Wallace to place orders for the postcards or brochures by calling (800) 280-4520.

### **The future of the industry?**

While I am hopeful that the positive trends discussed above will continue, other recent developments provide reasons for florists to be concerned. Shortly before Valentine's Day, Wal-Mart's web site announced that consumers could purchase their Valentine's gifts on-line and have the flowers delivered through the FTD florist network. Wal-Mart was offering same-day delivery for orders placed by 11:00AM on Valentine's Day--a difficult promise to guarantee, particularly for someone that is not producing and delivering the arrangements themselves. At the time this letter was written Wal-Mart's web site continued to display the FTD logo, and stated that "FTD floral designs are hand-arranged by expert florists for exquisite bouquets every time. ... FTD uses only the highest quality blooms and greenery for their artistic floral designs. FTD connects you with over 20,000 professional florists throughout the continental US." FTD has a similar relationship with Winn-Dixie supermarkets. Visitors to Winn-Dixie's web site will see an option for FTD Flowers. Upon selecting that option you are taken to an ftd.com web site which displays the Winn-Dixie logo at the top of the page.

At about the same time, it became apparent that Teleflora.com had entered into similar relationships with other retailers. Amazon.com had a site that appeared to be virtually identical to the Teleflora.com site, except that the Amazon logo was displayed at the top of the site. Amazon's web site is still displaying and selling Teleflora-branded floral arrangements. Goody's, a chain of clothing stores located in 20 states, is selling flowers through Teleflora's Flower Club. The bottom of the Goody's Flower Club home page states, "Goody's and The Flower Club bring flower and gift shopping convenience to your home and office." When you receive Mercury or Dove orders which list the sending "shop" as FTD or Teleflora, it is becoming increasingly difficult to know where the orders originated.

Obviously, any perceived uniqueness or prestige that was associated with being an FTD or Teleflora member is quickly disappearing. I believe this is only the beginning of an explosion of co-branding that FTD and Teleflora will pursue with just about any company that has any name recognition whatsoever. In fact, the companies have indicated this in their own publications. In the prospectus FTD filed prior to its IPO in February, FTD wrote, "We are currently pursuing opportunities to expand our presence in a number of channels that have not historically represented a meaningful portion of our revenues. For example, we believe the supermarket channel represents an excellent opportunity to increase our membership and product penetration. To capitalize on this opportunity, we have recently created custom-tailored offerings designed for the approximately 22,500 supermarkets that sell flowers in the U.S. Within North America, we currently provide services to approximately 2,800 supermarket locations." FTD wrote, "In our Consumer Segment, **we compete with traditional florists** (emphasis added) and gift retailers, as consumers choose whether to give their business to a traditional florist, specialty gift retailer, or direct marketer." FTD also stated, "There are approximately 37,000 mass merchant locations selling floral items in the U.S. ... we are pursuing channel initiatives, such as FTD-branded store-in-store floral displays and departments at various mass market retailers."

With the job openings Teleflora has recently advertised on its own web site, Teleflora is also sending a loud and clear signal concerning the future direction of that company. Job openings include Customer Acquisition Manager/Director (Online marketing), Coordinator - Consumer Direct Affinity Marketing (Flower Club), Sr. Director/VP Consumer Marketing, and Vice-President, Internet Marketing (Internet / E-Commerce). The job descriptions for all of these jobs include some involvement with Teleflora's consumer-direct activities.

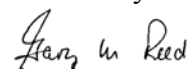
It is surprising that there are many florists who, even after reading this information, find it difficult to accept that their “partners” are competing against them or that they are helping to fund their competitors through fees paid to the wire services. These companies are actively converting local orders into discounted incoming wire orders. After all, they make nothing when your customer places an order with you directly. However, when your customer places an order through these order gatherers, the gatherers earn a hefty portion of the order, along with a substantial service fee of about \$10-\$12. Of course, you typically receive only about 73% payment, e.g. \$36.50 for a \$50 order, for filling the order, and you must deduct another dollar for receiving the order. It is indisputable that the consumer has limited funds that can be spent on floral purchases. As gas prices exceed \$2 a gallon, consumers’ dollars are stretched even thinner. Every order that is intercepted by an order gatherer represents a financial blow to retail florists. I’ve heard a few florists say that this realignment of the floral distribution channel will not affect them. But these order gatherers are reporting sales in the hundreds of millions of dollars, and they are reporting steady growth, as the number of traditional florists continues to decline.

In January, I suggested that you establish three goals for 2005. Those goals included strengthening your Internet presence, developing and maintaining a local marketing campaign, and considering alternatives to traditional ways of doing business. In the section of my letter discussing business alternatives I pointed out that it is not wise to wait until your house is on fire to develop a safe escape route for your family. I also pointed out that it was not wise to wait until key components of your business were totally disabled before looking for alternatives. Well, the floral “house” may not be on fire, but it *is* smoking. You may feel you can’t give up rebates today, but as these order gatherers continue to expand their businesses, you will see your outgoing wire orders eroded until the rebate revenue doesn’t even offset your monthly wire service fees. Unfortunately, you may then also find that your local business has eroded to the point where you can no longer operate a profitable business.

Your competitors have put their plans *in writing* for you to see. Florists must answer some difficult questions about their future. How does a wire service’s turning dozens of national non-floral brands into competing floral order gatherers benefit your shop? How does a wire service’s partnering with potentially tens of thousands of supermarkets and tens of thousands of mass market locations benefit your shop? Will florists continue to provide the critical link between the order gatherer and the floral recipient, facilitating retail florists’ own demise, until the order gatherers establish other means for delivering their products to the consumer? If these companies are successful in implementing their plans, traditional retail floral shops may be the last place tomorrow’s consumer considers when he thinks about buying flowers.

I encourage you to do a little homework. Learn more about your industry and your competitors. Spend a few minutes browsing the Internet the week before Mother’s Day to get a feel for the challenges florists face. Read the publications and news releases of the order gatherers, and read the industry magazines and newspapers. Communicate with your fellow florists so that they too can know what is going on. Florists must be informed and they must be organized to face the challenges that lie before them. If you have any questions about the issues discussed above, please call FAS at (800) 830-6160. We look forward to hearing from you soon. Thanks.

Yours truly



Gary M. Reed  
President