Chris arrived just on time to attend a senior management team meeting at 1-800-Flowers.com’s headquarters in Carla Place, NY. Jim McCann, Chris’s elder brother and the company’s chairman and CEO also attended the meeting. Joe Pititto, Vice President of Investor Relations and Corporate Communications was present as well. The meeting was about how 1800 Flowers could gain competitive advantage through collaborations with the extended supply chain. Chris started the discussion by suggesting that the company should bring more florists into the company’s BloomNet network and introduce more of the company’s non-floral gift products, specifically its gourmet gifts, into the florist shops for same-day delivery. “In my opinion, the best way going forward is to expand our BloomNet network and get them to carry our gourmet gifts for same-day delivery. This would extend our product offerings, geographical reach, and more importantly, we could be close to the customer with minimal investment”. Jim agreed with Chris, but only up to a point, saying, “Chris, while I agree that we benefit immensely from collaborating with independent florists and they have the ability to carry other gift items in their shops for same-day deliver, we cannot be solely relying on the florists to drive our growth. Our agreements with them are non-exclusive and we do not have any control over their day-to-day operations and they have limited capabilities in terms of space and inventory investment bandwidth to carry all the products that we would like to position closer to our customers”. Chris listened to these thoughts and said, “I think we may be missing a point here. Our supply chain does not stop with the florists. In terms of floral gifts, some of the delivery issues that we have had in the past were due to the non-availability of quality flowers specific to our product designs to meet customer demand. To address this element of our gifting supply chain, I think we also need to bring the floral growers into our discussion. Further, as you have pointed out, our business is no longer just about flowers, we also need to look at how we bring synergies through our supply chain, including our own gourmet gift production, warehouse and delivery facilities”. Jim McCann concurred, saying “In terms of the floral supply chain, our goal of influencing the availability of key floral varieties and enhancing our ability to help our florists do the best possible job for us, must address the supply chain from the farms all the way to the florists. While buying growers or wholesalers is an involved and risky approach, not to mention capital intensive, developing a strategy and an initiative to offer an electronic marketplace for flowers would help us improve availability, lower costs and improve coordination, thereby providing us sustained competitive advantage”. Chris agreed, noting that this could be one important element toward the overall goal of leveraging both owned and “partnered” assets to bring both consistency of supply and expanded range of products closer to their customers.

© Swaminathan 2012. This case was prepared by Professor Jayashankar Swaminathan with the help of doctoral student Karthik Natarajan as a basis for class discussion rather than to illustrate good or bad administrative practices.
Company History

1-800-Flowers.com began operations in 1976 as ‘Flora Plenty’, when James McCann acquired a single retail florist in New York City. He subsequently expanded it to a 14-store chain. Jim’s younger brother and current president, Chris McCann, joined the company in 1984. In 1986, Flora Plenty acquired a Texas-based florist named 800-Flowers, along with the rights to the toll-free number 1-800-Flowers. In the days when brick-and-mortar retailing was the common practice, Jim made the bold move to adapt telephone commerce as the business model and renamed the company 1-800-Flowers. This was a stroke of marketing genius — the innovative and easy to remember name led to a strong brand recall value amongst customers. The company was one of the first retailers to use 24x7 toll-free numbers and it changed the way the floral industry operated — floral orders over the phone would soon become the norm. Two years later, in 1988, the company launched BloomNet, its own network of independent florists to facilitate same-day delivery of customer orders — BloomNet would later become a fully-owned subsidiary of 1-800-Flowers.com, offering B2B florist wire service.

In the next few years, while the retail industry was riding the 1-800- wave, the company was already exploring several new ideas in pursuit of the next big technological innovation that would fundamentally alter the way business was done. As a part of this initiative, the company explored the possibility of selling through the Internet and as early as 1991, the company had its own website. The results were not immediate since Internet retailing was practically non-existent at that time due to the lack of supporting infrastructure. However, the launch of several web browsers between 1993-1995 kick started the e-commerce era and 1-800-Flower’s online sales volume increased significantly after 1995. To reflect the changing times and to emphasize the role of the Internet in the company’s business strategy going forward, 1-800-Flowers was rechristened 1-800-Flowers.com in 1998. The company was one of the first retailers to directly sell over the Internet and as with telephone retailing, the Internet retailing model revolutionized the floral industry landscape. Suddenly, customers had access to the products offered by hundreds of florists across the country through 1-800-Flower.com’s website. From the company’s standpoint, this meant increased product variety along with the added benefit of reduced investment in inventory and infrastructure. The Internet retailing model pioneered by 1-800-Flowers.com has become a standard in the floral industry.

So-Lo-Mo

1-800-Flower.com had always been a leader in adopting technology to drive business and it lived up to its reputation when the third wave (the first wave was 1-800- numbers and the second wave was e-commerce) to sweep the retail industry came around — mobile and social commerce. It launched the floral-industry’s first mobile gift center in 2008, and has since then won numerous
awards for its innovative apps in the mobile commerce space. In 2009, the company added one more to its list of first ever in the floral industry and the retail industry in general — 1-800-Flowers.com partnered with social commerce provider Alvenda (now renamed 8thBridge) to become the first retailer ever to open a fully operational store inside Facebook where customers could purchase and make payments without leaving the social media website. Since then, many retailers have followed suit. 1-800-Flowers.com is also a pioneer in social marketing, partnering with Facebook, Twitter, Google + and many other blogging websites to reach customers directly and in a cost effective manner. The company plans to further invest and innovate in the social and mobile media space in line with its theme ‘So-Lo-Mo’ (Social-Local-Mobile), which recognizes the growing importance of mobile commerce and social networking to 1-800-Flowers.com’s future growth and marketing plans.

**Not just flowers**

While 1-800-Flowers.com has been a leader in the floral industry for almost 30 years now, it is no longer just about flowers—the company’s mission is to be the ‘leading provider of thoughtful gifts’ by positioning it as an everyday-gift destination. In line with this mission, the company began offering non-floral products like gourmet cookies and gift baskets in the late 1990s. The diversification gained momentum with the acquisition of The Popcorn Factory® in 2002. Since then, the company has invested heavily in the non-floral category to open new businesses and also make a series of acquisitions. As of 2012, in addition to its core floral business and BloomNet wire service, the company also has a significant presence in the gourmet foods and gifts industry through its various wholly-owned subsidiaries — The Popcorn Factory®, a leading producer of gourmet popcorn and specialty treats; Cheryl’s®, offering fresh-baked gifts; Fannie May® confections; 1-800-Baskets.com®, specializing in gift baskets and towers; and Winetasting.com®, offering a collection of more than 700 wines from around the world. To leverage its multi-million customer base and leadership position in the floral industry, the company uses a multi-brand website to direct the high traffic to 1-800-Flowers.com to its non-floral business (see Exhibit 1). Exhibit 2 shows the revenue contribution of the three business categories for fiscal year 2011.

**1-800-Flowers.com Supply Chain**

1-800-Flowers.com operates a complex supply chain comprising of manufacturers (non-floral), growers (floral), distribution centers, fulfillment centers, franchised, company-owned and independent retailers (floral and non-floral). See Exhibit 3. Typically, orders for all products are placed either online (though 1-800-Flowers.com, 1-800-Baskets.com etc.) or over the telephone but the order-fulfillment strategy varies significantly depending on the product type.

**Flowers and Plants.** The company’s floral orders are fulfilled using a hybrid system consisting of the BloomNet network of franchised and independent florists and the company-owned distribution centers. Customers have the option of choosing from a menu of hand-crafted floral

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1 For example, in fiscal year 2010, 1-800-Flowers.com introduced a “Like It” feature on its website where customers can choose products they like to add to the “wish list” on their Facebook page, making it easy to let family and friends know about their gift preferences.
arrangements, which are delivered in-person by the local florist on the same day (representing approximately 80% of the company’s floral sales) and a wide-variety of ‘shipped in a box’ floral arrangements which are directly shipped from the distribution centers (no same-day delivery available for this option as well as a select variety of floral products through its Fresh From Our Growers® program, in which case the flowers are shipped directly from the growers’ fields to the customers.

**BloomNet**

For nearly a decade since 1-800-Flower.com began operations in 1976, the company primarily fulfilled its orders through 14 company-operated stores. This changed in 1988 when 1-800-Flowers.com teamed up with a select network of independent florists to create the BloomNet network. This collaboration with florists opened up new opportunities in terms of product variety, flexible delivery options, and more importantly a wider geographical reach. Through its florist partners, the company had the advantage of being close to the customer and for the first time, 1-800-Flowers.com was able to offer same-day delivery nationwide. The florists also benefitted immensely from this partnership since 1-800-Flower.com’s strong brand value and large customer base offered increased visibility and demand for their products with little to no additional marketing costs.

Over the years, the nature and scope of the collaboration between 1-800-Flowers.com and the florists increased steadily culminating in the formal launch of BloomNet as a B2B floral wire service provider in 2005. BloomNet is no longer just an order fulfillment network — it offers a suite of products and services to help florists to grow their businesses profitably ranging from exclusive, wholesale merchandise to floral design training programs. 1-800-Flowers.com has a quality assurance program for BloomNet florists to guarantee satisfaction for 1-800-Flower.com’s customers as well as to maintain high standards for florist to florist transactions within the BloomNet network. The company selects retail florists for BloomNet based upon the florist's design and delivery capabilities and allocates orders to members within a geographical area using a complex algorithm that uses a variety of inputs, including a florist’s historical quality performance and customer satisfaction ratings, its inventory and ability to fulfill orders to the company’s recipes and specifications and the number of member florists currently serving the area. The industry-standard revenue sharing agreement for floral orders, as adopted by BloomNet, is as follows: the florist receiving the order (which could be 1-800-flowers.com or an independent BloomNet florist) keeps approximately 29% of the total order value while the fulfilling florist receives the remaining 71%. The responsibility for the floral inventory and delivery rests with the fulfilling florist.

**Gourmet Foods and Gift Baskets.** For non-floral products, 1-800-Flowers primarily uses direct shipment from its manufacturing and distribution facilities to the customers. In addition, as of December 2011, the company also owns and operates approximately 70 Fannie May/Harry London and 9 Cheryl’s retail stores and has a growing number of franchise retail locations for its Fannie May brand. Fannie May chocolates (as well as the company’s Harry London wholesale brand of chocolates) are produced in the company’s facility in Canton, OH (~10MM lbs of chocolate produced annually); the company’s Cheryl’s cookies and other baked gifts are manufactured at its facility in Westerville, OH (outside of Columbus); The Popcorn Factory
products are produced in the company’s Lakeville, IL plant and its 1-800-Baskets.com gifts are produced at the company’s facility in Melrose Park, IL (near O’Hare airport).

**Economic Downturn and Strategic Response**

The gift industry is highly discretionary in nature and performance is heavily subject to the economic climate. The demand for the products depend on the spending ability of the customers which in turn is directly related to the factors like unemployment rate, housing market conditions, and commodity prices. During the recent recession, the demand for 1-800-Flower.com’s products were adversely affected, mainly in the core floral business, resulting in a negative operating income in 2009 and 2010 (Exhibit 4). The impact of the recession, in terms of net revenue, was worst in the fiscal year 2010 (June 29, 2009 – June 27, 2010).

**Cost Cutting Measures**

1-800-Flower.com’s initial response to the reduced demand and lackluster market conditions was to implement a series of cost-cutting measures. Between June 2008 and June 2009, the company significantly reduced its workforce (including full and part-time employees). This reduction included an elimination of roughly 15% of full-time jobs. Another 100 employees were laid-off in the next one year. In addition to downsizing its workforce, 1-800-Flowers also decided to close its brick-and-mortar customer service centers in order to reduce the fixed costs associated with operating these facilities. The company transferred employees from these centers to its Home Agent Network (HAN) and utilized sophisticated call routing and VoIP solutions to virtualize its customer service platform. Importantly, this move also served to improve the company’s customer satisfaction ratings as home agents have proven to be a stable and experienced workforce incented by their ability to work from home.

As a part of the cost-cutting plans, 1-800-Flowers.com also accelerated the initiatives under its Process Enhancement Programs (PEP) umbrella to reach the goal of $50 million savings in operating costs by the end of the fiscal year. During the fourth quarter of the same fiscal year, the company made the strategic decision to divest its Home & Children’s Gifts business to better focus on the floral, BloomNet, and gourmet foods and gift baskets categories. These cost cutting measures resulted in lower operating costs (excluding the goodwill and intangible impairment expenses of $85.4 million in 2009) leading to increased gross margin percentages in 2010 and 2011. The operating expenses ratios were also comparable to pre-recession levels, despite the significantly lower revenues in 2010 and 2011.

It became clear to the senior management that a cost based strategy is not going to be very successful. The products were organized into three categories Good, Better and Best based on their price points. The cost based approach had led to a focus on the Good products and did very little to differentiate 1-800-Flowers from everyone else who offered low cost gifts. They took the bold decision to focus on Better and the Best categories while working closely with the supply chain. A key element of this strategy was the close collaboration with the Florists at the design stage.
**Florist design collaborations**

The economic recession impacted 1-800-Flowers.com in more ways than one — while it emerged leaner and operationally more efficient, the company quickly realized that simply cutting costs and passing on the benefits to the customer (through discounted pricing, free shipping etc) was not sufficient to spur market demand in tough economic times. In the lead up to Valentine’s Day 2010, 1-800-Flowers.com resorted to a combination of steep discounts and increased marketing spending to generate consumer interest for its products. These promotional activities continued all the way till Mother’s Day. Although these programs resulted in an increase in the number of orders and new customers, the increase was insufficient to offset the associated decline in the average value per order, resulting in lower gross profit.

Based on an in-depth analysis of the 2010 financial performance, the top management at 1-800-Flowers.com concluded that the company had to look beyond the existing methods and line of products in order to return to profitability and to support its ambitious growth plans. While staying committed to its efforts to reduce operating costs and increase efficiency, the company decided to invest in developing new and exciting products that would capture the imagination of the customers.

**a-DOG-able® Collection**

By June 2010, the decision to invest in developing new and exciting products had already been made but one key question still needed to be answered — how would they come up with such radically new designs? The straightforward answer would have been to increase in-house product design efforts by residential floral designers. But the company was convinced that this was not the solution. The management team felt that they had to look outside their doors for fresh, out-of-the-box ideas. It is at this juncture that the company decided to bring in a knowledgeable, valuable source of ideas into its product design process — the company’s own BloomNet member florists. Many florists within the network had outstanding design capabilities and involving them in the product design process would also be valuable from an operational standpoint since the ultimate product crafting and delivery were carried out by the florists.

The company employed a variety of strategies to facilitate idea exchange and deepen their design collaboration with the florists. One such initiative was the creation of the Floriology magazine through which florists can exchange inspiring ideas, marketing strategies etc. The magazine regularly features promising designs by member florists along with a short narrative of the design concept — some of these designs might eventually be added to 1-800-Flower.com’s product offerings. This recognition and visibility provided encouragement to the florists to actively participate in the design process. The company also established the 1-800-Flowers.com Floral Design Council to foster floral design artistry and collaboratively develop new products. The design council routinely conducted design competitions for florists and winners were rewarded with cash prizes and in some rare cases, a share of the revenue for designs directly attributed to them. The company has even named a floral arrangement, “Dee’s Tropical Paradise™” after a Boston-based florist Dee who provided inspiration for that particular design.
The increased product design efforts through collaboration with the BloomNet florists resulted in many innovative and exciting products including the widely popular *a-DOG-able® Collection* line of products featuring a set of eleven products for different seasons and reasons (see Exhibit 5). These floral arrangements are hand-crafted by the fulfilling florists in the shape of an adorable dog, complete with eyes, nose, and a pair of bunny ears. The *a-DOG-able®* line of products proved to be an instant hit due to its appeal, unique design and more importantly, the value that it offered to the customers with a low starting price of $34.99.

**Moving Forward**

1-800-Flower.com’s design collaboration with the florists proved to be a successful one but numerous challenges lie ahead for the company. While the economy remains the single biggest threat, the company is also facing intensifying competition. In the floral category, 1-800-Flower.com’s competitors include retail floral shops, online floral retailers, floral wire services, and supermarkets with floral departments. Improvements in information technology and the convenience of e-commerce have led to a surge in the number of internet-based floral retailers, some of which also sell their products through traditional channels by collaborating with independent florists. In addition, 1-800-Flower.com’s partnership with the independent florists and growers is non-exclusive — the service agreement can be terminated by either party at a short notice. Also, the company has no control over the operations of either the independent florists or the growers. This exposes the company to a lot of risk that must be carefully managed in terms of quality, timeliness, and reliability of its services in the floral business.

To deepen its relationships with its BloomNet florists – and following a surge of florist interest resulting from the company’s very positive appearance in the first season of the hit TV program “Undercover Boss” – the company decided to expand its franchise program. Prior to 2011, the company had not added a new florist to its small franchise network (part of BloomNet) for more than a decade. However, rising interest from florists, following the depiction of local florists as an integral part of local community retail landscape in the Undercover Boss show, led to an initiative to allow select BloomNet florists to co-brand. This offers the benefit of retaining their local brand recognition while also leveraging the national brand recognition as well as the national marketing and advertising campaigns, of 1-800-flowers.com. In addition to the expansion of co-branded franchise florists, in fiscal year 2012, the company acquired Flowerama, a Waterloo based florist franchise company with more than 77 retail stores in more than 25 states. The Flowerama stores have already begun the move to co-brand their retail locations. 1-800-flowers franchise florists have become the upper tier of the company’s BloomNet network in terms of their deeper relationships with the company.

1-800-Flowers.com has also been working on leveraging the company’s existing non-floral supply chains to deliver floral products while concurrently seeking ways to utilize its unique same-day delivery capability through the BloomNet florist network for many of its non-floral gourmet food gift items. Integrating the floral and non-floral delivery channels offers tremendous potential. The company operates 68 company-owned and a growing number of franchise Fannie May/Harry London retail stores as well as 9 Cheryl’s retail stores which could also be doubled up as retail outlets for the floral business — this would enable 1-800-Flowers.com to be close to
the customer in a cost-effective manner without expanding the florist network through vertical or virtual integration. The company has also recently introduced a new product line, FruitBouquets, designed to compete with the franchise chain Edible Arrangements. Their strategy is to refit existing florist locations and company-owned gourmet food gift stores with the ability to craft the carved fruit bouquets and thereby grow national same-day delivery capability quickly. To achieve this goal, 1-800-Flowers.com needs to invest in employee training as well as significant planning before the floral and non-floral delivery channels can be integrated.

As the company seeks to find ways to address the above-mentioned opportunities, a number of key strategic decisions need to be made. It is clear that 1-800-Flowers.com needs to leverage and expand on the supplier collaboration effort, the question was how to do this in the most effective manner. Should be a vertical integration or could more be done along the lines of virtual integration? A second and related question is the level of integration with the growers. One of the key strategic choices has been to focus on the higher end of the product offerings. Could 1-800-Flowers.com somehow extend the integration back to the growers so that flowers of right type and quality including exotic flowers could be made available on a need basis thereby providing the firm with sustained competitive advantage. How would one go about establishing that strategy? What is the optimal supply chain structure — a fully-integrated supply chain extending all the way up to the growers or a semi-integrated supply chain involving virtual integration with the growers and vertical integration with the florists or a completely virtually integrated supply chain? Most recently, 1-800 Flowers.com management has been evaluating a proposal to develop an electronic marketplace. The marketplace would allow for florist to florist as well as 1-800 Flowers.com to florists transactions. 1-800 Flowers.com could now procure most needed flowers from growers and auction them at the site, thereby increasing the availability of critical flowers for the local florists. Further, the transaction data could give them important information about demand patterns for various types of flowers and they could coordinate planning with growers in advance. This approach is a middle ground between vertical integration and status quo. However, the important challenges related to positioning, planning and execution of this approach need to addressed.
Exhibit 1: 1-800-Flowers.com’s multi-brand website
Exhibit 2: 2011 % Revenues by Category.
Source: 1-800-Flowers.com 2011 Annual Report

Exhibit 3: 1-800-Flower.com Supply Chain
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<td>(in thousands)</td>
<td></td>
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<tr>
<td>Total net revenues</td>
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<td>713,950</td>
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<td>Gross profit</td>
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<td>Total operating expenses</td>
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<td>353,738</td>
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<td>Operating income (loss)</td>
<td>13,413</td>
<td>3,382</td>
<td>(72,532)</td>
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<td>Other income (expense), net</td>
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<td>Income (loss) from continuing operations before taxes</td>
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<td>(282)</td>
<td>(15,326)</td>
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<td>Income (loss) from discontinued operations before taxes</td>
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<td>Income tax expense (benefit) from discontinued operations</td>
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<td>(7,838)</td>
<td>(810)</td>
<td>(2,864)</td>
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<td>Net income (loss)</td>
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<td>$(4,221)</td>
<td>$(98,417)</td>
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Exhibit 4: Consolidated Statement of Operations and Balance Sheet for Fiscal Year 2011
Source: 1-800-Flower.com 2011 Annual Report

Exhibit 5: A snapshot of the a-DOG-able line of products from 1-800-Flowers.com’s website
Case Questions

1. What are the supply chain capabilities that 1800 Flowers.com needs to succeed in its business?
2. Assess the key supply chain strategies that 1800 Flowers.com has adopted since the economic downturn.
3. Why is the floral design collaboration approach so unique? How could 1-800-Flowers.com sustain this advantage?
4. As one element of its overall supply chain, specifically focused on floral, identify the key pitfalls and opportunities with respect to the development or acquisition (“make or buy” decision) of an electronic marketplace for floral wholesale to independent florists.