Their Loss, Your Gain

Florists who’ve lost hundreds of thousands of dollars to fires reveal what they wished they’d known before the flames and what they’ve learned after the ashes.

By Christy O’Farrell

“EDUCATE YOURSELF ... INSTEAD OF NAIVELY THINKING, ‘MY BUILDING IS FINE, NOTHING WILL HAPPEN.’”

Debbie Royal, of Royal Expressions, which was destroyed by fire in 2010
Fighting to survive the recession, the Hillmans had been on a cost-cutting streak. They had reduced employees’ hours as much as possible without sacrificing customer service and lowered insurance costs by accepting the highest deductibles. But they felt forced to tighten the belt even more. Though the store had never gone without coverage in its three-decade history, they dropped their increasing property insurance premiums to save $1,000 a month.

“This things were just that tight,” Todd Hillman said, comparing it to elderly people having to choose between buying groceries and medication. “With the increasing cost of doing business, something had to go.” They couldn’t skip paying their six employees, property taxes, vehicle insurance or workers’ compensation, he said. “The only thing left was dropping our insurance.”

They planned to re-start their coverage once sales improved. A fire gutted their shop first.

Though the Hillmans’ building was up to code with redundant backup systems to shut down power in the event of an electrical problem, a series of failures added up to a “perfect storm” leading to the 4 a.m. fire, he said.

“It takes an unbroken chain of bad events to cause a loss,” affirmed John Hodapp, senior vice president at Hortica Insurance & Employee Benefits, which specializes in the horticultural industry. “It’s typically not a single error.”

Summer brings one of the more common months for such catastrophes. For retailers and office-building tenants, July and January were the most common months for fires in 2006, the most recent year the U.S. Fire Administration reported. So take advantage of the slower summer months to educate yourself and your staff about fire-prevention tactics and review your insurance policy. Learn from florists who’ve risen from the ashes with lessons on prevention, clean up, rebuilding and preferred insurance features.
The best way to fight a fire is to prevent it. In the Hillmans’ case, an electrical problem caused the fire. The same is true for Royal Expressions, a shop in Blissfield, Mich., that burned down Feb. 18, 2010, and re-opened 11 months later. Both fires started in a wall.

Electrical malfunction was the leading cause in 2006 of store and office building fires with dollar loss (cooking topped the list for all store and office building fires), according to the USFA. Florists who’ve deferred maintenance or postponed electrical upgrades to save money should consider moving such projects up the list, Hodapp advised.

Infrared thermography technology can help prevent fires by detecting heat from overloaded electrical circuits, faulty connections or other flaws so they can be repaired. Without cutting into walls, examiners take images that reveal abnormal temperatures and could indicate a problem. However, such inspections are not routine. If you’re worried you may have electrical issues, ask your insurer if it provides thermal imaging. If

Surveying the Damage

The Hillmans’ fire started in the back room of the two-story, 5,000 square-foot shop. A Palm Beach County fire investigator pointed to the circuit breaker panel as the cause. The four outside walls and most of the roof still stand, but the inside must be completely rebuilt.

So rather than enjoying a brief, post-Valentine’s Day respite, the Hillmans and dozens of volunteers began tackling the cleanup. And what a mess it was. Hillman surveyed the extent of the destruction with astonishment — cutting blades designed for tough abuse corroded as if soaked in salt water; computers and phones melted. He was both incredulous and grateful to salvage an old-fashioned Rolodex, still 95 percent readable. Even though most customer information had been electronically stored, some tidbits of information were only on those cards. Priceless sentimental mementos, such as awards they had displayed in the shop, were lost though.

Total estimated damage: at least $150,000, the Palm Beach County Fire Rescue department assessed. Property insurance would have paid a restoration company $150,000 to $180,000 to clean the site, while he and his wife took some time off, Hillman said. Instead, they’ve had to cash in their life insurance and IRAs to finance parts of the rebuilding that haven’t been covered by volunteers or donations.

“This wasn’t the way we had planned on remodeling,” Hillman said.

Fires cost retailers and other companies an estimated $650 million a year or more. Statistics show that while the number of fires in stores and office buildings has declined, their costs have risen. From 2004 through 2006, the number of store and office building fires dropped 8.4 percent to 18,400 in 2006, but the dollar loss climbed 25.2 percent over the same period, to $838 million, according to a 2010 USFA report on nonresidential building fires.

The National Fire Protection Association also reported a declining number of structure fires in U.S. stores and other mercantile property — 16,200 in 2010. Yet they caused, on average, $648 million in direct property damage per year from 2004 through 2008. All 116,500 nonresidential property fires including those at restaurants cost even more — $3.1 billion in direct property damage in 2007, not counting indirect loss such as business interruption, NFPA reported.

Smokey the Bear Knows Bests

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not, consider hiring an inspector or loss-prevention firm.

Because it’s costly, Hortica doesn’t automatically inspect every property with thermographic imaging, Hodapp said. Two criteria might trigger such an inspection — if a property is worth at least $2 million, or if the company’s loss control representatives, who conduct more routine inspections at many properties of all sizes, find a potential hazard. Aside from electrical problems, flower shop owners and managers should carefully handle potentially hazardous supplies and equipment such as hot glue pots, aerosol sprays, any lighting that heats up, especially near flammable materials. Growers should use caution with heat-retention blankets.

Fire sprinkler systems can save owners as much as 40 percent on their insurance, Hodapp said. It may be cost-prohibitive to add sprinklers to an existing building. But if you’re comparing new locations, one that has sprinklers would have an advantage over one that doesn’t. “Fire prevention doesn’t have to take much of your time or cost a lot of money,” said Paul Goodman, CPA, PFCI, founder of Floral Finance Business Services. “However, the payoffs for you and your employees can be enormous — greater safety, reduced risk of losses, less worry.” For more on preventing fires, see box on p. 32.

How Much Insurance Is Enough?

If prevention doesn’t work, fully insuring your business can save a lot of heartache and regret, said Debbie Royal, AIFD, who learned information she “never in a million years” thought she would need to know after the Royal Expressions fire. “Educate yourself in case you should ever have to use it instead of naively thinking, ‘my building is fine, nothing will happen,’” she said.

The fire that destroyed Royal Expressions, a wooden two-story, 2,850-square-foot building in the historic part of Blissfield, 90 minutes from Detroit, started in the wall between two apartments above a bakery next door, connected row-house style to the shop. A brick firewall between the two buildings protected Royal’s shop somewhat, but the weight of the water from the firefighters’ hoses cracked the beams. About one year and $400,000 later, Royal re-opened in her rebuilt shop in late January 2011. She’s thankful she had followed her agent’s recommendation to buy a full replacement value policy, which cost her about $300 a month, for her 28-year-old business. Without it, she would have had to pay out of pocket for some of the rebuilding and other costs. Her policy covered all rebuilding costs, plus expenses to operate out of a temporary location.

Hodapp said it’s generally best to insure your property for full replacement value, rather than insuring for a specific amount. Granted, you’ll pay more in premiums, but if you insured a building worth $1 million for $900,000, you’d have to pay the $100,000 difference for a total loss. And if you only insure your $1 million property for $700,000, you might have to pay a “co-insurance penalty” even for a partial loss.

It’s a decision insurance professionals find “interesting”: Insurance buyers feel their property is “worth one amount when initially purchasing insurance, but worth an entirely different amount when it burns to the ground,” according to a recent article on Hortica’s blog.

“It’s a false economy to underinsure,” Hodapp said. “It will save you money if you have no loss but you buy insurance on the thought that you may have a loss. That’s the whole point.”

The right amount of coverage and its price vary widely from business to business and state to state, but you should expect to pay roughly 1 percent to 3 percent of sales for your total insurance package, not just fire coverage, Hodapp said.

Royal urges business owners not to choose a policy just because it’s the least expensive. “You get what you pay for,” she said. “You go with the cheapest you can find, and you’re going to end up with a huge disaster. If you don’t ever need it, great; the reality is it’s a possibility.”

Although fully covered for the structure of the shop, Royal was only insured for $60,000 toward its contents — plush, balloons, candles, home and garden décor and other merchandise — but her loss exceeded that. Insurance paid for about 75 percent of the contents she lost, she said.

That’s a common mistake, Hodapp said. It’s relatively easy to calculate the value of a building, but harder to measure the value of contents because of seasonal fluctuation. “What we find, all too often, is that customers attempt to save money by not insuring their inventory to full value,” he said. If shop owners insure for the average value of contents, “the cushion we build in takes care of the peaks,”

“A LOT OF PEOPLE DON’T EVEN KNOW WHAT’S IN THEIR POLICY.”

Debbie Royal

ROYAL EXPRESSIONS

Owner: Debbie Royal

Extent of physical fire damage:
Total loss of 2,850-square-foot, two-story building: 1,600 square feet on the first floor and 1,250 square feet used for storage on second floor.

Dollars Lost: $396,000 (total claim)

Insurance coverage: Full replacement value through Michigan Millers

Months to rebuild: 11

Cost to rebuild: $177,000

20/20 hindsight: Make sure you understand what’s included in your policy. Back up your computers and take the information off site.
Todd Hillman surveyed the damage from a Feb. 15 fire at the Lake Worth, Fla., shop he runs with wife, Betsy.

A large crew of long-time employees, customers, temporary workers including Konstantine Afthinos (above) and community members descended on the debris, volunteering to help the Hillmans clean up after the fire.

Hodapp said. For atypical peaks, the company sells a “peak-season endorsement” for added coverage.

Learning ‘Legalese’

Most policies include coverage for business interruption or lost income due to a fire to pay for expenses, such as renting a temporary space, advertising the location of your interim digs and continuing to pay wages, Hodapp said. But do not assume your policy covers these expenses. If you don’t re-open temporarily while your store is under construction, you risk both your customer base and brand recognition.

Royal said it would have been “impossible to recover” without the business interruption coverage she had. That part of her policy paid the double expenses she incurred while operating out of a temporary location two blocks away and rebuilding her original. You must continue paying your mortgage and utilities on the fire damaged property, which many people may not realize, she said. Her insurance company covered payroll and benefits for 60 days, which, in her case, was enough, she said. She now has four part-time employees, including some who worked for her before the fire and some who did not.

Royal had an overall positive experience with her insurer, Michigan Millers Mutual, though she is now insured with Farm Bureau Insurance of Michigan because she got more coverage than she carried previously, for a lower rate than Michigan Millers quoted. She’s happy with the improvements (new ceiling, carpet and lighting). Still, she said, “I wouldn’t wish this upon anybody.” Business was off 35 percent in the temporary location, which opened seven weeks after the fire, compared to before the fire, and is still off by an undetermined amount, though she’s not sure how much of that has to do with the fire and how much is because of the economy.

“A lot of people don’t even know what’s in their policy,” Royal said, and just assume they’re covered. She urges florists to ask their agents to explain “legalese.” “These insurance policies are legal documents,” she said. “Don’t be afraid to say, ‘Hey, I don’t understand that.’”

It’s an agent’s job to explain, Hodapp said, not only when you first buy a policy but also at annual reviews. “That document’s hundreds of pages long [and] complicated,” Hodapp said. “There are conditions and exclusions and limitations. By the time you read it, you may think, ‘I either have everything covered or I have nothing covered.”

Just Like New (Almost)

An insurance company is obligated to replace a building as it was, but because building codes change, rebuilding may require putting it back differently to comply with new codes. If you’re in an older building and worried this could be an issue, make sure your policy has law and ordinance coverage, or you would be responsible for the extra cost.

Royal’s law and ordinance coverage proved a worthwhile investment. The county required her to comply with updated codes, which required major work, including digging deep beneath the basement and pouring cement pylon footers. The new foundation alone was
$13,500 for permits and engineering design fees. Change orders on the project cost $9,184, she said.

Another question, in historic areas, is whether your policy covers restoring historic details and materials exactly as they were, in case local government requires that. Or whether you’re willing and allowed to use modern materials, which sometimes are less expensive.

Most policies allow some flexibility in what you can spend money on, more if you arrange for it in advance. But don’t expect contents coverage to pay for a new entryway or for your building provisions to cover new merchandise.

Restoring paper records may seem irrelevant given the reliance on electronic data. But Royal was glad she had a provision for drying and copying invoices, wire-service statements and other documents she saves for the IRS. It cost $6,500 to restore 16,000 pages, she said.

A Fresh Start or Final Goodbye?

After their fire, the Hillmans, both in their 60s, had to make a few more difficult decisions: whether to rebuild and how to pay for it. The fire took an emotional toll on the couple, who were left second-guessing their decision to drop their insurance and wondering if they had the will and energy to start from scratch. Hillman initially was 80 percent against rebuilding. His wife was about 50 percent against it, he said.

“As fate would have it … we had a major fire,” Hillman said. “The happenstance of timing was just incredible. It’s just eerie is what it is. I can’t put in words the emotions you go through. It’s like a death in the family.”

What gave them the resolve they needed to get back to business was an outpouring of support from employees, long-time customers, community members, firefighters, police officers and other volunteers who helped clear charred and waterlogged debris that stood 3 feet high. (It doesn’t take long in South Florida for mold to set in on soggy drywall.) Volunteers and family members cleared the site in two weeks.

Supporters dropped off sandwiches and vases, contributed $5 or $20 bills, or sent messages from near and far expressing their sympathy. Their encouragement helped the Hillmans recover from the shock of the devastation. “You’re part of this community. We don’t want to lose you,” customers told them. “That was very
Though it would have been much simpler to walk away, the Hillmans have set up a tent outside to conduct business, while managing the construction zone going on inside the back of their building. Target date for completion: early fall. Mother’s Day, prom, wedding and graduation orders continued to come in and Betsy Hillman has gone to great lengths to maintain some of their corporate plant maintenance accounts, but sales have ranged from 20 percent to 70 percent of pre-fire business.

Meanwhile, Hillman has added two more hats to his wardrobe: general contractor and party planner. Tasks that would seem simpler than repairing a cooler or making structural decisions — getting utilities and credit card processors turned off and restarted — actually have been the most frustrating, Hillman said. Progress to get back on their feet sometimes is “baby steps,” like ordering a time clock one day, he said.

humbling,” Hillman said. “That is what made us decide to re-open.”

And some lent more than moral support. One customer, an electrician whose wife had saved the enclosure cards from 22 years of gifts from A Flower Patch, rewired the store. Other building-trade professionals also volunteered their services.

“Electricians, plumbers, restoration people who had never met before, to name a few, began working side by side with a common goal of making our florist shop whole again,” Betsy Hillman wrote on the shop’s blog. “Our community has attacked this problem with full force. In the first weeks after the fire, people just showed up with shovels and wheelbarrows in hand and came streaming in the front door of the shop to help clean it out. I was so overwhelmed with emotion and gratitude for the help we were receiving.”

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**ELECTRICAL ERROR**  Palm Beach County fire investigator Tom Fucci pointed to the source of the fire: a failure in A Flower Patch’s circuit breaker panel.

**POWERFUL GIFT**  Todd Hillman’s new circuit breaker panel was installed — for free — by a long-time customer and electrician, whose wife had saved 22 years’ worth of enclosure cards from A Flower Patch.

One post-fire task the Hillmans enjoy is planning the re-opening party. They’ve kept a list of every volunteer and donor, now more than two pages long, and will celebrate with them all at the blowout bash, not yet scheduled. “I’m going to book the Rolling Stones if I can,” he joked.

Royal said it felt good to see about 75 people turn out for Royal Expressions’ ribbon cutting in February 2011. Yet, on a hard day, she sometimes questions whether she should have rebuilt, because she says there’s no way her business would sell for the amount that has been put into it since the fire, given the depressed local economy and property values.

Just as with the Hillmans, Royal’s supporters, including long-time employees and several high-placed industry friends she has gotten to know through the Michigan Floral Association, went “above and beyond” to help her get back on track after the fire. Alice Waterous, AIFD, PFCl, president of MFA, traveled across the state the day after the fire, bringing chicken soup and a bucket full of cleaning supplies. Suzie Kostick, AIFD, PFCl, editor-in-chief of Flora magazine; Bob Friese, AIFD, and James Lutke were among those who helped her reset the finished store in time for Valentine’s Day, much more quickly than she and her staff could have done on their own.

“It just shows how people in the industry care,” said Royal, an MFA regional director. “They made the store look like a fire had never happened.” To help her manage everything, insurance paid for Royal to hire Laura Parker, AIFD, as a consultant.

When deciding whether to rebuild or retire, owners must consider their ages and health as well as the shop’s financial viability. If you elect to rebuild, you must do so in the same location, unless you’ve worked that out with your insurance company beforehand, Hodapp said.

Also, if you opt not to rebuild, your insurer will pay actual cash value, not replacement value, even if you’ve paid for it. So the payment for a 50-year-old building that has not been significantly updated, for example, would be substantially less than replacement cost because of depreciation.

The community support for the Florida shop made the Hillmans realize their business is viable, despite the financial hardships that led them to cancel their insurance. Heartfelt support for a local business was a common thread in comments posted online in response to an article in The Palm Beach Post about the community rallying behind the Hillmans:

“I used to live near this shop, and now live [in] Tallahassee, [Fla.], and was really concerned about this story ‘cause the other choice would mean another place out of business, and that’s not good for the neighborhood,” Doris Daniels said. “I’ve been using them for 20 years and it would have been sad” if they weren’t able to rebuild, posted a loyal fan who used the moniker “LoveTheFlowerPatch.”

Hillman said all the assistance and kindness has been the bright side to an otherwise awful situation.

“It’s been a very interesting journey,” he said. “We’re coming back.”

**Prevention Primer**

Avoiding fires or minimizing their severity saves money, time and trouble. Print and post this handy fire prevention guide. Go to safnow.org/moreonline.

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