

A Profitable Funeral Home reacting to the FFDA statistics

First, we have to acknowledge that we live and work in an industry in which profits are depressed a little each year by increasing cremation rates. And further, with absent growth and proactive management, profits will continue to decline. It's not pretty, but it is the world in which we live.

The change in cremation rates manifests itself in a couple of ways. Higher profit burials are being replaced by lesser profit cremations and direct disposers are taking a part of the low-end cremation calls. This is reality.

According to Federated Funeral Directors of America, 2006 funeral profits were 5.63 percent of sales, down from 12.91 percent in 1982. I have never seen a 5.63 percent profit funeral home. I suspect that the statistics may be influenced by the inclusion of a large percentage of low volume funeral homes. They may also be affected as much by methodology and a change in tax law as they are by cremation rates and a failure of management. Make no mistake about it, however. There is a very real downward pressure on funeral home profits.

The annual publication of the FFDA funeral home profitability statistics probably has a two-fold effect on the funeral industry. It acts as a much needed wake-up call for funeral home owners and managers. The statistics may also lull some funeral directors into believing that they are not affected by the negative trend. They look at their profit as a percentage of sales and find that they are considerably better than 5.63 percent of sales. In fact, they probably find that their profits are multiples of 5.63 percent and assume that the

FFDA statistics are not relevant to them. But no traditional funeral home is exempt. Because of increasing cremation rates, the concept of declining funeral home profits is equally applicable to a 5.63 percent firm and a 30 percent plus firm.

The first step to increasing one's profit is to acknowledge that we live in an industry with a negative dynamic. Our profits are going to continue to decline, at least on a per service basis, until cremation rates stabilize. We have to decide for ourselves if this is an industrywide apocalypse or a call to action.

Framing the Solution

It is important for a business to be profitable. Profits give us the ability to maintain a high level of service over a long period of time. It allows us to remodel facilities, invest in marketing, add locations, hire new employees, take a better vacation, take a longer vacation, etc. Contrary to public opinion, profit is not a four-letter word. It is an important part of a successful business. A profitable business is a thing of beauty.

Building a profitable funeral business is not rocket science; anyone and everyone can do it. It does not require an accounting or management degree. In fact, it does not require anything but focus and the ability to communicate effectively. The

solutions are simple and are generally known to everyone. As a matter of fact, I have never been in a funeral home in which

the owner/manager did not know exactly what needed to be done.

Funeral homes happen to be among the simplest of service businesses, and as a result, they respond nicely to simple management techniques. There are no complicated financial ratios, no just-in-time inventory systems and no complex accounting or management systems with which to contend.

Virtually every funeral home owner/manager knows exactly what needs to be done. You probably have a pretty good long-term business plan in your head right now. If you didn't, you could research a year or two of the industry publications. Not only would you come away with a pretty good idea of what needs to be done, but you would have a pretty good "how to" list as well.

So why isn't everyone doing it? The answer is right in front of us. In real life, management is often a response to the squeaky wheel. The tedium of day-to-day work tends to drag managers down deeper and deeper into the tar pit of "working in the business" instead of "working on it." Putting out fires keeps most managers so busy that they don't have time to think about leadership, objectives, empowerment, business plans, profit, service levels, motivation, and a myriad of other things that make a business successful and profitable.

So, how is it that everyone knows what to do and still it doesn't get done? Managers are too busy working on things that appear, at that point in time, to be more important than having a profitable business. But what is more important: Keeping your ship spotless and at full speed, or steering it?

Building a Plan

A business is not going to become profitable by accident. It is going to take a proactive effort on the part of the company's leadership.

The first step is to build a plan to be a profitable, competitive and effective business. Write the plan down! That's right, write it down. While it is true that every funeral home owner and manager knows what has to be done, very few crystallize it and get it onto paper. A

crystallized plan can be shared with employees and attacked aggressively until you get the business that you deserve (based on the effort that you put into it).

One must approach the construction of a business plan in a disciplined manner. A business plan is created in response to the facts and circumstances inherent in the funeral home and in the market area. A broad assessment of the company and its relative position in the market area will give a strong basis for the construction of the business plan.

In order to build an effective business plan, one must first realistically address the company's strengths, weaknesses, threats and opportunities. A realistic and honest assessment of one's position in the market will make the business plan easier to construct, more focused and more responsive to the needs of the business.

This calls for an example. Your

competitor has an aggressive preneed program while you do not. You have never been a fan of preneed and feel that you are getting a generous response to your competitor's advertising because of your reputation in the community. When you do your strengths and weaknesses analysis, your preneed program is a weakness versus that of your competitor. His program will increase his market share over a period of time. It is also an opportunity because a properly implemented preneed program will increase your market share, and if you have one, it will increase yours. It is the challenge of your business plan to overcome weaknesses and take advantage of strengths and opportunities.

Once you have effectively and realistically addressed the position of the funeral home in the market area, you can begin to address construction of the business plan. The business plan is more direct and focused than the strengths and weakness analysis. The planning process will include the following broad categories that will need to be considered:

- The performance of a special level of service;
- Post service interaction;
- The arrangement conference;
- Merchandising, pricing and the General Price List;
- The preneed program and preneed sales averages;
- The investment of preneed funds/preneed insurance policies;
- Market share management and community interaction;
- Accounts receivable and credit;
- Reporting;
- Team communication and accountability; and
- Profitability.

The construction of a business plan takes introspection. You will need the ability to face your weaknesses, suppress your ego, and confront your paradigms. The construction of a business plan may not be technically difficult, but it is not for the faint of heart.

More Than Just Architecture

- *Site Selection*
- *Market Analysis*
- *Financial Projections*
- *Project Management*
- *Interior Design*



Neal Funeral Home



Behrens Design and Development, Inc.

Architecture • Interior Design • Project Management
866-617-8778 • www.behrensdesign.com

Monitoring

We have established the importance of a business plan. Now let's look at the post implementation period. We will assume at this point that we have constructed an action and implementation plan that effectively addresses our business needs.

We still need a scorecard to assess the effectiveness of our plan and its implementation to determine if we are on target. This is typically done via a budget. The budget represents a realistic assessment of the dollar impact of the business plan and its implementation. It is typically presented in the form of a projected profit and loss statement.

The actual profit and loss statement is presented each month versus the budget. It is a means of comparing what has been accomplished versus what we expected to be accomplished. The use of a budget turns the profit and loss statement into a powerful management tool.

The budget is one of many tools and

reports that allow the business manager to monitor the effectiveness of the business plan and its implementation. Effective monitoring keeps the business plan on track and focused on its objectives and accomplishments.

Conclusion

I worked as a certified public accountant for close to 15 years. It is my experience that privately-owned funeral homes represent the only industry segment that does not aggressively manage their profitability. It almost appears that independent funeral home owners think that profitability and a high level of service are inconsistent, yet we all know intuitively that the opposite is true. In every other type of business, profit is the reward for hard work.

Funeral homes respond to management. When a funeral home is managed effectively, its profits

increase dramatically.

Let's look at an actual example of a funeral home. We will call it funeral home A. Funeral home A's profit margin increased from 14.4 percent of sales to 30.2 percent of sales in three years. During this time, annual profits have increased by \$225,000, and they are projected to increase by a roughly similar amount again this year. That is a staggering change in profitability, and it still has a long way to go.

How did funeral home A do it? The owner simply analyzed the business's strengths and weaknesses, built a business plan in response to them and effectively implemented the business plan. And better yet, he continues to learn and explore and improve. The funeral home's staff members are not sitting back on their laurels. They have more new initiatives on the table now than ever. It is not about being good. It is about being better. They started out good.

You probably think that funeral home A is the exception. Funeral Home A is not the exception. All funeral homes respond in a similar manner to management and leadership.

Building and implementing a long-term business plan is hard work and requires motivation, courage, tenacity and focus. Building profit is not about greed. It is about limiting risk, providing better service, investing in facilities, investing in employees and opening up new opportunities.

Substandard profits were not thrust on us. They have been earned by us through a lack of attention and a failure to respond to the changes in our industry. Don't be a 5.63 percent.

The decision to be profitable is in your hands. Remember that there is a great business buried deep within every good one ... So get digging! •

Robert Pierce is the president of Pierce CFO, a financial and management firm located in Tallahassee, Fla., and Alexandria, Va. He can be reached at 888-860-6468 and by email at bob@piercefco.com.

Once Again, We Bring You Elegance.
(without the price)



Finally, an affordable line of urns featuring eye-catching designs in solid brass and genuine imported marble.

And your customers will cherish our matching keepsakes in our patented heart-shaped holder.

Best yet... is our Shipping Policy:
Same Day - No Minimum

Contact your local funeral supplier
OR call us today for an Elegante distributor located near you.

Elegante
BRASS COMPANY
800-252-7277