



Daniel M. Isard

Funeral Service Inflation Rate Announced for 2013

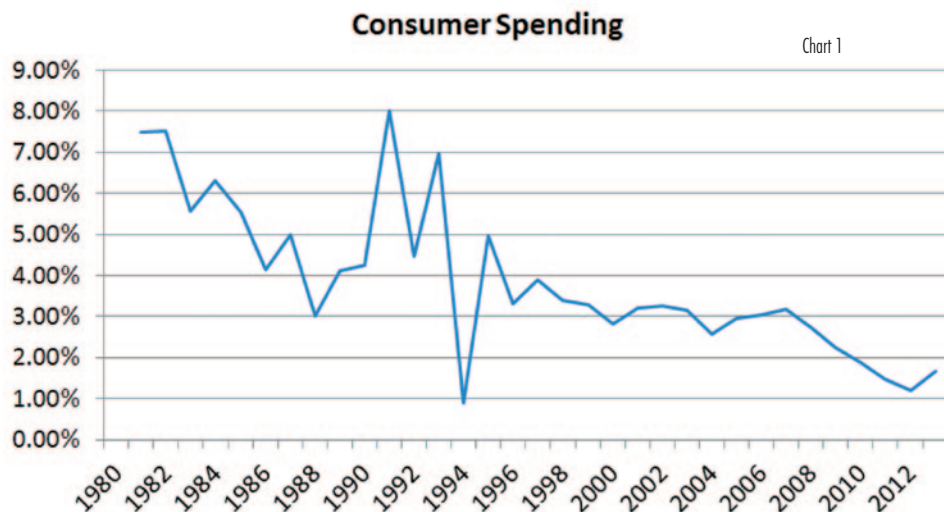
Daniel M. Isard, president of The Foresight Companies, LLC, the premier management and financial consulting firm that specializes in providing services to the funeral and cemetery profession, has announced the updated figures for the rate of indigenous inflation within the funeral profession for the year 2013. Isard leads off his analysis by stating, "In the 28 years I have calculated funeral service inflation, this past year showed a number of trends that were totally unpredictable."

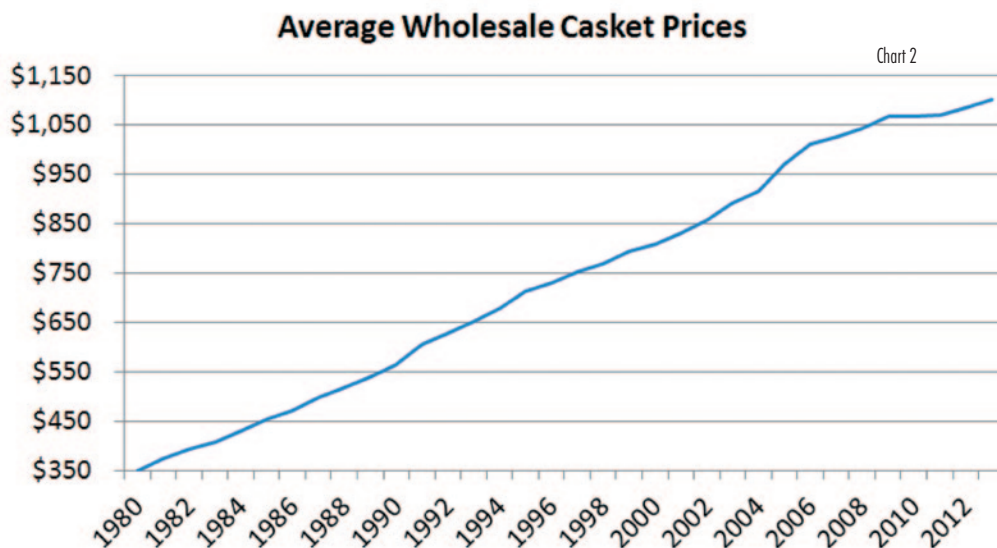
He adds, "First of all, the average spending by consumers on the total funeral increased in 2013. We were concerned that with more non-burial decisions and a low yield on the ever-increasing number of pre-needs being serviced, that average revenue per call might be flat or decline. However, we observed a 1.66 per cent increase in spending," Isard explains. "The increase in average revenue per call was low when compared to the five to eight per cent range of the 1980s and 1990s, but on par with 2012 at 1.21 per cent and 2011 at 1.48 per cent," he demonstrates. Based upon Chart

1, it is clear that the average revenue per call is, as Foresight predicted in 2011, not notably increasing.

Average revenue per call is the total operating revenue of the funeral home including all professional fees and sale of merchandise. This amount is usually greater in funerals that result in burial of a deceased rather than those that result in cremation of the deceased. In 2013 this amount was \$6,741.85, up from \$6,631.94 in 2012. "Keep in mind that as the funeral home manager sets their prices, price increases do not affect pre-needs if the funeral home 'guarantees' the pre-need," Isard says. "We are seeing pre-funded funerals represent about 30 per cent of the average funeral home's annual services performed," he adds.

Casket costs increased in 2013 to about \$1,101.56 from the previous year cost of \$1,084.57 or 1.57 per cent. "When you consider the average wholesale casket price increased about five per cent this demonstrates that there are more rental caskets and more 20-gauge and lower-cost caskets being purchased," he explains. "It also reflects that more fami-





lies are not choosing a casket in their arrangement as part of their decision to cremate their loved ones. The cremation rate, as observed from the Cremation Association of North America (CANA), clearly shows a continuous increase in consumer choice of cremation over burial.” Based upon the visual of Chart 2, the increase in the price of caskets chosen by consumers, on a wholesale basis, is clearly being limited.

The most unusual item in this year’s analysis is overhead. Overhead is the provider’s total cost of operations. Overhead was \$5,103.92 in 2013. It was \$5,141.68 in 2012. “This is the first year we have ever seen a decrease in the dollar amount,” Isard notes. “Overhead, for the first time since 1980 when we began to track FSI, declined. The decline was only 0.33 per cent from the previous year, but it was a decline,” Isard adds. In 2013 overhead was 75.71 per cent of revenue whereas in 2012 it was 77.53 per cent of revenue. “We have seen overhead decline as a percentage of revenue in previous years but never in the dollar amount,” Isard clarifies.

Profit margins increased for the fourth year in a row. “Profit increased in 2013 to \$536.27 up from \$405.69 in 2012. The percentage of revenue in 2013 went up to 7.96 per cent which is highest it has been since 2001,” Isard says. “In our client group of several hundred funeral home owners we have seen that most are best skilled at controlling overhead rather than controlling revenue. We think that this is reflected in this year’s numbers from Federated Funeral Directors of America,” Isard speculates.

The rate of funeral service inflation (FSI) is computed two ways. First Foresight computes it for casketed funeral services (FSI-1). A second method of computing this rate is for non-casketed calls (FSI-2). Currently, about 82 per cent of all funerals in the United States use a casket of some form regardless of whether body disposition is via cremation or burial. FSI-1 covers most of the cases a funeral home serves.

FSI-1 for 2013 was estimated to be 2.40 per cent as computed by Foresight. This is down from the 2012 rate of 3.48 per cent in 2012. “With FSI at 2.40 per cent this year for casketed calls, the effect upon pre-need is going to be more widely felt, because the average crediting rate for pre-need was at two per cent or less,” Isard concludes. “This will impact profit to be downward in the future or it will not allow a growth of any significant amount to occur,” Isard hypothesizes.

FSI-2 was estimated to be -0.03 per cent as computed by Foresight for 2013 compared to the rate of 0.98 per cent the previous year. Since the advent of FSI-2, Foresight has never recorded a negative FSI-2. The FSI-2 for non-casketed funerals has been computed since 2009. It has been dropping each year starting with a factor of 3.01 per cent in 2009.

“The non-casketed inflation rate is encouraging for funeral homes that price their services correctly,” Isard says. “The ability to serve families that are not selecting a casket even with low interest rates on pre-need is an indicator of the strength of the funeral business service model,” he comments. “Ironically, the increasing choice of cremation rather than burial may actually be a blessing in disguise for the well-run funeral home. Today, cremation is the choice of about four out of every 10 families,” Isard surmises. “This is why the FSI-2 is at a much lower rate than FSI-1, as FSI-2 does not take the increasing cost of a casket into consideration,” he adds.

Foresight has been actively watching funeral service inflation (FSI) for more than 35 years and pioneered the very concept of a specific inflation rate for the profession. “We have studied the effect of inflation and the operation of a funeral home going back to 1980 with great detail and to 1940 with some summary data. We do this to help the funeral home managers make decisions about pre-need, pricing and staff costs in a proactive fashion. Our goal is to help funeral home owners and managers operate as prosperously as possible,” Isard says.

If comparing the FSI-1 and FSI-2 at their respective rates of 2.40 per cent and -0.03 per cent (when weighted to 80/20 per cent casketed calls/non-casketed calls) the net FSI was 1.91 per cent. Contrasting this to the consumer price index (CPI) for 2013 at 1.50 per cent demonstrates that once again FSI is higher than CPI.

"FSI is about 25 per cent higher than CPI in 2013. During our computation FSI has never been lower than CPI," Isard observes. "The increasing cost of payroll is a key component that drives the funeral home inflation factor and as staff age, are paid more and the benefits for this greying staff increase you can conclude FSI will be higher than CPI into the future," Isard determines.

The computation of FSI begins with an analysis of the national average figures compiled from Federated Funeral Directors of America, Inc., the Springfield, Ill. accounting firm that serves more than 10 per cent of all funeral homes in the United States. Federated and Foresight are not related in any way. They provide their summary data to Foresight and others as a courtesy.

"I must thank John and Ken Rodenburg, the executive officers of FFDA for some of their guidance and support through the years," Isard was quick to point out. "Without the data of Federated, the computation would be much more cumbersome to produce and possibly less accurate, as the Federated data is consistently applied.

"Inflation in this profession is as important to compute as it is in any industry, since business owners need to assess the effect of their pricing increases and management of their overhead to produce a profit which is fair and reasonable," Isard states. "This industry also has the burden of having made commitments to serve families in the future via prearranged and pre-funded funerals, the bulk of which are guaranteed for the future. Therefore, the growth of this money versus the amount of inflation could represent a problem for the industry as a whole and each individual funeral home," Isard advises.

The concept of the computation assumes a level profit margin and a level merchandise commitment, coupled by consumer spending and the overhead of the profession as a whole. While the death rate might increase or decrease on a national or regional

basis; funeral homes mainly have a fixed cost of operation.

Funeral home and cemetery owners and managers can learn more about FSI via The Foresight Companies, LLC website at www.f4sight.com. ■



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