

Cremation

By Daniel M. Isard

9 Advantages of cremation for cemeteries

If you were to secretly strap electrodes to the frontal lobes of funeral directors, you would be surprised at the brain wave changes when you say words like, “cremation” or “urn.” Funeral directors have learned not to change their facial muscles when hearing those words but the electroencephalograph cannot be repressed. Cremation is a problem for the funeral side of the world. Yet cemetarians have not yet figured out if cremation is good or bad for business. Let me assure you, it is good!

I am going to explain why cremation is good for the cemetery business – however, we must modify our business plan and inventory to capitalize on this. The good news is that the modern-day cemetarian realizes that their master plan is a work in progress. Cremation has made it necessary to revisit master plans to change them from rolling lawns with 27-square-foot interment areas to something far more complex, but complex equals value if it is done properly!

1 Increased Gross Profit
The first thing most business owners learn about profit and loss statements is how to calculate gross profit. Gross profit is revenue minus cost of goods. In a cemetery, cost of goods is the cost of land plus

the cost of any merchandise resold and maybe any costs of development when you create an upright interment area.

When we look at cremation interment, we have several options. If a standard grave is 27 square feet (9-by-3 feet), then it can hold one body or 27 ground buried urns. Let me use some hypotheticals for this case example: If a grave sells for \$1,000 and has a cost of goods of \$200, the gross profit for a burial is about \$800, or about 80 percent in this case. However, if that same space was used for ground inurnment, it will generate revenue of about \$300 to \$500 for each of the 27 inurnments in that space. The cost of goods doesn't change for the space, so divided by 27 spaces, that makes your cost of goods about \$7.41 per inurnment unit. The revenue for one grave converted to 27 inurnment spaces is therefore going to

be between \$8,100 (at \$300 per space) to \$13,500 (at \$500 per space). The gross profit will therefore be \$7,900 to \$13,300, which is a gross profit percentage of 98 percent to 99 percent!

2 Greater Revenue Per Square Foot

As the above example demonstrates, you are going to generate more revenue per square foot. In the above example, one grave goes from generating about \$2,000 of revenue to generating more than \$8,000 at the low end. This is a large number on its own, but that is just the inurnment fees. Let's take this to a bigger number by having a small urn vault for each cemetery inurnment at about \$100 per vault. Now we have about \$2,700 more revenue for the one grave space. Compare the \$2,700 for niche ground vaults versus the revenue from a poured concrete vault for the one grave at maybe \$500 to \$600. That is about a 450 percent increase in vault revenue. Then we have opening and closing of the interment or inurnment. If a grave opening and closing is \$700, the

opening and closing for the inurnments could be \$200 apiece. That generates another \$5,400. So, a 27-square-foot casketed grave space might generate about \$2,300, whereas a niche interment filling up the same area generates about \$8,400. If you think the increase is good per grave now, assume there are about 1,000 graves per acre for an average cemetery. That takes the present value of the revenue per acre as grave interment from \$2.3 million to about \$8.4 million! That increases your revenue per square foot/acre from grave revenue of about \$54 per square foot to inurnment at \$198!

3 Inventory Turnover

The more we impose business models upon cemeteries, we start to recognize that a cemetery cannot have too much inventory available for sale at any one time. There is a concept in business called “inventory turnover.” It is expressed as a ratio. The numerator is the annual sales of inventory, and the denominator is the inventory. We know that the momentum for future disposition is via cremation. More than 20 states now have cremation rates in excess of 50 percent. Your advance sales are going to reflect the future trends of consumer choices. If you are developing graves, you may want to have an acre of graves. It might take you several years to sell this acre off. If you have 1,000 graves in an acre and sell 200 graves a year, that means you are selling your inventory off at 0.2. If we develop that same acre as cremation inurnment spaces, that is 27,000 spaces. Your inventory is going to last much longer via the ground niches than it would for burial. Your marketing is going to be more in line with most consumer choices for the future, as well.

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Recapture of Unburiable Space

In some cemeteries, you see some terrible designs. I am sure that someone with good intentions thought a rolling path with many oval shapes and winding corners would be attractive, but bodies are buried in rectangles, and curves are not friendly to rectangles. I see so many places where there is lost inventory in property adjacent to roadsides, but cremation inurnment gives these unusable areas financial life. These areas are great for ground inurnment, general columbaria or family columbaria. I also see a great deal of money spent creating icons in a garden. The icons add distinction to an area, but often there are many square feet left unclaimed around the icon. These areas can be redeveloped for high-end niche interments with very little cost. Normally, we figure about 10 percent loss of space in an acre for general losses due to shrubs or other problems. The conversion of a sale from 27 square feet to 1 square foot makes this loss drop from 10 percent per acre to about 5 percent per acre!

5 Cenotaphs

If you define a cemetery as a place for interment, you are limiting your business. A cemetery is a place for memorialization. Bodies are often entrusted to these interment areas, and therefore mourners come to this site to pay their respects. However, as cremation increases, we must expand our business models. We are the place that it is usual and customary for families to come to reflect and remember. The body could be scattered on a mountain, but if we get families to employ cenotaphs (spaces

where names are engraved but the body or cremated remains are not interred) then we continue to fulfill our purpose to society. From a business standpoint, cenotaphs can be extremely profitable and decorative. You can take a cenotaph tree and sell off the leaves and branches at a very good profit point, regardless of whether the body (cremated or otherwise) is on site.

Glass-front Niches

I have written and raved about the concept of glass-front niches before, and I will do so again. To me, this is not a sale for a cemetery, but if done properly it can be an annuity (a lifetime income)! The concept of niches is simple, but the glass-front niche is special. About one person out of four is an expressive or extraverted personality. The ability to decorate a niche behind glass appeals to these extroverts as they can have pictures and little shrines developed. Not only can this be developed one time, but you can open and close the glass-front niches at a modest fee. By my estimate, when marketed properly, families will change their niche designs about every four years. So, if you have 1,000 glass-front niches, that comes to about 250 redesigns a year that require an opening and closing. Even at a nominal fee of \$100, that is \$25,000 per year. That income would pay for one groundskeeper each year.

Cost of Maintenance Versus Endowment Yield

No one wants to own a cemetery that is fully sold off. Most of us have already

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realized that the cost of maintenance is going to be greater than the cost of the yield off of the perpetual care or endowment trust principal. However, the more ground and upright niche sales you have, the more your trust will grow. Furthermore, it takes less money to provide endowment care for a columbarium versus graves. What care requirements are there to niches that are part of a mausoleum or are part of a stand-alone building? Yet, the endowment trust income will flow in and provide income the cemetery needs.

8 Sale of Excess Land

I have mixed feelings about presenting this point; however, in the interest of fairness, it must be raised. A cemetery is a business. The business has value if there is sufficiency of

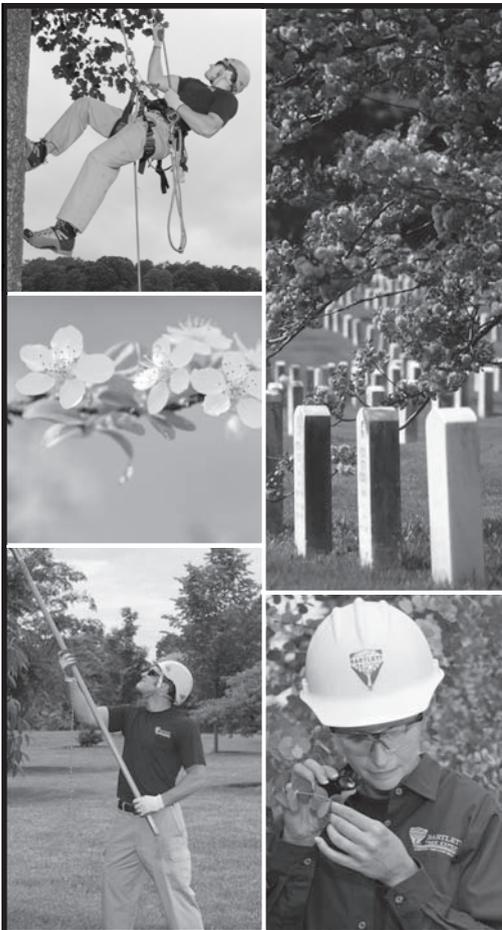
inventory. Cremation interment adds inventory that adds years to the lifetime of the selling of a cemetery. In some cases, it could add too much lifetime.

Recently, I was involved as an expert witness with litigation whereby a cemetery wanted to sell land that was deeded in perpetuity. The argument the cemetery made was it wanted to sell off some excess land, as it would not be needed. This cemetery had about 100 acres of inventory with about 1,000 graves per acre. If it sold 500 graves per year, and had 100,000 graves of inventory, that is about 200 years of inventory. We are happy if a client acquires an inventory of about 40 to 50 years. At 200 years, that could be a bit much. The conversion of the master plan from graves to niches increases the years of inventory. That means that maybe some of this land can find a different purpose that can make its owners some money.

More Chances for Increasing Pricing

9 Funeral directors tend to change prices one time a year. Progressive ceterians have pricing structures based upon the law of supply and demand. For example, I am going to recommend you raise prices 20 percent each time your inventory is sold off by 20 percent of common inventory. Therefore, as the inventory changes in number, at any level of common inventory, the prices should be raised. The greater chance that prices are going to be raised gives your salespeople more chances to be in touch with their client base. That gives you more chances to make sales at the current pricing.

So, is cremation a problem for ceterians? Only those who don't have flexible computer programs will see it as a problem! ❖



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