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ICCFA Magazine author spotlight

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➤Educational information, including copies of this article, can be found at ***www.f4sight.com***

➤You can follow Isard on Twitter at *@f4sight* and "like" his page on Facebook.

Editor's note: The Cemetery Impossible column is written by the staff of The Foresight Companies. **If you have a question you want to be featured in this column, please send it to danisard@ f4sight.com.** Dan Isard or a member of his staff will call you to get more information and a recommendation will be provided via this column, helping not only you but also others who are facing similar challenges.

MANAGEMENT

It might seem that steady sales should bring in a steady income, but it's not that simple when you run a cemetery. It all depends on how you collect payment and whether you control costs.

Cemetery Impossible

What can you do when your cemetery's sales are good but its cash flow is not?

Dear Cemetery Impossible,
I own a mature cemetery with 100 years of history. We are about half sold out. We sell nearly 100 interment graves in advance of need a year and complete about 75 actual interments.

However, I find that I just don't have any cash flow. My salesman is driving a Mercedes and I have a Taurus. What am I doing wrong?
Sincerely, Troubled in a Taurus

Dear Troubled,
Times have changed, but most operating cemeteries have not adapted. Whether you are operating a for-profit or nonprofit operation, you need to generate a profit in order to maintain your cemetery.

With your numbers, you have the chance to be profitable. However, when you describe the auto that you drive versus what your salesman drives, I suspect that the sales commission is out of whack.

Before I describe what the sales commission should be, let us acknowledge the obstacles. First, as a dealer in your own inventory you are prohibited from filing your taxes on the cash basis.

The 100 advance sales are a mix of those purchased with payment made in full, some paid with a percentage of cash down and some with payment made via installments.

Don't be embarrassed by this. Most well-operated cemeteries have a number of installment sales. In the 1990s, one public cemetery company had almost 76 percent of its total revenue coming from installments.

This is a problem, but a manageable one. The solution is to understand your costs of a sale and make sure you recover them.

If we just analyze interment rights we know that the costs break down approximately thusly:

- 11-12 percent cost of goods sold

- 20 percent commissions
- 10 percent marketing and advertising cost
- 24-26 percent income tax

For example, if you sell a grave space for $1,000, the costs of that grave space add up to about 65-68 percent, or $650-$680. If you get half of the sale price ($500) as a down payment, you are running negative cash flow by 15-18 percent.

In the late 1990s, we saw Loewen entrust their future to their cemetery department, which dramatically increased sales. However, Loewen was hemorrhaging cash because they didn't understand the revenue was taxed as if they received the whole payment even though they collected only a fraction of it.

In Loewen's case, the commission paid was a percentage of the face amount of the contract. They paid 20 percent or more out, when in many cases they only got 10-20 percent of the face amount down. History has shown that formula does not work.

We cannot adjust the marketing and advertising costs. We cannot adjust the tax, at least not without being ready to spend time in a federal penitentiary. The cost of goods is set by the accountants.

The only variable, the only thing we can adjust, is the commission. While I don't like cutting commissions, I do like using them to encourage the kind of behavior we need to be profitable.

The behavior you want is payment in full. The best way to get it is to reward your sales team by adjusting commissions. I like to adjust commissions two ways. The first is to use the commission to reward the consumer behavior you want the salesperson to obtain. So, if you can afford that 20 percent commission, pay it. But only pay it for contracts that are paid in full.

When you have to produce an invoice to collect installment payments, each of those invoices has a cost. Based upon the technology used and skills of your accounting team, a bill can cost anywhere from $10 to $25, which is not insignificant.

This covers the time it takes to produce the invoice, complete the collection of each payment and reconcile the account each month. If you send out 1,000 invoices each month, that is one person's full-time job.

There is no cost for sending out bills if the account is paid in full.

For contracts that are not paid in full, you need to adjust commissions according to the term of the amount outstanding.

For example, with 50 percent down and the balance due over the course of 12 months, you can probably afford to pay 17 percent commission—only on the cash collected, the down payment. You would not pay this commission rate on the face amount of the contract.

If we have someone paying 35 percent down with the balance due over 60 months, you could pay a 15 percent commission—again, only on the downpayment collected. A contract with payments to be made over a longer period could bring the commission down to 12 percent.

As installment payments come in, you would then pay commission on the amount received to your salesperson.

If you want to pay a higher commission, the salesperson should reduce some of your costs. As shown previously, the cost of advertising and marketing is about 10 percent.

So if a salesperson learns to establish referred leads, I would increase their commission rate by some or all of this cost. You can afford it. Referred leads have a much higher closing ratio.

By correcting your commission to equal a percentage of the amount collected (and when collected) versus the face amount of the contract, and increasing the commission for referred leads, you can reduce your costs and increase your cash collected.

This one-two punch can improve your cash flow so you are making as much or more than the salesperson. Get ready to trade in your Taurus. ❐