

How to Deal With Cost-cutting Competition

Dear Dan,

I just learned that a national company is renting a facility and starting a new funeral home in my town. This company is well known for marketing on price only. The company has started billboard and newspaper ads featuring the prices of long-standing locally owned funeral homes versus their prices. Our business has been a service-oriented business, and we cannot compete on price. What can we do to fight off this new competitor?

Signed, Average Joe in Joplin

Dear AJ,

I am fortunate to be a student exposed to the history of funeral service, and there has been price-focused advertising since time immemorial. You might call this company a “newcomer,” but its tactics are anything but new.

Price advertising is a logical approach, albeit one that produces mixed results. Funeral service tends to keep prices locked up and out of public display, perpetuating a curiosity about pricing for a funeral. Recently, we saw a “consumer group” calling for all funeral homes to publish their prices on their websites. While I find it inconceivable that I would agree with the objectives of this group, I do find that I am in favor of taking prices out of the proverbial closet. And it can be done, as evidenced by a large funeral home that provides the ability to pre-arrange through its site. With dignity and class, the firm demonstrates the price of services and merchandise in an easy-to-understand method.

One of the great minds of funeral service is Glenn Gould of MKJ Marketing, which did a survey whose results I quote quite frequently. The survey found that “65 percent of consumers felt that all funeral homes were the same.” While I find the conclusion to be erroneous, who am I to argue with facts? In the eyes of those

not living in the deathcare profession, 65 percent see all funeral homes as the same. There are two conclusions to this statistic:

- 1) If 65 percent are the same, then the only point dividing them must be price.
- 2) If 65 percent are the same, then for me to eliminate price as a factor, I must clearly demonstrate how my business is different.

We’ve heard so much talk about “personalization” of the funeral over the years, and I believe in that. However, if I cannot demonstrate how my funeral home is different from the competition, I won’t get the chance to help personalize a funeral for a family. So, while personalization is important, differentiation is the trump card.

Now, AJ, your problem is that a newcomer is planting itself in your town. If the company talks about price in its advertising or marketing, your perception is that the community is going to redirect from the usual patronage routes it took in the past. Well, that may or may not be true.

I direct you to the NFDA consumer studies of the past several years. Fewer than 9 percent of all consumers shopped funeral homes. Of those who did, most shopped only one other. Of those who shopped, price was a consideration, but it wasn’t the most powerful consideration. Therefore, my conclusion is that almost 97 percent were not price driven.

That is not to say that price-driven consumers don’t exist. They are out there! But in most of the value-seeking cases, we find they have already identified their low-price provider. So they don’t shop – they know who the low-price provider is.

I run a business that supports funeral homes throughout the country, and I see markets that are more driven by price than others. Typically, price is a consideration when there are multiple providers within the same distance to the consum-

er. Furthermore, these value seekers are usually in a larger market. Research we did in the early 1990s found that 20 percent of large markets are affected by price. So, in a town of a million people, there would be about 8,500 deaths a year. If 20 percent of that market is focused on price, about 1,700 cases a year would probably go to price-marketing firms. If there is only one price-oriented provider, then that company can probably make a good living provided it manages its overhead. However, since low-price providers usually have low overhead, they are usually more plentiful than high-end providers. In Phoenix, Arizona, for example, there are eight companies promoting themselves as being the lowest priced funeral home! If these eight firms divided up 1,700 cases at a nominal average revenue/call, none of them could make a living!

A national company that comes in as a price-focused provider has to have a good business plan worked out. To be a low-cost provider, you must have two things in your business model:

- 1) Low overhead
- 2) Low fixed cost of operations.

Low overhead is evidenced by a few operating decisions. First is a low investment. A company cannot possibly own expensive real estate. In fact, most rent their real estate. Sure, rent costs more in the long run, but in the short run, it is less. The company will also have a lower cost of autos and staffing. In fact, since staffing is the largest operating cost of a funeral home, they have less full-time staff because it converts that cost to a variable cost and not a fixed cost.

Now that we understand the opposition and its style, let’s talk about how to defeat a price-focused advertising campaign. First of all, the company attempts to embarrass you by advertising its prices versus the mainstream funeral homes’ prices. If it does that, you can change your

prices. In fact, you can change your prices weekly if you want. Send a registered letter to the new competitor and let it know that the prices referred to in its ads for you are wrong and that you are going to sue.

There is a whole body of law called the Lanham Act based around inaccurate marketing via price ads. This legislation goes back more than 70 years and states (in summary): "Any person or company that uses in commerce a message that is false or misleading and is likely to cause confusion by another person, or in commercial advertising misrepresents the na-

ture, characteristics or quality in commercial advertising or promotion, shall be liable in a civil action by any person who believes that he or she is or is likely to be damaged by such act." If I tell people this is your pricing and it is not, then I am guilty.

You might be an Average Joe, but you have the strength of the U.S. Constitution behind you! Hopefully, this will cause the new competitor to take you out of the ads and focus on another.

We don't want price to be a factor, so you need to do what you can to market

the elimination of price from the main consideration.

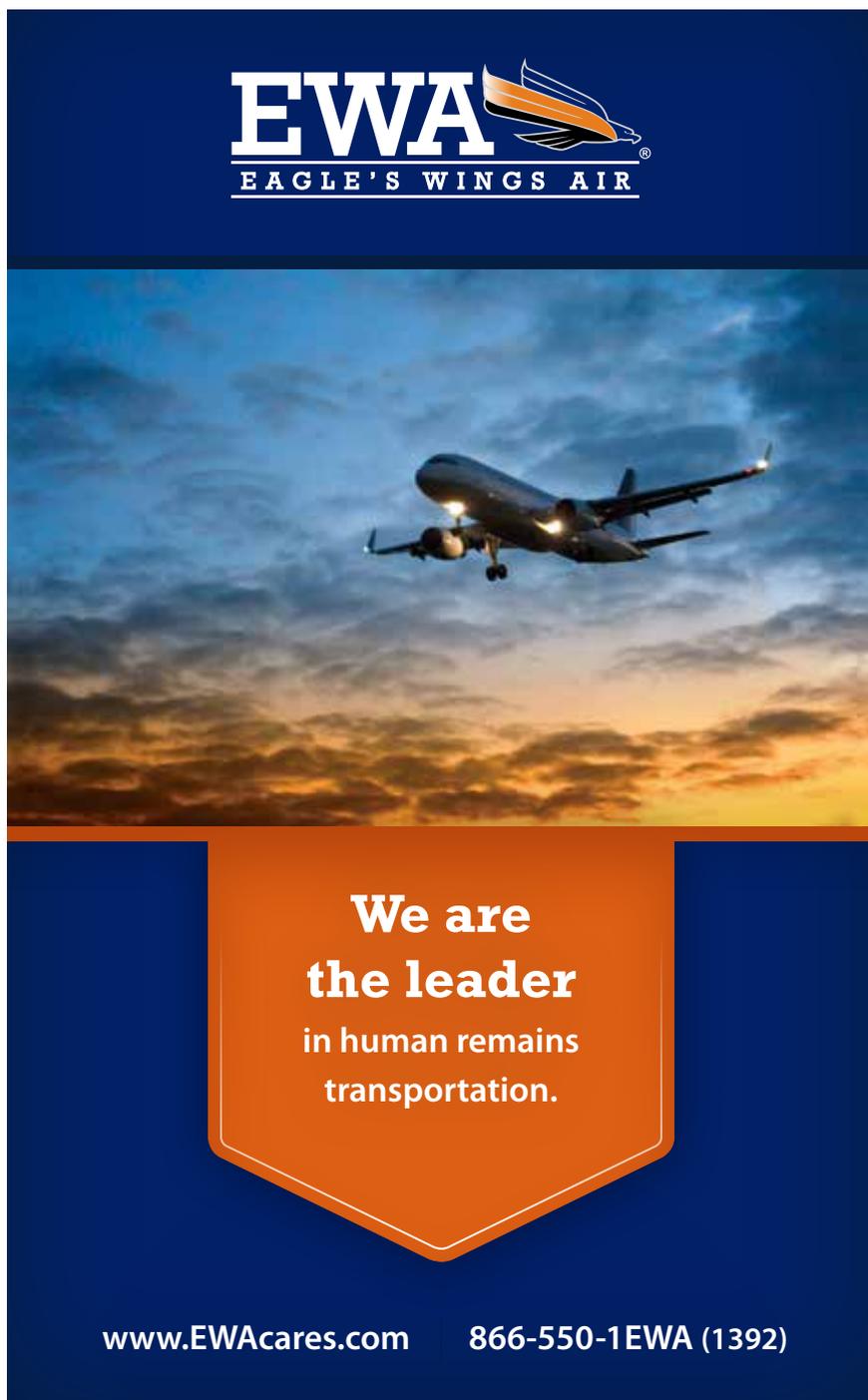
I travel throughout the country speaking to funeral home groups about after-care and outreach programs. I believe this is the best way to market who you are and how you are different. In fact, of the firms that trusted me on this and have implemented these programs, we've not yet found any of them to be subject to price-focused marketing efforts! Price is not a factor when dealing with an expert or the most professional provider in any business. You don't negotiate the fee of an anesthesiologist in the hospital!

If you are attacked by a price-focused ad, fight back. Demonstrate your differences. Imagine you own a sushi restaurant and someone is selling discount sushi. Explain how it can't afford to do this. Don't overplay the "family-owned" card; instead, explain how the price-focused operators cut corners. Promote your staff and expose theirs. Explain your commitment to the community. If the price competitor has operated in other markets, research this. Has it withdrawn from other markets? If so, what happens to its pre-needs?

Spell it all out. Yes, it may feel dirty, but it is necessary to educate the public that there is more to choosing a funeral home than price. When an average Joe meets a price-focused newcomer, my bet is that Joe can win! *

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