

# Re-engineering Your Profit: Setting GPL Prices

For those of you who are devotees of this column, you're already aware that I'm doing something different this year – taking readers through the means and methods of a re-engineering program. I started with revenue issues. In January, I wrote about making sure overhead is properly defined. In February, we looked at how merchandise profit can be used to offset overhead. Now that I have those two points addressed, let me close the discussion on revenue by discussing how to set your General Price List (GPL) prices.

You must understand that nothing in this or any column I write is intended to organize the funeral industry to set prices. I am merely giving you my professional guidance on the methodology of setting prices. Neither NFDA nor I am trying to get all funeral homes to set prices or fix prices.

The key point of the FTC's Funeral Rule is this: You must give families options on itemized pricing. Therefore, you can offer packages, but you must give families a chance to select services à la carte as well. That is not difficult to do; the key is getting the math to equate to the right amount.

For the sake of discussion, let's use our hypothetical example. Total overhead is \$1,000,000 (as computed in January) and profit from merchandise sales is \$150,000 (as computed in February). Therefore, you need to generate \$850,000 from your service fees. If this business routinely does about 200 calls per year, that would be a total average service fee of about \$4,250.

However, there are usually six to eight different service fees. How do you allocate your total needed service fee between these various services?

There are two ways of determining your allocation. The first is the most com-

plex. You would determine what each of your services costs you to provide, including the allocation of your needed profit. For example, what does it cost to do a removal? There are the costs of labor, vehicle and professional materials. If you are paying someone \$10 per hour and a removal takes two hours, then you have a labor cost of \$20. If that laborer needs a co-worker to help with a removal, then you have two people costing \$20, for a total of \$40. Of course, if you must provide benefits, your cost is about 33 percent more for the benefits and taxes. Now we're up an additional cost of about \$12, for a total cost of \$52. Next, we need to determine at what price you need to sell something that costs you \$52. Well, the typical law firm marks up its labor cost by 300 percent to 400 percent, so that equates to \$156 to \$208 for removal services. Then you need to compute the cost of the vehicle, plus the additional cost of the professional equipment. But this is

just one means of computing the cost.

Another method is to simply try to "balance" your result, which is much easier to do and can be done quickly. In basic terms, the balancing method is applied in order to compute a hypothetical year of services and then see how things work out.

Step 1: Lay out all of the services you perform for families. I will explain using just a few points of service in the chart below.

Step 2: Assume the number of times these events will be used by families over the course of the year. Remember to apply the percentage of use we computed last month; typically, we use 90 percent. So if you think you will serve 200 families, use 180 as your maximum number of services (see chart below). Additionally, the trend for embalming and transfer to cemetery services is even lower, so I used 150 for those. That should be the number of times you use each ser-

| Events of Service        |
|--------------------------|
| Basic Non-declinable Fee |
| Removal                  |
| Embalming                |
| Transfer to Cemetery     |

| Events of Service        | Number of Events |
|--------------------------|------------------|
| Basic Non-declinable Fee | 180              |
| Removal                  | 180              |
| Embalming                | 150              |
| Transfer to Cemetery     | 150              |

vice. Remember that some families will choose non-casketed services that will not include some facilities.

Step 3 (see chart below): Approximate

your service fee to each service; this is just a starting point to see if you hit your needed total service fee recovery. I usually start out with between 40 percent and 50

percent of the needed recovery from service fees on a per-call basis as the amount for the basic non-declinable service fee. In this case, the amount would be based on the overhead (direct and indirect), less my contribution of merchandise profit. The resulting overhead from the service fee I established is \$4,250. So, using the method above, I would set my basic non-declinable service fee at between \$1,700 and \$2,125. I can guesstimate my removal fee at \$500 and the embalming fee at about 1.5 times the removal fee I establish. The transfer to cemetery (or crematory) would be about double my removal fee, as I am using a much more expensive vehicle. So, based on those assumptions, let's what happens with the basic non-declinable fee at the low end.

When I add up these amounts (before getting into the facility and rolling stock as business assets), I arrive at hypothetical service fees of about \$658,500. So now, to get to the \$850,000 that needs to be generated from service fees, I have to get about \$191,500 more from my service fees. If you think you can come up with that from the allocation of real estate and auto use, you should set the pricing and leave well enough alone. If you think you are hard-pressed to arrive at your goal by setting a price for facilities, visitation and chapel, as well as additional autos, then that results in a total service fee recovery of about \$712,500 before the allocation to adjust the basic non-declinable. You can raise that by \$300 and suddenly you are generating about \$360,000 from the basic non-declinable fee and a total of \$712,500 from these initial service fees. Now I only need to generate about \$137,500 from additional auto and facility service fees.

The total of these services is \$180,000. Now you're anticipating generating about \$40,000 more than you need. You can bring the allocation to basic non-declinable back down by \$200 and wind up with almost exactly what you need in a service fee. This method requires a bit of give and take, but it's exactly what an Excel spreadsheet is made for.

The amount you choose is one thing, but the justification of your mentality for using that price is another. Most visitations take four or more hours. You have two or three people employed to work these events. They are good sources of advertising for the community to con-

| Events of Service               | Number of Events | Estimated Service Fee | Total Revenue |
|---------------------------------|------------------|-----------------------|---------------|
| <b>Basic Non-declinable Fee</b> | 180              | \$1,700               | \$306,000     |
| <b>Removal</b>                  | 180              | \$500                 | \$90,000      |
| <b>Embalming</b>                | 150              | \$750                 | \$112,500     |
| <b>Transfer to Cemetery</b>     | 150              | \$1,000               | \$150,000     |

| Events of Service      | Number of Events | Estimated Service Fee | Total Revenue |
|------------------------|------------------|-----------------------|---------------|
| <b>Visitation</b>      | 120              | \$ 600                | \$ 72,000     |
| <b>Chapel on site</b>  | 120              | \$ 600                | \$ 72,000     |
| <b>Chapel off site</b> | 30               | \$ 700                | \$ 21,000     |
| <b>Graveside</b>       | 30               | \$ 500                | \$ 15,000     |

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continue to see your building. A chapel service on your property may be over in 60 to 90 minutes, but they are generally taking place during normal working hours. So you need staff and cleanup and setup time.

In this case, I am approximating that this is valued at something more than your typical visitation. We have learned that families, when thinking about going offsite, do not go to their church or other location because of price. To them, it's a matter of comfort. It's more than just a chapel in your facility – it's your time involved with their service. So, if we are going to price services to encourage consumers' behavior, then pricing this slightly higher covers your additional staffing costs and encourages those who are price driven to use your chapel.

The last component of facility is staff cost to work a graveside funeral. A graveside funeral presents the most difficult working conditions, where there is the least amount of control over matters. So I would recommend that you price it closer to the amount you set for your chapel service than for your typical visitation. Of course, these are just my ideas, and each of you will need to compute your own overhead and other assumptions to do this exercise correctly for your business.

The method I do not like to use is to just add a bit to last year's prices. That is ridiculous! This method assumes that last year's computations were accurate. We know they were not. Furthermore, your

overhead sometimes changes more radically. If you added a new roof or some other capital improvement, your overhead has shot up. Another example of a change could be the mix of your calls. If your non-casketed rate is increasing, then your mix is changing. Adding a little bit to last year's prices does not take that into consideration.

I came into funeral service shortly after the FTC established the Funeral Rule, and I began to study the changes in consumer choices via itemized pricing. The first thing I noticed was that the use of limos was changing. In 1980, it seemed that every funeral home had at least one limousine. Now, it's rare to find a funeral home with a limo. With the one-price approach, every family used your luxury car because it was included. Now it's a cash advance for most funeral homes. We continue to see the use of limos decline in most markets. Imagine if you still owned a limo and continued to rely on it to pay off your overhead.

Assume that you are going to be wrong on your allocations. Even professionals are wrong. The difference is that when a professional is wrong, we generally are wrong "high." So if you need to generate \$850,000 from your service fees, you have a problem if you hit \$840,000, but you don't have a problem if your computation results in \$851,000 or more. Professionals know they will be wrong in their allocations, but they try to be wrong on the right side.

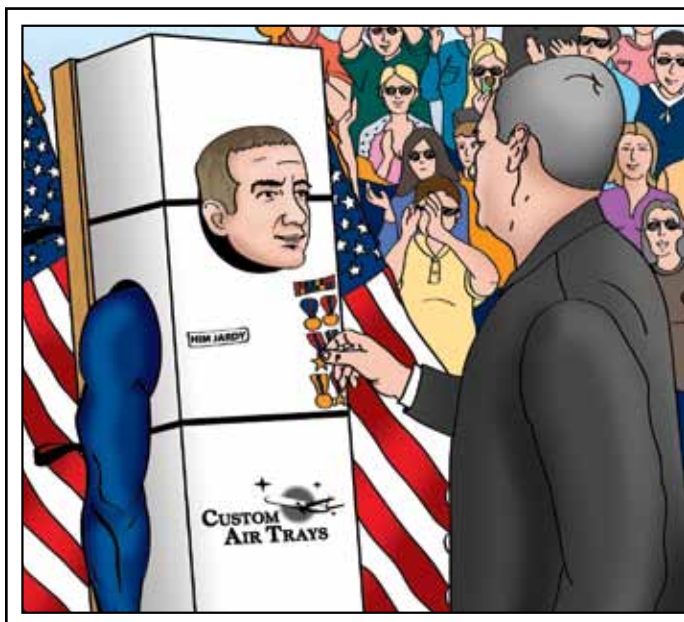
The beauty of this allocation method of

setting your GPL is the ability to monitor your business. If, at the end of the first quarter, you thought you were going to hit 45 calls and hit only 40, you can adjust your prices. Imagine you assumed that 80 percent of your casketed cases would choose embalming and now see they are not. You can adjust your prices! There is nothing written in stone that says you cannot adjust prices during the year.

Now, with the first three Finance 101 columns of 2014, you have your revenue accounted for with overhead, profit and the prices set on your GPL. ★

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