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ICCFA Magazine author spotlight

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► Isard will speak on this topic at the ICCFA 2015 Convention & Expo, April 8-11, at the Henry B. Gonzalez Convention Center and The Grand Hyatt San Antonio, Texas.

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MANAGEMENT

Funeral homes and cemeteries have gone from being sure-fire profit-generators to being management challenges in danger of losing money, if not going out of business entirely. Here's what you need to do about the situation.

Rescue me: The 5 changes the funeral & cemetery professions must make to remain viable

I am honored to be able to present my thoughts on the future of these two professions at the 2015 ICCFA Annual Convention in San Antonio. I hope you will be in the audience on Friday afternoon. Whether you are or not, this article will serve as a summary of the points I'll be making.

First of all, funeral and cemetery businesses are not the same (even if the general public sees them that way). They are very different businesses in style and operation.

One involves short-term service and the other involves long-term stewardship. One is personal service; the other, sales. One requires continuing education and personal licensure, while the other has very limited licensure and continuing education requirements. One makes money at-need exclusively, and the other makes more money via advance sales.

These two groups of professionals speak different languages and have different business models. They both deal with death, so someone years ago at Goldman Sacks labeled them together as the "death care industry." Nevertheless, this group includes two different types of businesses employing people who use different skill sets.

Even so, as are the butcher, baker and candlestick maker, we are all in the same rowboat. The solutions and enemies of one must be dealt with by the other.

The profit margin of the funeral business has gone down more than 50 percent over the last 30 years. In order for it to remain a viable business, we have to change the business model from the ground up.

The opportunities to inter casketed bodies are down 40 percent or more in

many markets, which has devastated the business models of cemeteries. They must refocus their financial identity immediately.

The question is what to fix—and how to fix it. I have five solutions. I warn you that they are controversial, but as Darwin pointed out, in the wild, "migrate, mutate or die." I will be much more verbose in this essay (and on the workshop stage) than Darwin was.

Change 1: The public's perception

We are called upon to serve when a death occurs, yet the joint mission of the funeral and cemetery world is to provide two services. We get the dead human body where it needs to be, and then we bring the living human bodies where they should be.

In the cemetery world, there is a third service being offered, preservation of the place of interment for the promotion of effective memorialization.

Yet the public perception of funeral directors is that they deal only with the dead. I would estimate that a working funeral director and/or embalmer spends 5 percent of his or her time dealing with the deceased and 95 percent of it dealing with the living. So the public's perception of funeral directors' work is wrong.

The public sees cemeteries as "graveyards." More than 100 years ago, we attempted to change this image by changing their visage, eliminating the upright markers to create a more serene and less cluttered view.

Unfortunately, we also lost the personalization those markers provided. All graves looked the same.

Regardless of what the graves look like, we are missing our true calling—we are not

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getting the living where they should be. We need to encourage people to come to the cemetery.

In the past, we relied on religious or national holiday dates to encourage cemetery visitation. Today, we need to recognize that these sites are where individual and collective memories are recorded.

We need to distinguish our properties from each other by the way we encourage the cemetery to be a place of activity as opposed to passivity. Rather than complain about litter after a Day of the Dead celebration, we should encourage such types of festivities. It is better to have litter on your property than not have people come to your property.

Change 2: Our business model

The funeral business was easy prior to 1984. The cremation rate was very low, and most of those cremation dispositions involved a casketed body. Package pricing made it nearly impossible to hear of a funeral home going broke. Profit margins were near 14 percent for most funeral homes.

Cemeteries were such a good idea that cities, non-profit organizations and good businesspeople owned them. It was rare to see a cemetery lose money.

The biggest fight between the funeral and cemetery camps was who would be selling the vault!

Today, with each cremation there is less revenue for each camp. While I have never seen an official study on the subject, my best guess is that only 10 percent of all cremated bodies are interred in a cemetery.

The business model of the funeral home is firmly entrenched around selling caskets and embalming bodies. That was part of the funeral home DNA.

Long ago, we built caskets and provided a funeral service for next to nothing. Then, 150 years ago, we learned about preserving bodies so they could be sent home from a battlefield, and that also preserved the casket sale.

The situation didn't change until the Funeral Rule was adopted in 1984. Today we are selling fewer caskets and embalming fewer bodies. Is it any surprise

that we are making less money?

The funeral solution is simple. We are a service business. Service businesses make their money by charging fees. We therefore must charge fees that are sufficient to cover our overhead and provide a fair profit.

The fees should be sufficient regardless of the choice of burial or cremation disposition. It costs the same to remove a body that is going to be cremated as it does a body that will be buried.

The overhead we allocate to the basic non-declinable fee is the same, by its very definition, regardless of the service or merchandise a family chooses. We cannot chicken out and discount cremation service fees by taxing burial consumers.

We must control our overhead. The largest cost is staffing and benefits. We have fewer and fewer people graduating from mortuary schools. About 50 percent of those graduates drop out of the profession within a few years. Therefore, according to supply and demand, we must pay these people more.

However, just as the medical profession has kept its costs down by using para-professionals, we must open our licensure to people who can make good quality arrangements at a lesser cost than a fully-licensed person.

Decreasing casket sales for funeral homes have translated 1:1 into fewer interments for cemeteries. This results in less income, and the cemetery business is a very fixed-cost one.

The cost of mowing, insurance, administrative staff, phone and equipment is the same regardless of the number of sales or interments. So, fewer interments equal less revenue, and fixed overhead results in lower profits.

The cemetery solution is also simple. We must make our properties living places, not dead zones. We must encourage memorialization in the 21st century way.

We are not marketing to The Greatest Generation; we are marketing to Millennials, Gen Xers and Boomers. We must adapt our businesses to their portal in the tangible and virtual world.

We have to encourage use of our properties year round, not just for the hour

of interment. When we do that, people will buy property in our cemeteries whether a casket is involved or not.

We need to be proactive in our interment pricing as well. The law of supply and demand states that prices of limited assets change based on availability. I would contend that within each cemetery there are sites that are "good," "better" and "best."

For example, within each garden there exist preferred sites due to proximity to roads, features (both natural and created) and availability. We must have multiple pricing choices to meet the needs of consumers.

Cemeteries appear to be passive businesses, but they cannot be. They must be actively managed.

Change 3: Our staffing

The funeral profession has always been supported by licensed staff. In some states, there are separate licenses for funeral directing and embalming. In 23 states, there is one license that covers both skills.

The funeral world has built its licensure and education needs upon embalming, and that skill is being used less and less. Furthermore, the embalmer's personality is not an arranger's personality.

Funeral arranging requires a different education than does body preparation. Neither is superior to the other, but the arranger is often more of an event planner, whereas a good embalmer has more of a surgical bent.

A good arranger can keep a good embalmer busy. A bad arranger will cause fewer bodies to be viewed as part of the funeral process.

The funeral business must attract professional people who want and are qualified to plan different kinds of funerals. Funeral services today are based on the cultures and norms of the surviving family or perhaps the wishes of the deceased who preplanned his or her own event.

We have to change our licensure emphasis on embalming and therefore change our mortuary school education as well. We must resist the urge to maintain the status quo. It is not working. We will be able to tell when it is working when we

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have a surplus of people applying for the available funeral directing jobs.

The cemetery business has three types of jobs: sales, administration and property maintenance. The sales end drives revenue.

Often a person licensed to sell real estate supervises a cemetery's activities. Why? A cemetery sale is not a sale of real property. A cemetery sells a place of interment, or interment rights. This is more easily understood if you look at the sale of columbaria niches. These are not land sales.

We must reinvent the sales process so that we have a professional sales team. We must attract new people who can calmly sell cemetery interment options. They need to be well trained and not simply recycled from other, unrelated sales jobs.

Change 4: Our value equation

The chief value of the cemetery is not the sale of an interment right but rather the perpetual care. Certainly the ability to be buried near a loved one or friend is a comfort, but the biggest comfort we offer is that this site will be protected and maintained. And yet we have laws on the books mandating endowment care contributions that are mathematically unproven to be adequate.

The simple point of endowment care is this: "The interest from the trust these deposits of principal go into will be sufficient to provide for the costs of maintaining the cemetery in perpetuity, without invading principal."

Who in their right mind would take this bet? We have laws that mandate that a percentage of the sale price of the land, or a number derived from some other equation, gets deposited into a care fund. We take the interest from this accumulating trust deposit each year to help provide for the care and maintenance of the cemetery while we operate it.

Currently, the interest is not sufficient to provide for these costs. The assumption is that increasing deposits will be sufficient, yet expenses keep going up. Assume you have \$1 million in trust. At 5 percent interest, this will provide \$50,000 a year.

Can I provide for the mowing, watering, maintenance of the property, along with

the insurance on the area, for this amount? No. What if I increase this amount to \$5 million in trust? Maybe that can cover most properties.

However, here we have sat for the last 6 or 7 years in a low-interest-rate environment, so that even \$5 million provides only \$50,000 in interest earnings.

If the trustee has no ability to invade the principal, we are at a point where something is not going to be provided for. If you were the trustee, would you sacrifice the maintenance, the care or the insurance? Would you cut back on watering or mowing? Let's not forget the fee for the trustees themselves.

Every year, more cemeteries are turned over to the municipality that governs the area because the owner cannot provide for the property. That is going to become a more frequent occurrence.

The value equation for the funeral home is trust. It is no different than the value equation for a lawyer or consultant. The funeral director must counsel the decision-maker to make important choices dealing with death, disposition and survival.

We need to be like Johnny Appleseed, spreading the word—before others influence families about our profession. Hospice and others are influencing people's opinions of what they need (or don't need) a funeral home to do for them. They are not promoting the full use of a funeral business.

If you do not promote your own best interests, no one else will.

Change 5: Our paradigm

A paradigm is defined as "a framework containing basic assumptions, ways of thinking and methodology commonly accepted by a specific community." So, the paradigm of the funeral community is dealing with death. Yet we all know that we spend more time dealing with the living.

You have seen the t-shirts that say, "We put the fun in funeral!" On the one hand you may shake your head at this pretty poor joke, but I would ask you to reconsider.

Yes, death is sad. In many cases it is tragic and senseless. But more than 79 percent of the time, it is the result of a life

filled with exciting events. Even the routine events of a life long lived are wonderful. I think we have to change the funeral profession's paradigm.

The first change we have to undertake (pun intended) is to decide whether this is a profession or an occupation. This is a dialogue that Jacquelyn Taylor, executive director of the New England Institute at Mt. Ida College, is promoting, so that this industry can advocate for itself.

We dress as and want to be paid as professionals, yet we resist subjecting ourselves to the rigors (pun intended) involved in meeting professional requirements.

The cemetery world also must change its paradigm. It did this about 150 years ago when we started to reshape our properties from having upright monuments that appeared crowded and sloppy to using flush markers which created a more pastoral setting. We can do so again.

Every cemetery with a master plan more than 30 years old must rebuild its master plan now. We created plans laid out for 1,000 interments an acre when the cremation rate was 10 percent or less. Today it is almost 40 percent and rising. We must rethink these designs or be obsolete.

The English garden-style cemeteries are well accepted. We have about one out of 10 cremated bodies interred in a cemetery, compared to the English, who have more than 70 percent. We have cremated remains that go unclaimed; other societies do not. We must rethink our processes and basic assumptions or go broke.

At this point in my live presentation I will be reaching a crescendo. It's possible that every able-bodied person will be walking out or hurling tomatoes at the stage, but in my dream scenario, I receive a standing ovation and am carried from the stage on the shoulders of the convention attendees, followed by the audio-video guy trying to get the microphone back.

It's up to you to decide my fate and that of the funeral and cemetery profession. Vote smart, not on the basis of emotion. Your livelihood and personal ministry are at stake. 