

A Southern Boy Talks ‘Bout Selling

By Jeff Harbeson

I am honored to have the opportunity to share information with my fellow Southerners in order to demystify how to make educated decisions when it comes to selling your funeral home. I will proceed in simple terms and speak (with a Southern flair of course).

Most funeral home owners are as busy as moths in a mitten and don't have time for the distraction of thinking about the future. The decision for a funeral home owner to sell their business comes from different angles and the funeral industry is wrought with misinformation about this subject.

Some owners decide to sell when seeking retirement. After years of serving families, late nights, and missed events, the thought of living out life at a much slower pace is attractive. Others desire to “take their hands off the wheel” allowing either children or key employees to take an active role while they transition into retirement. There are also a growing number of owners whose reasons have to do with their competitive environment, the shift in customer base away from the market or simply, they “had enough” with all the changes taking place in the funeral business. Whatever the decision, selling a funeral home business is significantly different than selling any other business.

One of the first misconceptions about selling a funeral home is the value of the business to be sold. I have been privy to several transactions where the owner had a price in mind, only to be proven that their assessment is characterized by the buyer as “out of their mind.” Have you ever applied for a job and had to prove your value to the employer? What you think you are worth is only subject to what those writing the check believe, not necessarily the other way around.

The first step to selling a funeral business is to conduct a valuation. This process is quite complicated and frankly an area where a professional consultants with expertise should be engaged. If performed in error, this can result in the loss of hundreds of thousands of dollars as well as create negative potential tax consequences. Yeah, Uncle Sam will have his hand out to take a piece of your pie.



I find it interesting that in the funeral business we promote “hire funeral professionals” and “you get what you pay for”. Yet the same narrow minded person is the first to hire a local real estate agent and accountant with no clue about selling a funeral home business. It's not a real estate sale. Understanding and recognizing tangible assets, the economic value and then the real estate must all be carefully measured to create a sale price that makes sense. Hiring Mr. Haney as a consultant for selling your funeral home is a huge mistake.

To start, you must collect information about the tangible assets (inventory, accounts receivable, autos, etc.). The various factors affecting your profitability (call volume, revenue per call, employee costs, etc.) are a delicate balancing act which creates the goodwill of your business. Ultimately, the profit that a new owner can anticipate results in EBITDA. This is an acronym for earnings before interest, taxes, depreciation and amortization is used to analyze profitability and compute value. EBITDA drives value. Unfortunately, funeral home owners have the notion that their firm is worth some unrealistic multiple of EBITDA. However, the pervasive “often wrong but never in doubt” is not a useful factor when trying to sell your business. There is a marketplace where everything can be sold and those that place too high a value on their corn and funeral homes can wind up having both spoil in the heat.

The real estate value is another consideration. You are selling a funeral home, not a commercial property. The funeral home is a special type of building. It is more akin to a fire house than a retail building. Therefore the value must be the value as a funeral home.

To get the maximum value for your funeral home it must be in good shape. If your color scheme is mint green with mauve throw-rugs on top of the carpet and bathrooms that have not been updated since the Andy Griffith show aired its last episode, don't expect top dollar for your building. Your business may not be worth what you think.

My mentor/partner Dan Isard shared what I believe is the best analogy for the notion of perceived versus real value: "Do you remember when in the 3rd grade you received your report card and had earned a C? Next to the C is a note from the teacher has great potential. Basically your present grade from your efforts is a C, but no one pays for the potential, they pay for current value." The importance of a healthy and robust business today will positively contribute to the value at sale tomorrow; not what you think it could do. I'm sure all reading this will understand "that dog won't hunt." Once the valuation of the business is complete, the next question to tackle is who are you going to sell your funeral home to? Another industry misnomer is that a funeral home placed on the market for sale will immediately result in suitors flocking with pockets full of cash (Carpetbaggers). Hold on Skippy, not so fast. There is much to consider when seeking interested and qualified buyers. How will the funeral home be marketed for sale? I'm sure there are those reading this thinking "I'll just put an ad in funeral periodicals" or "put the word out." Unfortunately, the "go it alone" method has as many potential flaws as the typical funeral home marketing efforts (like the ever popular diner placemat ads and church fans advertising campaigns depicting the message "we care more"). Reaching interested financially qualified potential buyers that are properly represented or sophisticated enough to understand the value of the funeral home for sale is much more complicated than it appears. Many will come a calling with good intentions, however some may have the financial position be best described as "they couldn't jump over a nickel to save a dime."

Additionally, funeral home owners vetting potential buyers while trying to continue operating their business

bring a whole new level of problems and waste valuable time. The dreaded "leave money on the table" syndrome may also creep into the process. I return to the importance of hiring a professional consultant with experience representing both buyer and sellers of funeral homes in addition to having access to funding the transaction. Consultants also know the players that may have interest in the firm for sale based on geography, volume or price.

Ultimately it's your choice and decision of who you sell your firm to. Some funeral home owners feel that it's important that the next owner share common values and approach when it comes to serving families in their community. After all, they built the business and desire the reputation of service to continue. For others, the best price is paramount to the decision of who the buyer will be so they can head down to the beach leaving it all behind.

Another consideration is the technical sale of transferring the business to a child, family member or key person. In any event, basic tenets of the buyer being qualified financially and conducting the due diligence (or lookin' into) for all of the transactional documents for both parties remain the same.

If you are considering selling your funeral home and you are as lost as last year's Easter egg when it comes to the process, stop and take a deep breath. Rather than continue to ride the wave of misunderstanding and misinformation, get off the wrong way bus and become informed. I have a personal philosophy that our brand provides information so you may make educated decisions. Don't let your brain rattle around like a BB in a boxcar, give me a call and let's chew the fat.

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