


The How and Why of Cremation Pricing



I have spent the last several years exploring the DNA of funeral home pricing, including cremation pricing. I fully understand how to set cremation prices. Better yet, by studying the past I understand how we as a profession messed it up.

When it comes to pricing there was a time pre-1984 and post-1984. The dividing line cast in 1984 was the edict we now call The Funeral Rule.

Pre-1984 was a time when we looked at the world idyllically. Every funeral home was associated with a church or religion. Almost all bodies were embalmed and casketed. Every interment included a vault. The only question affecting the funeral arrangement was whether there was going to be one or two days of visitation. The biggest stressor for a funeral home owner/manager was getting the obituary to the newspaper before the deadline.

Every funeral home had at least one hearse and one limousine. The state and national convention floors

were dominated by casket, vault and car dealers. You couldn't wait to get to the convention to see what next year's models looked like. Yes, life pre-1984 was pretty easy.

Pre-1984 families bought a casket for their loved one, and every other service was packaged into the price of a casket. Caskets were marked up about 400 to 600 percent to cover their cost and all overhead points. The profit was pretty good because you made money based upon the choice of casket.

Casket salespeople were gods! They were your most important ally because every time they gave you an idea to sell more merchandise you increased your revenue per call and therefore profit. Their card was front and center on your Rolodex.

Then the clouds came.

Howard Raether, the longtime executive director of the National Funeral Directors Association, was summoned to Washington, D.C. In hearings before the Federal Trade Commission, he explained and defended funeral home pricing. Unfortunately, those young bureaucrats thought they knew better than anyone else how to set pricing for funeral homes. Due to package pricing, they felt that the consumer didn't have enough options. Families should be able to opt out of some services. Families should be given financial incentives to drive themselves and not take a limo. Families should be given uniform discounts for fewer visitation hours. Families should be able to opt out of embalming if they wanted. Yep, the inept members of the FTC issued a

mandate, and funeral service had to cooperate in a new pricing method called “itemized pricing.”

Overnight our business model changed from a commodity-based business plan to a service-and-commodity business plan. The gods from the casket company and a few accountants specializing in funeral service gave their opinions on this newfangled thing called an itemized general price list.

Essentially all of the potentates guessed at setting itemized pricing, trying to replicate the pricing so that consumers would spend the same amount in 1985 as they did in 1984. We guessed wrong.

Profits dropped immediately from an average of 14 percent of revenue to less. Each year we increased the previous year’s pricing by some inflation rate and guessed wrong. Each year profit ratios declined even though families were paying more and more for a funeral.

Consumers spent more money, but funeral service profits decreased. There is only one explanation for that. Annual overhead was going up at a rate higher than families were spending. Funeral homes did not comprehend the cost of their overhead. The owners and their advisers did not, and still do not, understand that a funeral home is a business that has a large number of fixed cost items.

For example, the first change we found in funeral spending after 1984 was that families opted out of renting a limo. Even if families did not rent your limo, you still had the limo sitting there, and it required the same amount of insurance regardless of the number of trips it was going out on.

A more expensive example is your building. As visitations went from two days to one and then to even less, your building costs did not change. The revenue from the rental of your visitation rooms and chapel has gone down since 1984, but your overhead is essentially the same.

The problem today is that we have the compounding of an error. If your pricing was off by 2 percent in 1985, and you continued to increase your

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pricing year after year by some factor that was wrong, what is the chance your 2015 pricing is correct? In simple trigonometry, “An error times an erroneous amount, compounding for 30 years can never equal a correct result!” Almost all funeral homes we studied set incorrect pricing.

In 1985 funeral homes started to make decisions about service fees for casketed calls as well as non-casketed calls. Non-casketed calls, most of which were cremation dispositions, were a minor part of case mix. So, any erroneous pricing of cremation service did not significantly affect profit. However, since 1985 the cremation rate has grown from 5 to 40 percent nationwide. Now, that incorrect amount significantly affects profit.

Add to this fear. You want calls, and you don’t want to lose them.

However, when families see a substantial funeral home offering a service called cremation and a firm

they are not familiar with also offering cremation, they assume that both are the same. The substantial provider of services wants calls. When a consumer calls the substantial funeral home, he or she immediately receives an offer to match the price of a company with very little overhead to get the call. This is like a fine-dining restaurant offering to match a run-down diner’s price on a steak dinner.

This mentality explains why we have incorrect pricing for cremation and burial today. Your GPL price is an incorrect assessment of what your service fees should be. But this does not help you comprehend what that pricing should be for cremation cases.

Let me make this simple:

Compute your fixed overhead for your business. Compute the percentage of families you anticipate serving in the next year that will want a cremation disposition. Multiply the cremation disposition percentage by the fixed overhead amount. That is your cremation fixed overhead. Divide the number of cremation cases by this amount. That is your base cost of providing a cremation. Add to that any variable costs of providing a cremation. That is your cremation fee.

For example if you are a 200-call business and you serve 80 cremation families, that means that 40 percent of your families will need to have cremation pricing.

As to your fixed overhead, assume it is \$800,000. Then you have to recover \$320,000 of fixed costs from these 80 cremation cases. That works

Total calls	200
Burial calls	120
Cremation calls	80
Cremation calls %	40%

Fixed overhead	\$800,000
Cremation fixed overhead	\$320,000
Per cremation call fixed overhead	\$4,000
Variable costs:	
Cremation fee	\$300
Cremation container	\$100
Total cremation fee objective	\$4,400

out to be \$4,000 per cremation case. Then add the variable costs for the container and cremation fee (assuming a third-party provider), and you arrive at a cremation fee objective of \$4,400.

This amount has to be allocated

between the 16 GPL items a family will choose. So your basic nondeclinable fee will bear the largest amount of this for the total cremation fee objective. The other amounts will be based upon visitation or chapel use, removal and

transfer to the retort. The \$4,400 amount is not a flat fee; it is the average charge to all of the cremation consumers you serve.

There are going to be three reactions you have when you take the 10 minutes to do this simple computation:

1. Dan Isard is a genius.
2. Dan Isard is an idiot because my families will never pay this amount.
3. This is far more than my competitor charges.

As to the first reply, just bow down as I walk past you at the upcoming NFDA convention.

If your conclusion is the second, then understand they are already paying this amount, but you and your burial families are subsidizing the difference. You are taxing your burial families and giving the subsidized price to cremation consumers. That will not work once cremation becomes 51 percent of your number of calls. So, clip this article and reread it in 2025 when the national average will be 50 percent or more.

If the computation is more than your competitor, then answer this question: Why is it that this competitor is an idiot and a reprobate when you talk to your buddies, but now he is a Nobel laureate in economics when it comes to setting cremation pricing?

There is another option: Amend your fixed overhead. Fire people or hire cheaper staff. Use older cars. Move to a less expensive building.

Basic accounting is simple: Revenue – Overhead = Profit. If you can't get the needed revenue and make no change to overhead, then profit will go down.

You might think that if you drop pricing on cremation enough, you will do more calls. You might. It is not guaranteed. But if you do more calls, what will that do to your overhead? Typically, since staffing is the largest cost of overhead, profit still suffers.

Do you now understand how we got to this point in our convoluted pricing? Do you understand how cremation pricing is even more messed up than burial pricing? Are you ready to fix it, or are you going pray for a solution? •

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