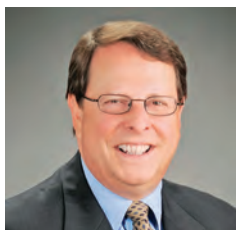


## The Reality Primer of the Cremation Business



### The Trade Business



This is the third installment of a series of articles on the cremation business. Last month, the focus was on the “no frills” cremation business.” This month, the focus is on the trade cremation business.

In my first article I explained that there are three types of cremation businesses. We often confuse them and think there is only one such business. Here, I am going to highlight the key points of operating each type of business. These are:

1. “No frills” cremation business
2. Trade cremation business
3. Funeral home cremation business

I previously focused on the “no frills” cremation business. This month, I will cover the trade cremation business.

Owning and operating a trade cremation business is like running a snow removal business. As a kid, my father bought me a shovel so that when snow hit our home, I could go out and shovel. Little did my father know, he put me into the snow removal business!

When the first signs of snow would hit I did a quick removal on our sidewalk and driveway. Then, I joined with a bunch of neighborhood kids and we went to the childless neighbors and offered our

services for \$5. Of course, the snow now covered my original snow removal job at home, but I hit these snowbound neighbors with my friends and made some good money. By the time I got home, the snow was high and I was exhausted, so it was my father who had to do the heavy lifting after his day of work. Yep, aside from the difference of temperature, that is kind of what a trade cremation business is like.

You buy a retort. You build it out. You now realize that you can take on the cremation needs of your non-retort colleagues (who previously, you called competitors). You realized that for the money you can charge them, they will help you pay off your debt for the purchase.

Most people have never done the simple analysis of the cost of a retort. Assume that the retort goes into your existing facility or a garage. The cost of the retort is about \$100,000. If you finance the purchase over 10 years, it will cost

you about \$15,000 a year. Let us assume that the previous trade business provider was charging you \$300/cremation and \$50 of that went to the fuel costs. If you are doing more than 65 to 75 cremations a year, you can pay for the retort. In fact, if you previously had to drive to deliver the body to a trade service, you can eliminate that cost and break even with about 60 cremations a year.

Buying the retort is one thing, taking the initiative to maximize its use is another. To be in the trade business, you are entering into a contract to provide services to other funeral homes. These funeral homes provide cremation services to consumers. In some cases, you, as the trade service, may or may not enter into an agreement with the consumer. However, I recommend that you have an agreement with both the funeral home and the consumer.

Please keep one thing clear in your mind: The cremation business is not

the same as the funeral business when it comes to litigation. Litigation has a greater probability in the cremation business than the funeral business. In fact, some reports state that cremation cases are seven times more likely to result in litigation as burial cases. We can learn from previous litigants, especially those litigants that lose their litigation. By learning from the Cremation Association of North America and other professional groups, and using the forms they recommend, you can decrease your chance of losing litigation, but nothing can keep you from being sued.

As a trade crematory, cremating the wrong body is the most common lawsuit. You rely upon the procedures of the funeral home that hires you. I advise you to do several forms of due diligence before performing any cremations for any other party regardless of your friendship with these other parties.

First, you want to make certain of their procedures for accepting a body and identifying a body that you will be cremating. How is the body kept on their property? Will that body be refrigerated? How will the body be identified? How is that identification memorialized for future proof? Does this funeral home have insurance, and will you be notified by the insurer if the insurance lapses or is discontinued for any reason? What record keeping does the funeral home perform? How does the funeral home protect the records, since litigation can arise in the future?

Second, it is imperative that you are prepared for a funeral home to perform a thorough due diligence upon your trade business. A funeral home should do announced and unannounced on-site inspections. You should be prepared to answer

the same above questions for the funeral homes you are contracting with. You should have excellent record keeping.

Your staff should also be well-trained. How they operate the equipment is critical to your success. If you are only doing your own cremations, you won't expect to overwork the equipment; but as a trade provider, you are rarely letting the equipment go cold. Have routine maintenance planned.

In a previous article, I highlighted that each of the three cremation businesses has a different business model. Allow me to explain the following model key points:

	<b>No Frills</b>	<b>Trade</b>	<b>Funeral Home</b>
<b>Revenue/call</b>	Low	Low	High
<b>Consumer Expectation</b>	Low	No	High
<b>Fixed costs</b>	Low	High	High
<b>Variable costs</b>	High	Low	Low
<b>Goodwill</b>	Low	Low	High

Since a trade company has a low revenue point, you need high volume to gain any financial headway. The good news is that if the retort is being paid for solely by your primary business and doing the trade work is your sideline, the added revenue is accretive to your profit and value. However, if this is your primary business, as it is with many, setting prices is critical. The easy way of doing this is to charge X dollars per cremation, but you should offer different pricing options.

Itemized pricing could be X dollars for the cremation; plus Y dollars for the transfer to the retort; plus Z dollars for the return of the cremated remains. You might have a package price that is somewhat less than X + Y + Z. Setting your prices is important. For example, the transfer of the body to your care is not just some guessed amount. It could vary by miles and by time of day, since the vehicle has one cost but the driver another. Also, remember, if a driver costs you \$10 an hour, you need to mark that up and generate profit upon that service. Your profit is not just in the retort.

As to the retort, you must compute the real cost of that asset. We know that there are effectively four costs of the retort:

1. Fixed cost per use of fuel.
2. Operator cost.
3. Direct cost of retort.
4. Indirect cost of repair and maintenance of retort and insurance.

Fuel prices change, but you can safely estimate that based upon experience.

The operator cost is the cost of the staff person who supervises this

expensive machine. Get these operators certified as it will pay off in protecting your goodwill and equipment. If a law firm ran a retort, and the lawyer operating this machinery was paid \$15 per hour, that law firm would bill out the operator's time at three to four times their direct cost. That would include benefits and taxes as well.

The cost of the retort is complex math. However, to keep it simple, if something costs you \$100,000 and you are going to use it 1,000 times before it needs an overhaul, the direct cost would be \$100. However, you need to mark that up to get a profit on the equipment. I find it humorous that funeral directors will mark-up a vault by 100 percent and not mark-up the direct cost of their retort. Why is it they are willing to get a 100 percent return on merchandise that they

never take receipt of yet an item that costs as much as a small house, they don't try to get a return on that investment?

I am sure the manufacturer can tell you what the annual repairs and maintenance will be on your machine. Insurance is a fixed cost as well. Furthermore, you have small items such as phone bills and maybe postage. Other costs of operation such as accounting should be included. All of these indirect costs can be divided by the number of cremations you perform. But, at the point of sounding redundant, please mark that up!

Recently I was talking with a client who was complaining that a family chose another funeral home because their cremation fee was \$25 less than his. He was mad. After he calmed down, I asked him how he chose a trade cremation

provider. He told me a long-winded story focused on the price wars of the various providers. It was humorous to think that he didn't want to be shopped by price yet he was using price to determine his third-party retort provider. I wonder how many people rue the day they ever decided upon their trade cremation service – especially if the person is named in a lawsuit as a co-defendant.

Next month I will get into the methods of marketing a funeral home crematory business to the public. •

This is the third in a series appearing in American Cemetery & Cremation magazine.


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