

Re-engineering Your Profit: Using Packages

In 2014, I'm taking readers through a business re-engineering plan, where profitability is looked at on a minute scale. So far, we've established the true overhead and itemized pricing. Now let's take a look at the concept of service packages. Everyone, that is, except New York, which is restricted from using packages.

If you've studied funeral service, you know that the concept of packages is not new. In fact, it is very old. Prior to the establishment of the Federal Trade Commission's Funeral Rule, packages were the primary way to arrange a funeral. You, as the funeral provider, marked up your casket by some amount, and for that price, the consumer got all of the services, use of facilities and use of autos that you offered. The FTC thought this was anti-consumer and implemented the practice of itemized pricing. The gnashing of teeth could be heard throughout funeral homes nationwide as itemized pricing became the law of the land. As history has shown, it turns out this was a good thing for funeral service, as we have seen an increased number of consumers choosing cremation and partial-service funerals.

We tend to think that everything is different in funeral service from the real world of business. It isn't. When thinking about packages, the real world of business uses them every day. Airlines couple hotels with car rentals and vice versa. Hamburgers sold at fast-food restaurants are almost 100 percent sold by packages. Even buying a car is a package! So if travel, fast food and automobiles are all using packages, the question has to be why?

Packages are intended to allow three key elements for consumers:

1. Packages allow consumers to make difficult decisions more easily.
2. Packages allow consumers to spend more money more easily.

3. Packages allow you to present your services in a better light.

You might be getting frustrated and thinking I don't know what I'm talking about because you have several packages on your General Price List (GPL). You invariably have a Direct Cremation Package, Direct Burial Package and Forwarding/Receiving With Another Funeral Home Package. While these are packages, they are the packages the FTC says you must have. Furthermore, in my studies, more than 90 percent of funeral service has priced these packages backward!

Allow me to explain the mistakes made in using packages. The first big mistake is in setting pricing within the packages. Imagine (for the sake of discussion only) that your price for a direct cremation package was \$30. Now imagine that for that price, you are going to provide your basic non-declinable (\$20 if chosen via an itemized pricing), removal services (\$5), transport to crematory (\$5) and cremate (\$10). On an itemized price list, these costs equal \$40, but on your package, they are all included for \$30. I am not against using discounts, but discounts should encourage behavior! What behavior are you encouraging with this package? You are promoting those families who are choosing your lowest cost level of services. Now, if you can be profitable when every family chooses that level of service, then fine. If not, you are shooting yourself in the foot, and unless you want to have foot soup, you are going to regret your choices.

If you feel compelled to offer these required packages at some discounted amount because a competitor uses those amounts, that's fine. The two of you might find a bankruptcy attorney who can handle the bankruptcy of two funeral homes for the price of one. Otherwise, be smart. Your overhead and their

overhead are most likely different. One company may have debt and the other doesn't. One company may not care about its business value while the other does.

The reason that non-funeral home businesses use packages is because the business is trying to encourage people to feel good about buying more goods or services than they would typically purchase at an itemized level. Take, for example, a computer website with the headline, "Revolutionary Laptop Computer \$399." Then consider the comparison of this computer to what you really need. The company will sell you a stripped down \$399 computer. However, its brochure and Web page will demonstrate that if you want to be able to use it for anything more than a paperweight, you probably really want the \$999 version. Also, most will let you add individual parts to a computer, but since you are not an electrical engineer, you just look for the check boxes and see what will run your games. Do you think funeral service is more complex than computer pricing and choices?

Complex businesses understand packages and so does the simple local movie theater. Imagine you ask the teen behind the concession counter for a small bag of popcorn. He's going to tell you that this small bag is some ridiculous amount of money. "That's \$3.75." You grind your teeth, then smile and say, "That's fine." Then he's going to say, "For \$1.25 more, we can give you a bucket with two more pounds of popcorn." How can they offer 10 times more popcorn for only 33 percent more money? Simple: They factor the entire cost of the concession area and build that into the introductory services. That is good business. Therefore, the concession stand pays for itself and has a small contribution to profit even if every-

one makes just a minimal purchase. So if the cost of goods for the enhanced purchase costs them 25 cents, they make a huge profit on these “upgrades.”

Today in funeral service, we are facing the same dilemma as the movie theater concession stand. We have an increasing number of people choosing the minimum service offered so we must not only control overhead but encourage people to spend more via packages.

The FTC-mandated packages are for compliance purposes. The packages we deal with as part of our re-engineering program for funeral home managers are intended to help consumers make easier arrangements, give them clear motivation to spend more money and provide incentives to consumers who spend the most, not the least.

So how do we do this?

Packages That Encourage Decision Making

The key to packages is to employ easy visuals. If we just use that 1980s layout in presenting our GPLs, we are missing a great opportunity. How would you create a menu for a high-end restaurant? You’d present it in a nice binder, use a large font and clear explanations and show the different options.

In constructing your packages, always use the simple image of Good, Better and Best. You can determine what makes your services or the service offerings fit this design. You can make people understand visually that via one package, they

Services	Good	Better	Best
Basic Services.....	X.....	X.....	X.....
Removal	X.....	X.....	X.....
Transport to	X.....	X.....	X.....
Washing and Cosmetizing.....	X.....	X.....	X.....
Embalming.....		X.....	X.....
Private Viewing.....	X.....		
Limited Viewing.....		X.....	
Expanded Viewing.....			X.....
Graveside Service	X.....		
Chapel Service.....		X.....	
Offsite Chapel Service			X.....
Graveside Interment Following Chapel Service.....		X.....	X.....

are getting more services than in others.

Note: I don’t want you to use the titles Good, Better and Best in your packages; they are simply implied. In your description of services, try to use words and phrases that mean something to an individual reader. For example, you can say, “Removal of deceased,” or you can say, “We will be taking your loved one into our care and keeping [him or her] in our secured, modern facility.” Which of these is worth more?

Packages Intended to Encourage Spending Behavior

People tend to see the difference of offerings within packages and then try to equate that to price differential: “Good” should cost less than “Better,” and “Better” should cost less than “Best.”

In setting prices for these packages, we start with the itemized pricing. Then, in an effort to encourage behavior, we can offer discounts to those packages we want people to choose. Discounts are used to encourage people to buy more of a company’s products and services to save some money. The lack of discounts is also a factor. So, as long as the packages are set above the point of average spending, the company and the consumer win.

Discounts within packages are a variable. I can tell you to the penny what it costs your business to offer any one of its services. I can also tell you to the penny what costs savings there are as families spend more money. We can encourage families by offering discounts. Discounts as a dollar amount or as a percentage of the gross pricing should be progressive.



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The more someone spends, the more the discount can be. The question is, how much should that discount be? I can't tell you that, but the families you serve can.

When setting package pricing, you have objectives of price and frequency of use. Let's say I expect "Good" to be used 25 percent of the time, "Better" to be used 50 percent of the time and "Best" used 25 percent of the time. If, in actuality, "Best" is used 45 percent of the time and "Better" is at 50 percent, then I may have my prices set too low. The discount I can be using may be too high for "Best." If I watch consumer behavior and "Good" is used 50 percent of the time, then my discounts for "Better" and "Best" may be too small. Rather than counting calls, you would count the packages, which is a better indication of whether you're on track to produce a profit.

	Good	Better	Best
Price	\$5	\$7	\$8
Discount	N/A	\$0.21	\$0.42
Net Price	\$5	\$6.79	\$7.58

You can tell the higher grade of the package based on the price, net price or discount. There should be no discount for the minimum spending, and a discount should be progressive, with the larger discount going to those who spend more.

Lack of a discount indicates that there is no inducement for those purchases. For example, go to a fast-food drive-through and say, "Hey, I don't see a package for the small burger, small fry and cup of tap water." I am sure they will tell you that there is no package for that, but if you wanted to add a 300-ounce soda, they do have a package for that. Again, you can order à la carte items, but there is no package. The FTC mandated that we have minimum service packages, but it didn't mandate that these be at a discount from the itemized pricing.

Packages Allowing Presentation of Services in a Better Light

The FTC has decreed that all funeral homes must present their General Price List and has even told us when it must be presented. The FTC has also told us there

is some mandatory language that must be used. But the FTC did not tell us that we could not present additional packages (except, again, in New York).

Presenting the GPL with packages should be done in a special way. Imagine that your GPL is a multipage presentation, with the packages in front and the FTC-mandated language in the back of the revised GPL. This is really as it should be because your objective is not only to conform to FTC requirements but to conform to the consumer's need to understand funeral selection decisions.

I recommend that my clients present their packages visually and with a full write-up. We need to use effective, common language. I gave an example above of the two ways we can say "removal."

I think we need to explain more about the use of the building, even for families that don't perceive they will be using your building. Your building is not just an address; it is a secure facility within which you are protecting their loved one. As I survey families clients serve, I find that many that choose direct cremation or burial with a graveside interment do not think they are using your building. For most of you, that is a misrepresentation that you need to correct.

Packages are a chance to enhance your profit. Next month, get ready for the global discussion on merchandise as part of our study of re-engineering your profit. *

Dan Isard, MSFS, is president of The Foresight Companies LLC, a Phoenix-based business and management consulting firm specializing in mergers and acquisitions, valuations, accounting, financing and customer surveys. He is the author of several books and host of The Dan Isard Show, premiering at www.funeralradio.com. He can be reached at 800-426-0165 or danisard@f4sight.com. For copies of this article and other educational information, visit www.f4sight.com. Connect with Isard and The Foresight Companies by following them on Twitter at @f4sight or on Facebook.

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