

The Don Quixote of Preneed

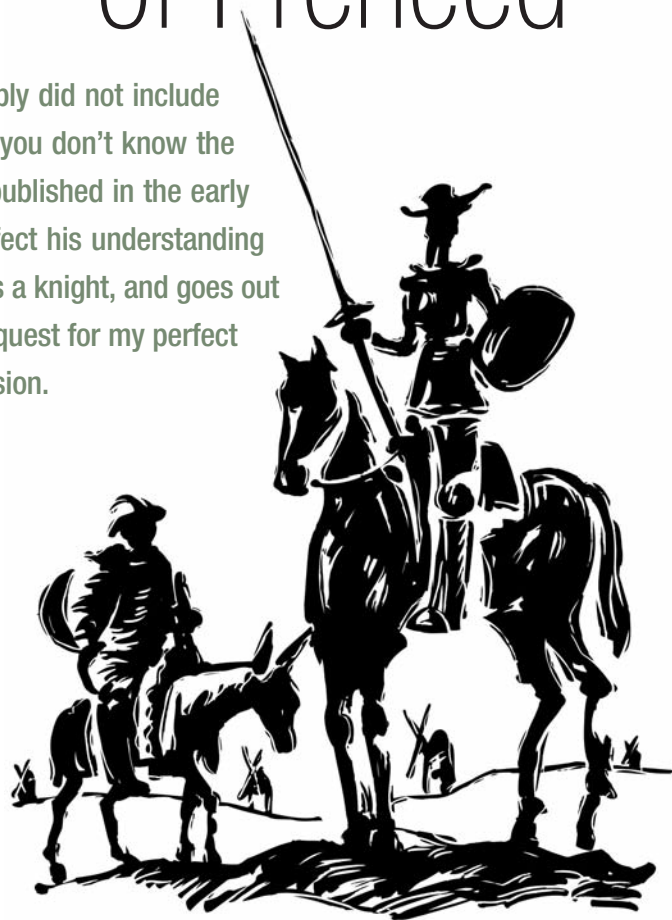
Your required reading to become a funeral director probably did not include “The Ingenious Gentleman Don Quixote of La Mancha.” If you don’t know the story, it is a tale by Spanish author Miguel de Cervantes published in the early 1600s about an older man who reads novels that then affect his understanding of reality. He dons an old suit of armor, thinks of himself as a knight, and goes out in search of adventure. I am beginning to think that in the quest for my perfect preneed scenario, I too, am slaying dragons in a fool’s mission.

Like Don Quixote, I travel the country, but I speak on the subject of preneed. I want funeral home owners to take control of their preneed paradigm. If I were to ask any funeral home owner or manager how many calls he or she expects to handle in a given year, I’ll get a hard number, which is their “at-need paradigm.” The owner would probably also have an idea of what his or her casketed and noncasketed breakdown would be, as well as their average revenue per call.

Owners hire an appropriate number of licensed and nonlicensed staff to serve those families, and so we have a defined at-need paradigm. However, if I, as the Lord of La Mancha, approached any funeral home manager and drew my sword out and demanded to know what their preneed paradigm was, I would be given an answer akin to, “I don’t know.”

What is any knight to do when given a nonanswer but to charge forth and try and slay the offending party? How can we not know our preneed paradigm? We should know about how many preneed contracts we are going to write in a year.

The death rate is outside of your control, but you still expect a certain number of calls. The number of contracts written is within your control, but my captives can’t estimate their objectives. I know that if the typical funeral home writes the typical preneed direct mail letter and sends out 1,000 of these, they are due to get 10 reply cards back. I know that, armed with these reply cards, your preneed salesperson should be able to set seven appointments. I know that about



two of these will cancel, and if you talk about preneed with five kept appointments, two of them will result in a sale.

These two buyers will essentially say they want to preplan, and they want to do it with you. Since the average sale is for 1.5 contracts – as half the time you are getting the approval from a couple and half the time from a survivor – these two sales will result in three contracts. Therefore, if your goal is to write 30 contracts a year, then you should know you need to send out 1,000 letters about 10 times a year. You shouldn’t need a knight in armor to help you understand this.

Each month you should analyze your battlefield results,

Show your devotion to your profession — and let them know you're the best you can be.

The **Certified Funeral Service Practitioner (CFSP)** designation reveals to both funeral families and professional peers that you are driven to be even smarter, more resourceful and more adaptable than you already are. Its presence next to your name creates instant respect and credibility and, ultimately, a business advantage.

Better still, you may already be doing what it takes to become certified. If you are a licensed funeral service practitioner, you are eligible to earn the CFSP designation.



Reg V. Ecker, CPC, CFSP
General Manager
Garner Funeral Home
Salt Lake City, UT

"The CFSP designation has been one of the best investments I've made to further my education and let families know I'm committed to funeral service. I look forward to when people ask me what CFSP stands for. I explain that it places me among the most inspired and dedicated professionals in funeral service and that I must complete 20 hours of continuing education each year to maintain my distinction.

I encourage all funeral directors to contact the Academy of Professional Funeral Service Practice or a CFSP they know to continue their path to lifelong learning and even greater professionalism. Join those who stand out and shine in what they do and how they serve on behalf of funeral families."



for members apfsp.org for consumers

Join those with a passion to learn, grow and achieve.

Pursue your path to even greater excellence in funeral service. To find out more and get started, call (866) 431-CFSP (2377) or visit www.apfsp.org/afd/

Learn. Grow. Achieve.

which let you know if you are on track to be victorious.

Key Results

Here are some key results you should analyze on either a monthly, quarterly or annual basis:

- How many preneed contracts are you writing? Over the past 30 years, I've found that the average funeral home will write about 20 percent to 30 percent of their total annual at-need case volume as new preneed contracts. A 100-call funeral home will typically write about 20 to 30 contracts a year. This number seems to be remaining constant. It's true that there are some funeral homes that are writing 80 percent to 100 percent of their annual calls as preneed contracts, but they are the minority. Most are taking a passive approach, and the bulk of their new preneed contracts are walk-in consumers. Even Don Quixote can conquer walk-in sales.

- How many of your sales are single-pay versus installment payment? The method of payment is indicative of two factors: the age of the preneed consumer and the method of the solicitation. We know that older consumers are more likely to select a single-payment option. If I see that a funeral home has 80 percent single pay, I can determine that about 80 percent of its business is probably at over age 82. I can also determine that most of the business probably was not "sold" but rather were "orders taken." These consumers come to your funeral home on their own volition. They may have learned about preneed on their own, from a community adviser or even from one of your competitors, but they chose to prearrange with you on their own.

- In contrast, those who choose installment payments tend to be younger, about age 72 to 78. These people were not thinking about preneed and have no reason to want to set aside a large amount of their cash for prearrangement. They are still investing their money and using the income for their pleasures.

- What is the length of time from prearrangement until the consumer's death? This goes hand in hand with the age of the preneed consumer. Actuarial tables tell us that a 72 year old will live on average about 12 to 15 more years, depending on whether someone is male or female. That means that half will die within that time period, and half will die after that time period. An 82 year old will live on average seven to eight years.

Can you guess which group will amount to more chargebacks on insurance commissions due to death within the first two years? Can you guess which will have more shortfalls (if you provide a guarantee)? So, the better quality business is going to be the younger preneed consumer who will be reached via an active solicitation.

- What is the average revenue per call of your preneed sales? We like to look at average revenue per call and average wholesale per call for both the preneed cases written as well as your current cases being served. This will give us an indication of your future. Don Quixote read novels to distract him from his current life, but you can read your profit and loss statement to see your future. If your average revenue is lower in your preneeds than your current services, then the future is going to result in lower gross revenue. If the average

wholesale is lower in preneed than current services, then that will tell you that there are going to be fewer casketed sales in your future. Both of these indicators should give you some understanding about what you need to do with your long-range planning.

- What is your mix of burial to cremation preneed cases? Burial families may switch to cremation, but we rarely see a cremation family change its mind and opt for burial. Therefore, if you can lock a 72-year-old person into a preneed contract with burial decisions, the odds are he or she is going to be buried, but if you don't get the person to prearrange until age 82, there is a chance that it might turn into a cremation case. Cremation is not going to go away. However, an effective preneed program might be able to upgrade people to have full funerals with cremation or help them make their wishes known for burial disposition.

- What is your annual preneed servicing rate? Each year you serve families that experience a death. Some of these families chose you without being sold, and some were prearranged. For example, my research suggests that about 30 percent of all calls in the United States are prearranged. That number is up dramatically from when I first began my analysis in 1990, when only about 10 percent of all cases were prearranged. So, you can see this statistic shows a rise of almost 200 percent in about 22 years.

This affects market share. Suppose that in the year 2000,

you served 200 families and only 40 of those were prearranged. If today you are still serving 200 families and 60 of those are prearranged, you might be in a precarious position. Your consumers who are choosing a funeral home in real time might be choosing someone else, but you are unaware of this market shift due to the "same case volume."

- What is the value of the backlog of your preneed contracts in force? If you were to add up the total number of contracts that are prearranged but that you have not yet serviced and divide it by the annual call volume, you get a ratio. You probably get the same ratio by adding up the value of preneed contracts and dividing that number by the annual revenue. The national average today is about 1.4. This means the average funeral home has a preneed backlog of about 140 percent of its annual contracts/revenue. If you are higher than this, congratulations!

If you write 100 contracts in one year on 82 year olds who have about an eight-year life expectancy, that means that 50 of those contracts will come due within eight years. On average, that means that about six of those will come due each and every year. So the firm that can write 100 preneed contracts a year for five years would grow by about 30 calls a year in the sixth year. Preneed can build your business so long as you keep your level of professionalism high and your assets in good shape.

The battlefield analysis by Don Quixote is only one part of the equation. Remember, the objective is not just to slay



Introducing TraumaCare by Pierce

- **30 Index**
- **Rapid Fixation**
- **Expedited Diffusion**
- **Simplifies Restoration**
- **Superb Case Results In Trauma, Geriatric or Normal**
- **With Non-Staining Dye**
- **For Superior Performance add Pierce Vitahue or Cosmo Dye**
- **Clarified Bleaching Action**

PIERCE COMPANIES

4722 Bronze Way • Dallas, TX 75236

800-527-6419 • 214-333-4230 • Fax 214-337-3658

dragons; it's to slay them and survive. We tend to forget that preneed poorly invested or preneed poorly sold is a problem.

The Three Dragons

In my current quest to improve preneed, I want to slay three dragons. Let me tell you what they are, and please do not think I'm losing my mind.

Dragon No. 1: The Unilateral Guarantee.

About two out of three funeral homes offer a guarantee to consumers. It sounds something like this: "I guarantee that whatever you pay for your preneed today will be sufficient to cover your funeral costs in the future." This is a loser's offer. You are risking external inflationary costs plus internal inflationary costs against outside investment risks. Long term, no sane person can win this battle. Casket costs have increased from 5 to 10 percent over this past 10 years, yet crediting rate of trusts and insurance have not reached this level. Ironically, it's easier to give the guarantee if you are a 100 percent cremation business.

Dragon No. 2: The Failure to Keep Records.

We need a standardized prearrangement form that clearly enunciates what was arranged for and what was not arranged for. Too many times you hear the child come in and tell you, "I remember the day eight years ago that Mom called me and told me she took care of everything," but then you see that there are outstanding costs that were not addressed. We need to clearly show what was paid for

and not paid for, and we also need to show that the person who prearranged understood this. There may be guaranteed portions and nonguaranteed portions of the money, and the deceased should have signed their understanding that certain matters were not fixed.

Dragon No. 3: Improper Investment of Money.

I have published Preneed Perspective (www.prenneedperspective.com) for almost two decades. There is a time and a place for both trust and insurance to be used. There are even situations whereby nonfunded contracts should be recorded. Too often the parties of power want you to believe that their product is perfect for all occasions. To me, no one product is the best. Insurance is great for installment payments as it has a self-completing feature. Insurance can provide some subsidy to cover the costs of an active preneed program. To me, trusts are best for single-pay situations. Please don't tell me that you don't like the 1099s because it is like offering a steak to a vegetarian. More than 70 percent of all preneed consumers do not file a tax return with taxes due, so it doesn't matter what a 1099 or K1 would show.

I will continue my exploration throughout this land. Unlike Don Quixote, I do not have a skinny horse to ride, a fair maiden to rescue or a sidekick to help me don my suit of armor. But I do have many preneed dragons to slay and funeral homes to rescue. Please join me in my mission, but keep your sanity. ❖

THE RIGHT CHOICE

EXCELLENCE IN FUNERAL SERVICE EDUCATION



John Braboy, President
Mid-America College
800-221-6158
www.mid-america.edu



Patty Hutcheson, President
Gupton-Jones College
800-848-5352
www.gupton-jones.edu



James Shoemake, President
Dallas Institute
800-235-5444
www.dallasinstitute.edu

PIERCE MORTUARY COLLEGES

Give Us A Call 800-527-6419

in accordance with title vi of the civil rights act of 1964 (p.l. 88-352) students accepted without regard to race, color, national origin, sex, religion, age or disability.