



TIME TO

SELL!

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The funeral profession is approaching an era unlike we have experienced thus far. With the average age of a funeral home owner approaching sixty-six years old, over the next several years there will be an increase in the business transfer activity in our profession.

When I describe a transfer of a business, I'm speaking about funeral homes that will be sold, follow a family succession plan, merge, or close their doors. Funeral home owners have the following questions to ponder:

- When should I sell my business?
- How much is my business worth?
- To whom should I sell my business?
- What are my options if I can't sell my business?

Let's address the questions above to initiate fodder for thought about a ginormous (big deal) life event. I have been around the profession a while, and even though I cannot predict exactly what is going to happen with mergers and acquisitions in the future, please consider my speculative views.

The question of when to sell a business should seem quite simple to answer; when the owner wants more freedom to spend time with family, or traveling, or otherwise enjoy life while still in good health. Basically, it's time to hang up the black suit and put on a swimsuit. Good answer, right? Before placing the for sale sign under the magnolia out front, an owner should first review his business financials.

Unfortunately, in many cases, this particular review may not pan out exactly like the owner expected. I have personally been part of many a funeral home valuation where the owner gets the news that their business sweat and toil is worth significantly less on the market for sale than dreamed. Perhaps the call volume became stagnant over the last several years and your revenue per call declined as the cremation rate in your community increased. Being the good neighbor in a small town, raising prices was not an option because your families are struggling. Even as your cost of goods and overhead increased, you thought it was best to hold firm on the GPL.

The worst time to sell a funeral business is when it has not been financially cultivated. What does that mean? In a nutshell, a funeral home business is an investment. The balance between managing revenue and overhead of operations may seem mundane especially if the perception is "we're doing alright." However, calculating the EBITDA (Earnings Before Interest Taxes Depreciation and Amortization) may reveal something other than "we're alright" to potential buyers.

Thus, the value of a business, which includes both tangible and intangible assets, may not be as attractive to those looking to purchase the assets. It's true that beauty is in the eye of the beholder and a similar notion is true regarding funeral home value. You might think what you have is gorgeous but to someone else, as Borat so eloquently said "not so much."

As we are all aware, many independent and family owned funeral homes have a negative view of corporate and privately held large funeral service operators. In fact, there are organizations that exclude membership from “corporates” which deepens the gulf of divide fueling an unhealthy animosity. What good does such split of intellect do for the profession? Interestingly, I am aware of one such organization that later sold to a national funeral home chain.

As a Southerner, I get how fierce we are about our beliefs. Just look at our public display during college football. Would a graduate and lifelong Clemson Tiger donate big dollars to University of South Carolina Athletics. The best I can guess is that such a person would be viewed in South Carolina as a “closet ‘Cock.” I’m just sayin such actions are truly distasteful in our world.

Like it or not, family firms are becoming Wall Street owned businesses. What’s peculiar is that the same die hard yellow dog independent fifth generation funeral home owner morphs without a second thought when purchasing power becomes a consideration. Although

a family owned funeral home may have been serving “since Sherman burnt down the South,” when the dollars are collected from the sale, they are fleeing faster than the pole car taking off at the Coca-Cola 600 in Charlotte.

In the last few years, I have been witness to once highly regarded “family owned funeral home royalty” selling their businesses to “conglomerates and consolidators.” Let me take a moment to explain one reason for this phenomena. Let’s say you own a multi-location funeral service operation valued at \$20,000,000. Now, I’m not a really smart guy (though I am really good looking and can write some interesting stuff), but exactly who do you think has the capital (money) to buy such a firm? Ok, so suppose that number is way too high and unrealistic. What if a firm is worth \$7,000,000? The synopsis (summary) remains the same; it all comes down to money. When contemplating such a large transaction, a bank just doesn’t lend 100 percent of the financing like Bubba’s “no money down, buy here, pay here” fine automobile establishment in your home town. Incidentally, SBA (Small Business Administration) has a cap on how much they can

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loan which narrows the field in terms of where to find funds for buying a funeral home at increased value. Buyers need capital, a big balance sheet (the thing that shows how much you are worth) and the financial wherewithal to make it happen. Moving from selling to the “big boys,” what options are next? Since I enjoy using examples, perhaps it’s best to focus on the price of a 150 service call funeral home (BillyBobs Funeral Parlor) in a decent size town. The firm has a \$6,500 revenue per call average (not including cash advances) thus generating about \$975,000 on an annual basis. After subtracting cost of goods sold and operating overhead along with adding or subtracting other assets, the firm’s EBITDA is estimated at \$175,000.

In our business, many formulas exist for calculating multiples of earnings for purchase prices. I’ve seen it as low as 3 times and high as 9 times, so let’s assume for purposes of this example it is 6 times. A quick calculation of multiplying 6 x \$175,000, we can surmise the selling price is \$1,050,000. In our assumptions we stipulate “the big boys” have no interest in BillyBobs due to not “fitting into their purchase profile” (it don’t make enough money) and not geographically feasible for operational cohesiveness (they ain’t got nothing close enough to make sense buying).

Now who is left on the buyer’s side that will be beating a path to take place “sold” on the sign under the magnolia tree? The first may be a legacy BillyBob Jr. but unfortunately he isn’t interested in the business and made some bad decisions which resulting in he and with his 3rd wife, kids from 1st and 2nd marriage, including those the wives, being banned from the property.

Next in line may be the “right hand man” and trusty funeral director, Wally, who has never been paid overtime in 17 years of service, but is dedicated because his momma is supposedly a 3rd cousin to BillyBob thus making it a “family business.” Wally is great in the embalming room, never wrecked a car, people love him, loyal as a house dog, but spends more money at the Quick Stop than he deposits in his savings account. The natural progression of potential buyers may then become competitors or other firms within the geographic area. Once the local competitor gets wind that BillyBobs is for sale, then the gossip begins and pre-need transfer advertisements start showing up in the Daily Disappointment (local newspaper) obit

page. In the competitor’s eye, they can take some calls without having to spend a boatload of money. Perhaps the geographic firms have an “uneasy feeling” about your town since your high school has never made the state playoffs and the Chief of Police is “not their kinda guy.”

Among the final buyer potentials are random funeral directors with no management experience and no clue about what skills are necessary to run a funeral home let alone have the credit score or “pot to piss in.” What now if BillyBob has no potential buyers for his funeral home? Perhaps he just “sits on it a while longer” because the market is going to turn around. Unfortunately, the textile mills have all closed and the demographics are shifting in a manner not conducive to a robust future market (people are moving away, the ones still in town are “broke,” and cremation is as rampant as lightening bugs at dusk on a summer night). The demise of funeral homes like BillyBobs are on the horizon. My advice to funeral home owners? Let’s talk about the “lots of what’s.” What is your business worth? What do you want to do if the funeral home is sold? What is enough money to live off of for the rest of your life? Once again, my passion for our profession is revealed and I trust this article is received in the manner in which it was created; think about it.

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