

# Business

By Jeff Harbeson

## What's More Important: Products or Service?

### Why is it that consumers don't revere caskets and urns like the vast majority in the funeral profession?

Undoubtedly, caskets and urns are elements of a funeral. But, unless there is some form of spectacular customization, both are containers for human remains. Marketing by the big casket companies shifted focus away from services to their manufactured products, thus attempting to make caskets and urns the centerpiece of a funeral. Unfortunately, while this brilliant marketing was taking place, the price of caskets skyrocketed and prices for services stagnated.

The tragedy is many professionals drank the Kool-Aid. Their own service charges lagged, thus contributing to the now-lackluster funeral home profit margin of around 7 percent.

For those that do not know, there was a time I worked for a big casket company. Thus, I have firsthand knowledge regarding products, contracts, marketing and training by casket manufacturers that also sell urns.

To set yourself on a path toward greater profitability, you must first fully appreciate what I said earlier: Caskets and urns are both containers

for human remains. That is it. I am not at all suggesting simple wood, metal, ceramic, or other material does not have some sort of meaning to grieving families; however, the emphasis is on the life lived, not the box displayed.

I acknowledge that the selection of such products is an emotional event, not only for the family, but also for funeral directors. However, the bottom line is a casket or urn is a commodity that is purchased from a funeral service provider, bought online or even made by a family. Does anyone remember a presidential election slogan – “It’s about the economy, stupid?” In our profession, “It’s about the service, period!”

My favorite question when I meet with funeral home owners and directors is, “Why is your firm better than the competition?” Without a doubt, I will most likely hear, “We give better service,” which is the great unquantifiable nonanswer. I usually follow up by asking how many arrangements and services they actually attended – with the only

response being a blank stare. At any given funeral home, services can be a multitude of identifiable action points. I’ll share a few that I am privy to and deem giving better service:

- Some funeral homes collect enough data from a family about the deceased to allow them to complete the death certificate before the arrangement conference. This is great service because the funeral directors can then spend time working with the family to create a meaningful service rather than focusing on empirical information.
- I know of a funeral service provider that, before leaving the funeral home to make a home removal, will call the home (often a hospice nurse) and ask if there is anything that can be picked up on the way for the family, such as diapers, food, or other needed items.
- Rather than allow limousines to sit in a garage collecting dust, some funeral homes will send a car for the primary family members to make arrangements.
- Assignment of a nonlicensed staff

member to act as a concierge of sorts for families.

The most important aspect of transferring emphasis from caskets and urns to services provided is appropriate pricing. Pricing for services is essential to funeral home profit. Unfortunately, many funeral service providers do not use successful pricing formulas. I know that some funeral home owners make pricing decisions based on their competitors' pricing.

As my cohort Dan Isard says, "Why are you basing your prices on the competitor you otherwise call the town idiot during the rest of the year?"

I also cannot understand why a vast majority of funeral home owners only change prices once a year, usually around the time that casket prices go up (they never come down). Monitoring profitability is a function of fiducial responsibility by the advisers to funeral home owners, especially accountants. The truth is most accountants, especially local accountants, haven't a clue about funeral home operations and cannot identify trends that may necessitate pricing changes. If your accountant doesn't know the difference between a rough box and an alternative container, most likely you're not getting the benefits of good advice.

Pricing begins with knowing your true operating overhead. Dividing your overhead by your number of calls will give you an approximation of the prices you need to charge to make profit. The services provided, not the type of casket sold, generates recovery of overheads for funeral homes. The most important formula to know is  $GPL + P\&L = EBITDA$ . Your General Price List pricing has a direct correlation to your profit and loss statement and ultimately the value of your business.

The consideration for pricing of caskets and urns is a relatively simple exercise. I do remember a very successful and wealthy businessman, Thurston Howell III, who said, "Buy low and sell high." This is applicable to pricing of funeral-related products.

Consumers have exhibited a downward shift of purchasing

expensive caskets. There will always be a slim few that buy upper-end caskets for various reasons. However, reality demonstrates that the days of regularly selling at-need bronze, copper and mahogany caskets are a thing of the past. Relying on a high-end casket sale is like playing the lottery: Your number may never come up and you've wasted dollars on hope rather than corrective behavior or effort.

If you want to know what your average casket sale is, add up the total number of casket sales. Then add up the total retail cost of those sales. Divide the cost by the number of sales. That's your average retail sale.

Do the same with your total casket sales and your total wholesale cost, and voila ... that's your average wholesale (or what you paid) for the caskets. Now, subtract the total of how much you received in revenue from sales by the wholesale cost you paid for the caskets, and that's your profit per sale.

The net profit from each sale is the beef on the bun. How can you make more money from your casket sales? If consumer spending on caskets is trending down, do you think just charging more makes a difference?

The fact is that the casket and urn market is oversaturated in the United States meaning more product is available for purchase than need. There are warehouses full of caskets and urns all over America, including caskets from smaller and foreign companies. Interestingly, some large U.S. manufacturers are making low-cost caskets and distributing them through a network of local distributors as well as operating facilities in foreign countries. In addition to offshore or south-of-the-border manufacturing of caskets, the majority of cloth interiors and practically all hardware for caskets are produced outside of the U.S. Certainly, doing so by casket companies makes tremendous sense for cost savings and profit, so why are you paying so much and making so little on your casket sales? What if you considered purchasing a casket at a lesser wholesale cost? In fact, the

"bigs" make "off-brand" caskets that are sold through distributors. Interesting, but the same big casket company that you paid all that money to for a display room may be offering "knockoffs" that are just as good in quality, but at a lower cost and distributed through local casket companies. So in many cases, you could charge the family less for the "other casket" and still net more profit from each sale. Who loses in such a transaction?

The pricing of a range of urns works with the same theory. Have you ever noticed from catalog to catalog or at trade shows that the same urns are sold by different vendors? Incidentally, consumers find exactly the same ones available to purchase direct from various websites. Urns selected for display should never have any engraving (of course, I'm certain you know that). Conduct an inventory of your offerings and assess which urns sell the most frequently (if not more than four times per year, get rid of them) and broaden the range with pricing that is attainable for families and profitable for the firm.

I am passionate about the funeral profession and believe the future is extremely bright for those of us who understand this is a business first. There are very few comparable industries from the perspective of relationships because that's what we believe. From the families that we serve and the people that work alongside us, to the vendors that sell us products and those that serve us as consultants, it is personal.

Generating enough profit to continue serving and fulfilling our community missions is becoming increasingly more difficult. This should challenge us to focus on our business. In doing so, nothing is wrong with examining every aspect of what we buy and whom we rely on for counsel. Relationships in business must be mutually beneficial, if not, it's time to step back and evaluate. Are you paying a cost with little return and appreciation? I'd enjoy hearing your thoughts – let's chat and I'll listen. •