

PRIORITY 1

The Business of Doing Business

By Jeff Harbeson

ADJUSTING YOUR FUNERAL HOME OPERATING MODEL FOR MAXIMUM CONTINUING BUSINESS VIABILITY.

THERE IS A TIME WHEN EVERY BUSINESS NEEDS TO EVALUATE

ITS EFFECTIVENESS from every facet to maintain financial viability and relevance to customers. Operating a funeral home and adjusting a business model can put owners in a quandary because of the hindrances surrounding the physical property. But a quandary does not mean impossible, and a funeral home building does not necessarily need to be razed to make changes. Re-engineering your funeral business starts before any construction or wallpaper changes. The first priority to be addressed must be the business of doing business.

Before considering any changes, conduct an in-depth market research study to understand the consumers who support your business. How do you do this? Surveys are the best way to find out what your community thinks about your firm and the competition. A well-conducted survey can reveal important information such as name recognition of your business and consumer choice of disposition. If your community is clearly heading toward cremation rather than burial, adding a new casket room would be a poor idea.

A demographic study is an important tool for obtaining population information, such as aging segments, to provide a good idea of what your future customer base will look like. Based on this data, a determination can be made for future

death rates and potential case counts.

For example, if married households with inhabitants of over 60 years of age are a significantly large part of your operating population, then an assumption may be that this segment of population will die in the next 18 years (average life expectancy 78). Conversely, if most of your community is under 45 years old and in single households, your future is not as good simply because the death rate among this group is lower and they tend to be more transient.

The next priority to address when adjusting the business model of a funeral home is an evaluation of the operating overheads and costs of running the firm. This exercise is an imperative step to identify areas that may be eliminated or reduced to enhance future operating profit. For example, if market research has revealed that consumers are overwhelmingly choosing cremation, adjustments can be made in the staffing, vehicles and space needed to operate. Fixed and variable expenses must be the foundation of managing a funeral home for profitability rather than simply breaking even. Taxes, loans and profit should also be included in the operating budget.

The next step is to determine pricing and overlay the new operating budget as the guide. This step is crucial even if an owner is not considering operational changes because this is where the generation of revenue starts, no matter what the model is. Estimating call volume based on past performance is relatively easy. Simply look at the casketed and non-casketed calls from the last three years. If a shift from casketed to non-casketed calls is occurring, then the annual percentage change should be noted and considered in future estimates.

For simplicity of explanation, let's use an annual call volume of 100 and an operating overhead budget of \$400,000 or \$33,333 per month. The first step is to reduce your projection of the annual call volume by 10% (90 calls per year, for this example). This prepares you for a negative fluctuation of death calls and still guarantees recovery of overhead. On the other hand, if the call volume increases, more profit is realized and no harm is done.

For this scenario, the firm needs to have an average price per call of \$4,445 to meet operating expenses. Remember, as stated earlier, always build some profit into the operating budget. Knowing that \$4,445 must be collected for each call, you may now begin pricing service items accordingly.

Here's a note of advice: When considering price adjustments, your transfer/removal price should be the priority. It does not matter whether the disposition is burial or cremation – each body is brought to your funeral home by your personnel (whether service or organic), and this charge should be applied consistently. I know, at some point and time, you may have had a body delivered by some other method, but we

can all agree that in most cases, it is your staff doing the removal and transfer.

Now that an operating budget and pricing has been determined, the next step can be a re-evaluation of the overall operation. Every aspect of operating a funeral home should be scrutinized – from phone calls, removal/transfer/receiving bodies, arrangement session techniques, embalming/cremation procedures, visitation/service offerings, product offerings, vehicle operations training, etc.

The best way to evaluate operations is to review the training for every segment. Now, I know I just slammed the door on the majority of readers because most have no consistent training in place, much less training outlines for every facet of funeral operations. Being proficient at something that does not need to be done in the first place is detrimental to any organization.

For example, let's take a complete look at transfer/removal. Basically, there are three types of removal: home, facility and accident/crime scene (depending on the jurisdiction).

Home removal is one of the best marketing opportunities of our business, yet it's widely ignored. When a person dies at home, it's typically a hospice-supervised situation. The relationship with hospice personnel is crucial to funeral home community relations. Unfortunately, they are often regarded as an "enemy" of our business.

Adding communication steps in the home removal process delivers unexpected dividends. Call the hospice or contact person prior to leaving the funeral home to make sure the address is correct and provide an estimated time of arrival. The family now has a deceased loved one in their presence, and communicating that your personnel is on the way provides a level of relief. In addition, ask whether your removal team can stop on the way to pick up an essential item, such as a meal for the family.

Gather as much information onsite for a death certificate or provide a website a family can visit in order to easily provide all information necessary. This reduces the time spent gathering data in the arrangement conference. From experience, I can attest that taking time to get information prior to the family arriving to the funeral home for arrangements allows for more focus on the service or life celebration. I've created a 59-step training module for home removals. When was the last time you trained your staff on this important task and interaction with a family?

Speaking of arrangement conferences, there's no reason for a modern funeral home not to use computers and visual aids for planning a service. Having a family visually see the elements of the services and products offered fosters joint creativity. Additionally, most software packages allow for the pricing for selections to be computed as they are made. This helps eliminate errors and surprises while allowing for an easier presentation of total cost.

One of the most arduous segments of making arrangements is creating the obituary. Handwritten notes taken and then given to an administrative person to decipher is simply poor service. On numerous occasions, I have witnessed the time it takes to write an obit exceed an hour. Frankly, this wears a family down. The use of computers is unequivocal-

ly a must for funeral home efficiency and improved customer satisfaction.

Another benefit of technology at a funeral home, if properly utilized, is a reduction in administrative costs. The majority of funeral home software offers everything from data collection to document production, including death certificates, cremation authorizations and goods and services statements. Funeral directors can input information and eliminate the need for redundant actions by administrative staff. Of course, there is a need for support staff, but proper deployment of technology saves money and time and reduces costly errors.

Digitizing product offerings adds a completely new dimension to arrangements from several perspectives. The most obvious is regaining the space of a casket display room. The drain on cash flow to maintain this room's inventory is also eliminated. Creative use of the space/room enhances the family's experience. Imagine the inside of a Starbucks complete with sitting areas for families to gather and have conversations. Some progressive funeral homes have added small kitchens where food preparation is possible and offered with catering. Other firms have developed a special viewing room for cremation families.

Depending on how creative you become, this space may now generate additional income and be a differentiator between you and your competition. Remove the casket room and utilize digital displays to provide the funeral director complete control of how products are presented, rather than the time-tested "I'll leave you here [the casket display room] to make your decision."

Eliminating inventory expense is another benefit of using computers to present caskets and other products to families. Since we're on the subject of caskets and other products, if you are going to retool your overall operation, you might as well change the manner of purchasing funeral products. Long gone are the days when a casket representative came by with a lithograph book filled with caskets and spent hours laying out the pictures, creating just the right mix of "containers for precious materials" (that's the "definition" of a casket).

New purchase methodology can be coupled with pricing by using a Request for Product for any vendor, including casket companies. The RFP allows for the specifics of your needs. No rebates, specific delivery needs (especially since you are not storing or displaying caskets), across-the-board discounts and no minimum purchase requirements are spelled out, giving an equal playing field for all providers.

When pricing caskets or other products, rather than try to figure out a complicated percentage markup scheme, simply add the amount of profit desired to the wholesale cost. Now, I know I just blasphemed a tradition, but let's do the math. If you want to make a profit of \$1,200 from a casket sale and the net wholesale cost is \$800, then charge \$2,000 retail. This particular pricing methodology works for the benefit of both the funeral home and the families purchasing caskets. The lower you can purchase the casket and add an across-the-board markup, the less a family pays less and the more you make.

Offering high-priced products is a thing of the past; if you

don't believe me, count how many bronze and copper caskets you sold last year. In fact, stainless steel is a big deal versus lower-end 20-gauges. However, if you have an across-the-board net profit pricing methodology, what difference does it make which casket you sell? Additionally, if you have properly priced services, as I shared earlier in this article, a predetermined and consistently applied profit markup on any casket, vault, urn or cremation container sale will result in dropping profit to your bottom line.

Creating a comprehensive marketing plan to include social media is also an essential element of adjusting the operating model of a funeral home. The before-mentioned budget should include at least 4% of revenue spent on advertising. Unquestionably, funeral home marketing to consumers is significantly different today. In fact, we get more bang for the buck reaching thousands more eyes with social media and websites than newspaper ads, Yellow Pages or other mediums.

I've mentioned in other articles the notion of "decideds" versus "undecideds" when creating marketing plans for funeral homes. The decideds have a relationship with a particular funeral home from long-term repeat family patronage, and the undecideds have no relationship. Reaching the undecideds is essential for a funeral home brand to not only differentiate from its competition but position the firm for top-of-mind reference when a time of need arises. Otherwise, Google search will determine the selection, and if your funeral home is not on the front page, well, you lose.

Creating a robust preneed marketing program isn't optional when adjusting for a new funeral home operating model. If your current preneed marketing plan is to mention preplanning at the end of an arrangement or waiting for walk-ins, you need to step up your game. On average, a funeral home can expect to write/place about 40% of its total at-need calls in annual preneed sales. So a funeral home that conducts about 100 at-need service calls will write about 40 preneed contracts annually. If your current preneed effort is less

than this, not only are you below average, you're potentially in trouble.

Finally, here's a thought that should keep you awake at night: If you are not assisting people in preplanning their own funerals, upon their death, the decision is left with surviving loved ones. When a preneed is written and burial, with all of the elements the deceased wants, is prepaid, upon death, the millennial doesn't have a chance to Google "cheap cremation." Get it?

Preneed marketing is completely different from brand awareness marketing yet offers the benefit of reaching "undecideds." One idea I have seen work particularly well is offering to speak at seminars. Civic organizations and senior care organizations are always looking for speakers to provide relevant end-of-life presentations – not a sales spiel, mind you – for their employees. Veterans' benefits, exactly what triggers a "spend-down" and the vast array of celebration of life opportunities are simple but relevant topics people want to hear about. Don't overlook this opportunity to present on these subjects as well as others, such as "Top 10 Mistakes When Planning for Cremation."

If the content of this article seems overwhelming, you have a few options. First, don't do anything and hope your competitors do the same thing. Second, take one step at a time, starting with a marketing research study, and then adjust your pricing to include profit as well as cover operating overhead. Finally, if you have the desire but you're too busy or don't feel comfortable with tackling all of these tasks, let's talk. I'm passionate about our profession and always excited to chat about how to improve for our collective future. ☰

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