

Business

By Kevin Kruger

Don't Let Direct Cremation Pricing

Wreck Your GPL

Some of you may be familiar with The Foresight Companies as a provider of a range of financial consulting and accounting services. As director of business analysis for Foresight, one service that my department provides our clients is an annual review of their pricing and General Price List. Our process involves producing a realistic budget to accurately forecast anticipated overhead. We then compare GPL pricing to see how likely you will be to exceed the target. I have looked at dozens of GPLs in the last two months and am repeatedly struck by a consistent mistake that funeral home owners make in pricing the Federal Trade Commission-mandated direct cremation package.

Let me first lay out several assumptions that lead me to this conclusion. Funeral service is undergoing a significant transformation with the nationwide increase in the cremation rate. Some families have a visitation and purchase many of the services that a funeral home offers while also buying some merchandise and renting a casket. The family, or the deceased, simply didn't want burial. Other families opt for a memorial service to remember their loved one. Still others choose a direct cremation. These are personal decisions made for a wide variety of reasons – sometimes associated with cost but far more often for other reasons.

The increase in the cremation rate is moving at different speeds in different parts of the country, but it is not a fad or a trend that is going to reverse. I have clients with a 10 percent cremation rate and others with a 90 percent cremation rate. They all started at 0 percent. The 10 percent clients are making more money now, but those businesses are going to change. The market is going to change. They need to be able to provide the kind of funerals and memorials people are asking for. It is completely possible to make good money in an increasing cremation environment, but pricing must be structured to

this dynamic. This is where so many owners sabotage themselves, and the long-term viability of their business.

With an increasing cremation rate, every owner can expect to sell less merchandise next year than this year – and certainly much less five or 10 years down the road. Merchandise sales are a significant source of profit in many businesses. This increasing cremation rate will also lead to fewer embalming cases and a lower utilization rate of facilities for visitations, funerals and memorial services.

What is a business owner to do?

I believe the key to being successful in a market with an increasing cremation rate is making sure that your pricing for your nondeclinable charges is where it needs to be. When your estimated revenue is coming up short for the coming year, focus your price increases on the basic service charge, the removal and transport to the crematory. If you own a retort, the cremation fee would also fall in this area.

You want to keep price increases minimal on the areas of your business that you want to encourage families to utilize. The big area for this is use of your facilities for visitation and services. Funeral service is a fixed-cost business, and the largest fixed cost is real estate. Every time you have an event in your facility, the community comes on-site to see the investment you have made in your property and experience the great work you and your staff do in serving families. You want to encourage families to continue doing so by keeping this price low. Similarly, you should set your off-site service charge at a higher amount than your on-site service to again encourage people to use your facilities rather than a church or some other event facility.

Many owners have successfully bundled services into packages that are popular in their community. These packages can be for casketed services or noncasketed services and sometimes include merchandise options as well. It is also common for the owner to discount the package when compared to the total price of

the services contained within it. A package that includes embalming, visitation and a funeral service might have a discount of 6 to 10 percent. Another package with a private viewing and a memorial service might have a 4 to 6 percent discount.

The minimal direct cremation and immediate burial packages should not get a discount. The families that value the services that you provide, and purchase the most from you, should get the largest discount. This seems like an exceptionally fair and common-sense approach to package pricing, but it doesn't always make it to the GPL.

What is the consistent mistake that

I mentioned in the first paragraph? Too many times, an owner crafts a well-thought-out GPL line item pricing strategy but then instantly undermines the credibility of their pricing with a direct cremation package that is highly discounted.

I am going to show some hypothetical pricing numbers. If you think I am talking about your business, you may be partially correct as I have had this exact conversation at least a dozen times this year with clients. Names are omitted, and the numbers are changed, but this is representative of what I am seeing from far too many funeral homes.

GPL Item	Amount
Basic Service Charge	\$1,695
Removal	\$595
Other Prep of Body	\$195
Transport to Crematory	\$395
Alternative Container	\$195
Cremation Fee	\$295
Total	\$3,370
Direct Cremation Package	\$1,995
Savings	\$1,375
Package Discount	41 percent

Mind you, nobody presents it in a chart like this in their GPL. They simply include a brief description of a direct cremation and the price. However, the math doesn't lie. Full service funeral homes are offering discounts of 10 to 50 percent on direct cremations with shocking regularity. When asked to explain their thought process, my client will invariably refer to the "guy in town" who does it for \$1,500 or \$1,200 or \$995.

"That guy" almost certainly does not have a competent, professionally trained staff and a seven-figure investment in real estate. He has a different cost structure than you do to provide a different type of service than your

business is built to provide. And that service is a commoditized, disposal model lacking almost any component of service.

This over-discounting of direct cremations becomes dangerous to you as families compare your offerings. For cremation-oriented families that do desire a memorial service, a common package includes a private viewing and a memorial service. The additions are \$395 and \$595, but the package more than doubled in price from \$1,995 to \$4,098. This difference can quickly become so vast that families begin saying, "At that price, we'll just do a direct cremation and handle something afterward ourselves."

The final point to be made is that different families make cremation arrangement choices for many different reasons. You need to understand what motivates them to serve them most effectively now and into the future. Some see the value in the funeral experience: celebrating a life and grieving together. There is a body present, but it will not be buried. These are your people. Some appreciate a memorial service with an urn rather than a casket. These are your people as well. Some are drawn to cremation as they perceive it to be less expensive and have modest means. These are your people, too. If your GPL lists a direct cremation at \$3,370, you always have the option of making pricing adjustments to address a particular set of circumstances.

Unless your business is set up to focus on price, the guy who wants an \$895 direct cremation is not your people. He wants the absolute lowest price and would go 50 miles the other direction to save \$50. Let your competitor have this call and charge your families what your costs of operation require you to charge.

I was at the memorial service for a friend's father last year. He had started a company in Phoenix in the 1960s, so had done very well for himself. Money wasn't an issue. This memorial wasn't at a funeral home or a church. The family had rented a large event room at a country club. There were several memorial displays set up around the room as well as an AV system for speakers and the sharing of video. There were hundreds of people in attendance. There was a full bar and a wait staff circulating with trays of delicious appetizers.

Funeral service is surely changing. Many, many, many thousands of dollars were spent celebrating the life of this man, but the funeral home's only interaction was as a disposal service. I hope it charged appropriately for the services that it was allowed to provide. •

GPL Item	Amount
Basic Service Charge	\$1,695
Removal	\$595
Private Viewing Visitation	\$395
Other Prep of Body	\$195
Memorial Service	\$595
Transport to Crematory	\$395
Alternative Container	\$195
Cremation Fee	\$295
Total	\$4,360
Memorial Service Package	\$4,098
Savings	\$262
Package Discount	6 percent