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ICCFA Magazine spotlight

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CASKETS

How do you go about pricing your caskets?
Have you ever examined the way you do it?
It's time that you sit down and do the math.

Casket pricing: Do you have the guts to do the math?

Almost every article published today has an underlying call for “change” within the funeral profession. In my opinion, the notion of change may not suffice—scorch the earth and start all over again is likely a better solution. The funeral operating model is broken, and it is ludicrous for practitioners to attempt to hold on to the glory days of the past. If you look at the facts, change is so much easier.

What hasn't changed are the simple mathematical equations underpinning our businesses:

Revenue – Overhead = Profit

GPL + P&L = EBITDA

Retail Price – Wholesale Cost of Goods = Profit

I want to focus on the last equation for caskets and vaults (aka outer burial containers) sold within our industry.

Over a span of a few years, our funeral business has evolved from a local service to one that has international reach. Don't think so? Think about how a family overseas can virtually attend a funeral. And families now instantaneously communicate via email or other technological methods.

Practically every item sold to the local funeral consumer has offshore fingerprints all over it—and I'm not just talking about caskets or urns.

Have you looked at the percentage of foreign parts in the “American made” vehicles you drive? By the way, where was the smart phone that you took the death call on manufactured? I'm not advocating for or against the purchase of foreign products, I'm simply pointing out that a change has already happened.

If this change has already occurred, why hasn't the way we price and present our products to consumers changed?

Yes, we are in a relationship business, but technology lessens the need to be present for *every* event. If we can make the transition from buying at trade shows to buying from online catalogs, why don't we change our behavior for other parts of the funeral service process?

Let us circle back to the formula Retail Price – Wholesale cost of Goods = Profit. A majority of funeral home owners still price their caskets and vaults using a “mark-up” method that basically assigns a randomly selected percentage to multiply for the price.

For example, a casket or vault with a \$1,000 wholesale sticker may be multiplied by 1.5 to compute a retail price of \$1,500. My question regarding this method is: Why? The multiplier is immaterial. Why this formula?

Furthermore, this equation does not encourage consumers to purchase better products because—now hold on folks—the higher the wholesale cost, the higher the increase of the retail price.

I understand that for some, such a formula is held at the same level of secrecy and esteem as grandma's red velvet cake recipe. Therefore, it is believed that making any adjustments could spawn a family curse. Well, I'm here to tell you that the shrinking bottom line profits at funeral homes are forcing more pragmatic approaches to pricing.

Rather than stealing (sorry, “obtaining”) your competitor's casket and outer burial container price list so you can mark your products \$100 less, or throwing a dart to select a random percentage multiplier, ask a simple question: *On average, how much do I need to make (net profit) from every sale of a casket or vault?*

If you are considering the answer to this question, you're probably finding yourself prompted to ask another one: *How do I*

find out how much profit I need to make on average for each casket and vault sale?

At this point, you are thinking on a special level, one different from those who change prices only once a year or “just add the percentage the casket company went up in their prices this year ... to everything.”

For just a moment, I’ll touch on this additional formula introduced at the beginning of this article:

Revenue – Overhead = Profit

Creating the operating overhead for a funeral home is the first step of developing any pricing formula. This means adding all the costs (personnel, loans, supplies, vehicles, taxes, etc.) and then, and only then, calculating the service prices for your GPL. If you have an estimated profit amount from historical services, then determining the profit from caskets and vaults or any other goods becomes much simpler.

Consider the simple formula of margin management where you can pretty much

engineer the expected outcome or profit. The trick is to know exactly what products you have sold with success in each category, such as premium woods, soft woods, premium metal, 20-, 18-, 16-gauge, non-gasketed caskets and basic, standard or premium protection for vaults.

Let’s say that your firm wants to average \$1,000 per casket or vault sale in profit. This is going to be so simple that even an intern can figure it out, but here it goes. Add \$1,000 to the midrange products (or the ones you sell the most), \$1,250 to the premium products, and \$850 to the lower range. I can pretty much guarantee that the average net profit from each sale will be right at \$1,000, not including discount and rebate.

This formula will actually increase the total net profit for any merchandise sale, and the great part is that families are encouraged to purchase better products, your firm makes more money and, believe it or not, suppliers are happy because they are selling you better stuff.

I want to reiterate that the traditional

funeral operating model is broken, and the only fix is to take a step back and evaluate the behavioral and emotional aspects of running a funeral home. This notion is not for the weak at heart, but rather for those with the intestinal fortitude and desire for continuous improvement.

In my funeral business consulting practice, one of my duties is to provide different avenues of approach for our clients’ financial health and profitability. The toughest part, even with logic and math, is to help funeral home and cemetery owners have the courage to take a different route and to trust the process. The reward comes quickly, as funeral home owners begin to benefit and realize the decision to implement our processes is a solid one.

I’m passionate about our profession and bullish on our future. Do you have enough guts to make a change? I’d enjoy talking with you about your ideas and listening to your perspectives about margin management or any subject, for that matter. 