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ICCFA Magazine spotlight

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More from this author

► Educational information, including copies of this article, can be found at www.theforesightcompanies.com

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Editor’s note

The Cemetery Impossible column is written by the staff of The Foresight Companies. **If you have a question you want to be featured in this column, please send it to danisard@f4sight.com.** Dan Isard or a member of his staff will call you to get more information and a recommendation will be provided via this column, helping not only you but also others who are facing similar challenges.

FINANCES

Cemeterians who don’t face up early to rising cremation rates sooner or later will be facing difficult financial choices.

The ultimate pill when your cemetery is not doing well

Dear Dan,

My cemetery is in the heart of an 80 percent cremation area. Over the past decade, my sales have gone from 800 graves a year to about 100 graves a year (at-need and advance sale).

My fixed costs of operation have continued to rise, due to increased water and labor costs. My sales team is down to one person from three a decade ago. My cash position is half of what it was a decade ago. I have run negative cash flow for each of the past four years.

What options do I have for the near and long term?

Along the I-5 to Bankruptcy

Dear I-5,

Your situation is not a desperate one now. It was desperate about three to five years ago. We all must be objective to keep a fresh eye on our situation. A critical decision should have been made three to five years ago, as opposed to praying the path you were on would turn itself around.

With the limited data you have presented, in my opinion, you now have four options.

Option 1: Difficult

Depending upon the overhead of your business, a merger with another similarly situated business can be considered. This is a case where two cemeteries in a tough spot, merged together, perhaps have a better chance of surviving than if they remain unaffiliated.

There are several costs of operation that a cemetery business can consider reducing through such a merger. The fixed overhead footprint of your business includes the compensation of the senior manager, the administrative staff, bookkeeping and, to some degree, advertising.

For example, two merged cemeteries can place one advertisement and cut the cost in half.

The cost of the general manager can be shared. I dare say that today there is less work for you than there was a decade ago. Do you



have the time to run two businesses? I assume so. Therefore, after a merger, you can spread the large cost of salary, benefits and taxes for the general manager and maybe their direct support staff over two (or more) businesses.

Today’s technology is a great time aid. A bookkeeper can do two or three sets of books in the time it used to take to do recordkeeping for one cemetery.

It is good for a cemetery to have its own mowers and other equipment, but if you have a flatbed hauler, you can take one mower to an unlimited number of sites. Therefore, the equipment needs of two cemeteries can be about 110 percent (rather than double) of one place.

The same with the staffing needs for maintaining the landscape. Move the staff and the gear and save almost half the expense.

Option 2: More difficult

There are some costs a cemetery should not consider reducing. You have cut back on the marketing sales expense and therefore cut back on the sales revenue. I don’t know how effective your advance sales team was, but you need to market. It might not be too late.

Most of us don’t understand cremation. In cremation, there are not just the two markets you mentioned earlier—at-need and advance sale. There is a third that is larger than the other two combined, the post-need market.

A recent survey indicated that about 38 percent of cremated remains are interred in a cemetery for perpetual safekeeping. That means that about 62 percent are either scattered, retained for some future decision or left in a storage facility with a bunch of Beatles albums. You need to market to that 62 percent!

Scattering sounds romantic. However, where does the family go to remember? Do

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they go to the site of the scattering? If the scattering was from the air, do they walk the ground below the point of dropping or grab a parachute?

We need to revise our master plans to provide options for inurnment. Columbaria are not expensive. Glass-front niches have great eye appeal, but are a bit more expensive to construct.

Ground burial of urns is easy and allows for about 30 urns in the same space as one casket. The use of cenotaphs provides a memorial point for future generations in cases where the cremated remains have been scattered.

You must find the means to market each option. Price them as options for good, better or best in each category.

Option 3: Much more difficult

Build a funeral home on your site. The body doesn't get from the point of death to the crematory by itself.

Many studies have shown that when a cemetery adds a funeral home, that funeral home does at-need calls equal to about 50 percent of the cemetery's annual interments. If you have a retort in that funeral home building, you can expect even more calls.

Controlling the call is important as the property goes from being a stand-alone cemetery to being a combination operation. As a combo, you occupy the high ground of the marketing enterprise.

Even with an 80 percent cremation rate, a well-trained funeral arranger can sell about 60 percent to 70 percent of those cremation calls some form of gathering. That increases your profit and helps you to talk to the families about permanent memorialization.

The investment in a funeral home building can be modest, as you don't need to buy the three acres of land that a new stand-alone funeral home might need—you already have land. At the same time, you can build something more substantial than the "value marketing" funeral home located in a rental property with only a used panel van for its livery.

This gives you an opportunity to explain to families in advance selling meetings the benefits of buying merchandise and inurnment/interment from your business. Furthermore, this strengthens the principal in the perpetual care trust, protecting the overall

property and your stewardship of the bodies entrusted to you.

I rate this as a more difficult option because it requires you to invest in an additional building and some funeral staff. It might be beneficial if you can rebuild your office building at the same time. Maybe you can also include some crypts in the rebuilt/renovated office.

You could market such a project to showcase all you are doing and offering families, as you'll now be able to offer them one-stop shopping and modern, fresh facilities and options.

You also are going to need to learn the funeral business. Based on my knowledge of both professions, I can say, with no insult to either of the two, it is easier to teach a ceterian about the funeral business than it is to teach a funeral director how to run a cemetery.

Still, doing this is a risk. In your case, it would have been better if you'd done it about 10 years ago when everyone else was realizing the cremation rate might eventually rise to at least 50 percent, as a decade ago your cremation rate was already 50 percent—and growing.

Option 4: Draconian

Bankruptcy. Yes, bankruptcy. This is the end of the line. This is nothing to joke about. It is difficult. We are going to see more and more cemeteries choose bankruptcy each year due to their inability to adapt to cremation marketing.

For most cemeteries, it is just a matter of time. Most do not have the perpetual endowment trust assets to protect their operations when there are no longer new sales. Even if you faithfully conformed to all state trusting requirements, many of you will find that your funds will be inadequate for perpetual maintenance of an inactive cemetery.

State trusting requirements are akin to Social Security funding. The legislatures, at the time of creating a new law, listened to experts, and those experts made assumptions that were unreliable. The future pays for the mistakes of the experts of the past, long since buried in the underfunded cemeteries.

The result is, most cemeteries cannot cover their expenses from the earnings of their endowment care trusts, unless they have

a high enough return. We have seen, with the low-interest environment of 2008 to the present day, that a 2 percent yield doesn't provide enough cash flow to cover the costs of maintaining a cemetery.

There are three considerations in bankruptcy:

1. Is this business, personal or both?

Often, small business owners give their personal guarantee on business loans and commitments. If you have personal guarantees on business notes, you may be putting your personal estate into bankruptcy with the business.

2. Is this business going to come out reorganized or go under?

You can reorganize if you had a contract that was burdensome. In some cases, the contract you want relief from is a purchase agreement, employment agreement or maybe even a union agreement. You would have to demonstrate how the continuity of this agreement restricts the business from being profitable. If successful, you could emerge from bankruptcy protection with a new lease on life.

If your problem is simple math (e.g. expenses are greater than revenue, with no change in sight), then you are looking for a bankruptcy that would liquidate the business.

In that case, the sovereignty would take over the ownership and control. Generally this would be the state, since states regulate cemeteries, but there have been cases of a city taking control of a bankrupted cemetery. In either case, they might find a buyer or someone to merge with the bankrupted property, or run it themselves. In any case, you would be out.

3. Are there any issues with regulators?

If you are going into bankruptcy, be prepared to make certain all trust funds are properly accounted for. You are inviting the regulators to examine everything. Be forthcoming. Bankruptcy with properly funded trusts is a blessing in comparison to the daily pain of talking to creditors or angry families.

The lesson for you is you may have waited too long to seek out help. For those reading this who can empathize with what this cemetery owner is going through, seek help sooner rather than later. The sooner you act, the more options you have and the greater the chance of a successful result. 