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ICCFA Magazine spotlight

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► **The Foresight Companies**, Phoenix, Arizona, is a funeral and cemetery consulting business offering a wide variety of services, including accounting, strategic business analysis, valuations, merger/acquisitions, human resources, accounts receivable management and surveys.

CREMATION

The numbers tell the story of how cremation is affecting cemeteries. They also show how learning to appeal to cremation families can help cemeteries extend their active lives, selling post-need as well as at-need and pre-need.

The power of turning 24 square feet into 192 units of inventory

The steadily increasing cremation rate has caused a profound shift in the funeral service industry.

Much analysis has focused on the funeral home side of the industry as funeral home operators have been struggling with decreasing merchandise sales and reduced usage of their funeral home real estate (and associated revenue) for visitations and funeral services.

The other primary component of the funeral service industry is cemeteries. Historically, their business model has been the sale of in-ground burial interment rights or above-ground entombment rights for casketed remains, along with related services and merchandise.

If funeral homes have been struggling with rising cremation rates, one would assume that cemeteries would struggle even more, as they seem wholly dependent upon casketed funerals. That is true to a degree, but cemeteries have been very proactive in offering new and different disposition options for families that choose cremation.

The US Census Bureau tracks business activity by NAICS (North American Industry Classification System) code. Code

812220 has been assigned to cemeteries and crematories. It does not allow for a view of strictly cemetery operations, but does allow us to see some broad trends.

The chart at the bottom of this page includes 1997-2012 data. Data from the 2017 Economic Census will not be available until September 2019.

Interpreting the data

Clearly, the total number of establishments has been decreasing significantly for each time interval studied.

Revenue is nearly flat from 2002 to 2012 and decreased slightly from 2007 to 2012.

Total payroll has increased more than 10 percent in the same 2002-2012 timeframe while total headcount has dropped more than 25 percent.

Revenue per establishment and revenue per employee have been steadily increasing, suggesting larger operations and more productive staff.

The final measurement, “population per establishment,” has been increasing almost linearly, indicating that a cemetery/crematory needs a significantly higher population to maintain economic viability

NAICS Code 812220 (cemeteries and crematories)	1997	2002	2007	2012	% change
Number of establishments	6,677	6,260	5,707	5,294	-7.2%
Receipts/Revenue (in millions)	\$2,988	\$3,231	\$3,350	\$3,297	-1.6%
Annual payroll (in billions)	\$1.075	\$1.037	\$1.156	\$1.168	+1.0%
Total employment	59,458	41,932	35,035	32,653	-6.8%
Receipts/revenue per establishment	\$447,000	\$516,000	\$587,000	\$623,000	+6.1%
Receipts/revenue per employee	\$50,000	\$77,000	\$96,000	\$101,000	+5.6%
Population per establishment	40,834	45,947	52,783	59,296	+12.3%

CREMATION

than in the past.

The census data would seem to confirm that the cemetery business model is being severely impacted by the increasing cremation rate, but the level of detail provided makes it impossible to confirm this conclusion.

For example, one would have expected to see an increase in the number of crematories, given the sheer increase in number of cremations performed annually. I suspect that crematory operations run out of a funeral home are not included in this analysis, which significantly skews the data.

What cemeteries must do

Given the flat revenue stream, and expected decline in casketed services going forward, why would anyone start a cemetery, or buy an existing one, in today's market?

The answer, of course, is that there is money to be made by an operator who provides goods and services that a market wants.

As stated in the opening paragraph, cemeteries seem dependent on casketed funerals, but every change in consumer preference also offers a new opportunity. Burials are forecast to decrease from about 1.2 million in 2016 to fewer than 600,000 in 20 years. Ten states already have a cremation rate above 70 percent.

Given this long-term trend that goes back decades, some cemeteries began to offer disposition options for cremated remains. These options fall into three primary groups: 1. ground burial, 2. above-ground niches or columbarium or 3. scattering remains on the cemetery grounds.

Cemeteries are already selling a disposition to almost half of cremation families. Current industry estimates suggest that around 35 percent of cremated remains are currently buried at a cemetery, 7 percent are placed in a niche and 2 percent are scattered on cemetery property.

The remaining dispositions are currently split between families keeping the remains (36 percent) and scattering at a non-cemetery location (20 percent). The last category includes many informal, and often illegal, scattering locations.

How is this an opportunity for cemeteries? They have lost half of their burial market to cremation and are only

Each cemetery has a finite amount of land it can develop into sellable inventory. With the rapid increase in cremation disposition options, the ability of these cemetery sales organizations to repurpose and redevelop their one scarce asset can greatly increase units of sellable inventory. This redevelopment also can significantly extend the operating life of a cemetery.

successful in selling something to those cremation families half the time. The answer is that disposition of cremated remains takes up far less square footage than in-ground burial.

An 8-by-3-foot burial plot covers 24 square feet. Consider that mausoleums seek to maximize burial density by building vertically and selling six or eight disposition rights in that surface area often at a price premium compared to in-ground burial.

Constructing a mausoleum is a very expensive investment, and local regulations often require that construction is underway before any sales can be made.

The same 24 square feet of grass and dirt can be divided into 24 plots that are 1-by-1-foot for urn burial. The cemetery will sell an urn plot for less than a grave but not 1/24th of the price.

If a grave sells for \$2,000, an urn plot may sell for \$500, totaling \$12,000 in interment rights for the same square footage. *(All prices in this article are only for comparison purposes, to show what the differential might be between full-body vs. cremated body disposition and memorialization.)*

In addition, a casketed burial will only generate one opening and closing fee versus 24 openings and closings for urn burial. The same math works for an increase in urn vaults and marker sales. Each plot/merchandise/service sale will be smaller than a casketed burial, but the multiplication of inventory more than makes up for a lower average.

Niche walls and columbarium serve as the mausoleum model for cremation urns. They not only go vertical, but they do so with a 12-by-12-inch footprint rather than 24 square feet like a burial plot. A niche wall can be added to the end of a building or mausoleum. A 192-unit niche wall could be 8 feet tall, but only 1 foot deep and 24 feet wide.

Similar to the way it works with a mausoleum, an urn niche is typically priced with a premium when compared to ground burial. At \$1,000 per space, that equals \$192,000 in gross revenue vs.

\$2,000 for a casketed burial. There will also be 192 openings and closings and 192 opportunities for merchandise sales. A niche wall does require an upfront investment, but they are very modular so can be built in stages and added to as inventory becomes scarce.

One important thing to recognize is that while funeral homes tend to be staffed by caregivers and owned by caregivers, successful cemeteries are sales organizations above all else.

This is not meant as a slight to cemetery operators. A cemetery business model is to take raw land, develop it with the intention of creating a serene peaceful environment and sell the land in a series of very small real estate transactions.

Each cemetery has a finite amount of land it can develop into sellable inventory. With the rapid increase in cremation disposition options, the ability of these cemetery sales organizations to repurpose and redevelop their one scarce asset can greatly increase units of sellable inventory. This redevelopment also can significantly extend the operating life of a cemetery. Being able to turn 24 square feet into 192 units of inventory is powerful.

An additional benefit of having new inventory options at different price points is that you can sell to people who previously weren't able or willing to purchase what you had available.

Our previous example had a \$2,000 grave. Let's add a \$2,000 casket, a \$1,000 vault and another \$1,500 for opening/closing, a simple marker and miscellaneous expenses for a total of \$6,500.

The public has a perception that cremation is a much less expensive funeral option than burial. If funeral homes priced their services properly, a cremation memorial service wouldn't be that much less expensive than a funeral service. The body is not present and there is no embalming charge. The additional costs are almost entirely related to the cemetery side and whether someone wants to be buried in a casket.

A family who wanted to have a full "traditional" funeral could still have a cremation disposition by using a rental casket for the service.

Too many families associate cremation with direct cremation, and that is a misunderstanding that funeral directors need to address by educating families to all options in the arrangement room.

Being able to sell a final resting place for an urn, at a cost of \$1,500 or \$2,000, makes cemetery products available to a market that didn't see the value in the extra \$6,500 a casketed funeral and cemetery plot would have cost.

Conclusion

When SCI acquired Stewart, in some states they were faced with the choice of divesting funeral homes or cemeteries, as they were not allowed to own both.

In Wisconsin, they made the choice to retain cemeteries rather than funeral homes. It makes sense. Casketed funeral rates will continue to decrease with cities of any size having a low-cost direct cremation provider.

Assuming people will want to continue to have a permanent resting place of some sort, the math above demonstrates that cemeteries are viable in an increasing cremation rate environment. SCI currently forecasts their cemetery revenue growth at a rate nearly three times that of funeral home revenue growth.

Demographics are a powerful force in funeral service. The population of older Americans continues to increase. People have historically made advance purchase of cemetery interment rights about 10 years earlier than funeral home services.

The population that is in their 60s is large already as baby boomers continue to age, and will continue to increase until 2025. People have money and are willing to spend it on things that are meaningful to them.

Cemeteries can thrive in any cremation rate environment as long as they are able to offer options the community wants at a value that makes sense. 