

Business

By Jeff Harbeson

A-Ticket, A-Tasket ... What to Do Without A *Casket?*



Consumers are shifting away from burial toward cremation, so what does that mean for the future of caskets? The answer depends on the lens from which you are viewing the funeral world.

As a funeral home owner, the future looks dim for your casket merchandising. The same number of caskets are sold in the U.S. today as compared to 20 years ago, even though we have almost 700,000 more deaths. Today, the mix of caskets is weighted on the 20- and 18-gauge caskets and less expensive woods. Years ago, more expensive metals (bronze, copper and stainless steel) were being sold.

If your casket selection for consumers is priced appropriately and your service fees are the emphasis of your pricing, you will have families choose caskets for burial and cremation services. The key is to train your funeral directors to present caskets properly for both cremation and burial funerals. Training requires more retail training rather than just having the funeral director lead a family to the selection area and leaving them to their own devices.

Profit from the selection room is a result of training and proper pricing. Long passed are the days of pricing merchandise (caskets) at three-times markup and making low profit on services. Unfortunately, this method of pricing continues for many within the profession. The average profit margin for funeral homes is below 7 percent of revenue, and all signs point to a continuing downward trend.

We must accept that the current merchandising component in a funeral home operating model is broken. Corrective actions must take place – or the business will cease to exist.

There needs to be decisive action by funeral home owners and management alike. I recommend the first step be an assessment of the financial health of the funeral home. Just as a physician uses tests on their patients to determine the patient's health, business owners must employ a professional to run some tests.

Funeral home owners must follow the same path by initiating a complete financial assessment of their business. The professional will then use the results to prescribe a corrective action.

The owner must decide what is more important – profit or calls. Ideally, you can get a good profit with a consistently high number of calls. However, if one is to be sacrificed, which do you want to keep? A full business valuation and analysis provides information for funeral home owners to make educated decisions. A review of their merchandising will show if their families are buying caskets and other items in the range they should be buying. We need to generate revenue from every available resource at your control.

Creating a profitable pricing platform based on overhead coupled with a working budget is a positive second step in the direction of future

sustained profitability. Overhead items should include more than just the routine operating expenses. Financial overhead should be added to operating overhead. The financial overhead includes income taxes, cash for capital repairs, cash for non-deductible items, and most importantly, some amount for a minimum profit.

After the overhead is properly estimated, the next step is to forecast the amount of calls, both casketed and noncasketed. A simple method is to take a three-year average. The tricky part is estimating the trend of the call volume: Is it going up, remaining flat, or going down? A conservative method is to base your budget on 90 percent of projected calls. For example, if you estimate the next year death call volume at 100, the number you will use for developing your pricing is 90. The predictability of calls in any given year is speculative, and using the methodology of 90 percent will mitigate a lower-than-expected call volume. You would have increased profitability beginning with call number 91.

Pricing for profitability based on services makes sense because the sale of merchandise is becoming increasingly unpredictable as consumers choose funeral products online or choose cremation or burial only service. Certainly, there are readers that will take exception to this pricing method simply because it's new. However, the current funeral home operating model is broken, and modification of past practices must take place.

Speaking of unsuccessful past practices, as stated earlier in this article, reliance on big profits from casket sales are about as outdated as the Yellow Pages. New methodologies for pricing merchandise are a necessary adjustment for funeral home owners. Casket sales are declining and how the caskets are presented and priced needs to change.

Do you as a business owner/manager care if your profit comes from service fees or casket sales? If you don't care, that will be healthier

for the future. If you do care, we need to speak about your profit per casket sold. If it is important to have a profit from each casket, you should select a profit margin desired from each sale. If a funeral home owner wants to make \$X net per casket sale, then using the margin management method will allow them to achieve such an outcome.

Break your showroom into two groups: The most frequently selected and the least selected. Margin management starts with an understanding of exactly which caskets are selected most by families. For example, price your most selected caskets with an \$X markup. A selection of the least selected caskets can have a $(X * 50 \text{ percent})$. Therefore, your most frequently chosen caskets will have double the profit of your least chosen.

Once correct service prices are established and you have priced your merchandise using the margin management method, families receive better prices on a better selection of products. Moreover, funeral homes receive predictable sales and profits, and manufacturers sell products to funeral homes that are valuable to consumers being served.

Additionally, funeral directors must provide information, so families can make an educated decision when presenting funeral arrangements. No doubt consumers are increasingly selecting cremation, but whether the body is displayed is up to you. Training funeral directors on how to fully present all the memorialization options with cremation, such as viewings and private services with the body present, will increase the likelihood of additional revenue.

Although it's popular to blame cremation as the downfall of traditional funerals, families are shifting away from "tradition" because most funeral directors are presenting arrangements no different than 20 years ago. The lack of creativity for service and outdated methods of arrangements (if you're not using computers in arrangements, you're guilty, period) contribute to the decline of profitability.

If a funeral home owner desires more revenue per call, pricing is not the only answer. Intentional training of arrangers and monitoring results are imperative to the success of the new pricing strategy. Measuring revenue per call by funeral director will provide data for identifying gaps in performance and where additional training is required.

If you are a casket manufacturer or distributor, the future isn't necessarily bleak. The challenge is to create profitable products that consumers will accept with attractive price points. Consumers have rejected the traditional caskets and services of yesteryear. Casket sales continue to decline with consumers shifting to cremation, however, as stated above, funeral directors have played a part by not completely educating families about options in a cremation funeral arrangement session.

Some manufacturers have stepped up by providing high-end rental caskets and "round top" cremation caskets. Others have met the opportunity head-on by manufacturing environmentally friendly cremation caskets that are aesthetically pleasing with art or other designs on the exterior.

The bottom line? For our industry to meet the demands consumers are presenting, which is basically a mass exodus from funeral traditions, we must change our focus from fighting change to embracing change. This means dismantling what we think we know by seeking solutions using technology, proven and consistent pricing and operating methods, as well as engaging others with skillsets outside our own wheelhouse for change management. Otherwise, if you keep doing the same thing, you'll get the same results.

I am passionate about the funeral profession and the people that make it great. I'm also bullish on our future. I'd enjoy hearing your thoughts and perspectives, so reach out to me and let's have a chat. If we don't share ideas, we don't learn. What are you thinking about the future of caskets? •