



1.800.426.0165
danisard@theforesight
companies.com

ICCFA Magazine spotlight

► Isard is president of The Foresight Companies LLC, a Phoenix-based business and management consulting firm specializing in mergers and acquisitions, valuations, accounting, financing and customer surveys.

► He is the author of several books, and frequently speaks at industry conventions.

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@theforesightcompanies.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.

MANAGEMENT

Heritage is an important asset when you’re selling cemetery property, so starting a new cemetery is a challenge, one you might not be up to if you have no experience in the field.

Starting a cemetery with no experience has not gone well

Dear Dan,

About 20 years ago my wife and I decided to start a cemetery with two other couples. We knew nothing about the cemetery business before this venture began. We found land and a landscape architect. We hired companies to build some above-ground crypts and niches. We invested some of our cash and borrowed heavily from a local bank.

We invested \$2 million in 50 acres of land, but due to local ordinances, we can only develop half of our total space. We have 25 acres of land for cemetery use and 25 acres that must be left in its natural condition.

From the beginning of this business venture, we have been losing money and sleep. We have not been cash-flow positive in any year.

Now, all six of us are retiring and we don’t want the hemorrhaging of cash we are spending to keep this business afloat. We want to sell but have been told by a well-known cemetery broker we will never get our money out of it. We are probably going to lose \$1 million or more if it is sold. What can we do?

Help!

Dear Help,

I am so sorry to hear your story. In a capitalist society, anyone can become the richest man in the US (google the name Jeff Bezos) and any wealthy person can become penniless due to bad decisions. The drive of entrepreneurship often leads to blind ambition. I am sorry for your outcome.

Turning this business around will take cash and time. While I don’t know what financial resources you have, I can see that if all of you are retiring, you don’t have time. Unfortunately, in a turn-around, time may be the more important commodity.

It takes time to get a sales program up and running. It takes time to train the staff



who can perform the sales. It takes time to motivate consumers.

At my company, we believe that 80 percent of all cemetery sales are made because of the heritage factor. People tend to buy interment rights in cemeteries where their family and friends are interred.

An AARP study I saw recently showed that 54 percent of people they interviewed bought due to the heritage of the business. Regardless of whether it is 54 percent or 80 percent, a majority of new sales occur because of the decisions of friends and families in the past.

Unfortunately, a new cemetery doesn’t have this going for it. It could take 40 to 60 years to have enough sales so that a cemetery can achieve this momentum of new sales based on past ones. You don’t have that kind of time.

Even if you had some of the time, I cannot do an assessment of the cash it will take to get you to be positive cash flow. Too often new cemetery owners act from a landscape mindset rather than a cemetarian mindset.

Too much inventory is a huge problem. For example, if you pre-vaulted 500 graves, this might be more than 10 years of inventory. A cemetery is like any other business in that it has inventory. Too much inventory is money wasted and therefore creates an interest expense which can be more than the business can afford.

You acquire a cemetery by either buying one or starting one. If you buy one and overpay you will be behind the eight-ball forever. If you start one and overspend, the problem is just as bad.

Buyers frequently overspend on the

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land. For example, in your situation, you spent \$2 million for essentially 25 acres. That is \$80,000 per acre. At 6 percent, the interest expense alone is about \$120,000 per year. You will need about \$1.2 million to \$1.5 million in annual sales to generate enough operating profit just to pay the interest expense.

An investment of \$80,000 per acre has a land cost of about \$80 per grave. That is before adding the cost for roads, fencing, utilities and buildings. It is one thing if you paid cash for the land, but there is no turnaround that will get you to positive cash flow in less than five years.

The options

So what is the answer? It is not something I have proposed often, but in your case the only option might be bankruptcy.

Why do I say, "might be?" Because I don't know what state you are operating in and what your loan collateral provides. I assume you gave a personal guarantee on top of the land as collateral?

In general, I don't know whether your land can be taken out of its cemetery identity. I don't know where you allowed burial on the property. I hope the burials are clustered rather than spread out. Now, with that disclaimer, let me present you the possible solution.

Right now you own the business and have to support it. Fail to do so and you will

lose the right to operate the cemetery, as state regulators can take it from you. If the state takes the cemetery from you, you will still owe the bank their money, as I assume you have given a personal guarantee.

So, if you review the options, the first option is to do nothing and continue to operate at a loss. This is not a good option.

Bankruptcy offers a business or an individual (or both) the chance to start fresh under certain conditions. It can alleviate debts that cannot be paid while offering creditors the chance to recover from the assets that are unsecured. Often the business and individual must declare bankruptcy because the two are intertwined, with the individual providing a guarantee on business debts.

The bankruptcy option offers two possible directions. You can go into bankruptcy with the effort of discharging liabilities and "come out" with a fresh start. That is called a reorganization.

The other direction is to go into bankruptcy and be forced to liquidate all of your assets, with the money going to creditors. Often a business will go into bankruptcy in hopes of reorganization, but after trying various schemes, the business has no option but to liquidate.

The trouble with cemeteries is the lenders are almost always going to require a personal guarantee. Therefore, if you cannot meet the creditors' needs via the

business bankruptcy, you will be forced to use your personal assets to make up any difference. For people who have assets, this is a real threat, because they won't be able to avoid the guarantees they provided on the business debts.

A key difficulty in using our bankruptcy courts is these courts have their own rules, language, words and techniques. Frequently, only lawyers with specialized educations work in the bankruptcy system. In some towns there are not enough of them. In some towns, there are not enough bankruptcy attorneys due to conflicts of interest.

We often see banks with improper recorded liens. The bank may have put a lien on the property, but once it becomes a cemetery, it is no longer property. The grass is the top of a grave, which is inventory. In many states, banks can have collateral that is the business entity, but not the underlying assets.

Unfortunately, you and your friends are in a bad place. You chose to come into a business you knew nothing about. You learned much over 20 years but not enough to be profitable.

Now you want to get rid of the cemetery, and one thing you didn't learn about was your exit strategy. You will be spending the next few years learning all about that.

I wish you luck. And I wish you'd talked to me 21 years ago. 