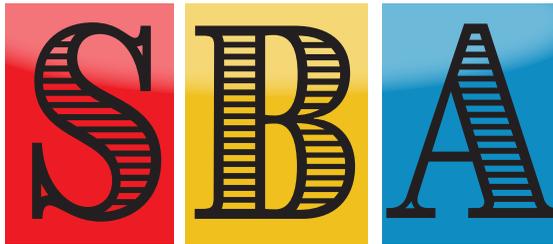


YOUR NEW
MEMBER BENEFIT



STRATEGIC BUSINESS ANALYSIS

Making Your Funeral Home More Profitable

By Kevin Kruger, Director of Business Analysis, The Foresight Companies

Call Foresight at (602) 274-6464 to Begin Your Analysis

The funeral service business used to be more about service than about business. Almost all bodies were casketed and once the family picked the casket, the bulk of the funeral arrangement pricing was already determined. Many family owned businesses also had a trusted accountant or other advisor who would meet with the owners to discuss pricing, managing expenses and measuring profit. The FTC rule requiring an itemized GPL ended the decades of easy pricing systems. The increase in cremation as a disposition choice has altered the economics of death care. The trusted family accountant is also more often a memory of a different era than a reality of today's world. Unfortunately, the economics of running a business are not adequately taught in mortuary school and many owner/operators do not have the knowledge to make the best choices when it comes to the business side of the funeral business.

The Strategic Business Analysis (SBA) program provides an opportunity for OGR members to receive in-depth financial analysis and feedback from experts in the funeral industry. The analysis is created to make sense of the complicated economics of a current funeral service business with increasing

cremation rates, partial or minimal service cases, and the effect that direct disposal competitors can have on the market. The analysis is intended to give an owner a big picture understanding of how the business is operating along with some specific feedback on areas of the business that are performing well or hindering the overall financial results.

How much is a funeral home business with \$1,000,000 of revenue worth? The answer is that it really depends on the business. This may seem like an evasive response but let me clarify using two extremes. A 100 call business doing \$1,000,000 in revenue with \$400,000 in Earnings Before Interest, Taxes, Depreciation and Amortization (EBITDA) is worth significantly more than a 400 call business doing \$1,000,000 in revenue with \$100,000 in EBITDA. This is because businesses are valued as a multiple of earnings rather than a multiple of revenue. Also, the first business has a \$10,000 average revenue per call while the second business only has a \$2,500 revenue per call. You may be planning to retire in the next several years or continuing as a business owner for another 30 years or more. Either way, it is very important to understand how much your business is

currently worth, what is driving the value, and measure the performance of the business going forward. This also helps you create an estate plan that makes sense for you and your family. Ultimately, it will help owners make succession plan decisions as every going concern business will be transferred at some point either as a sale or as an estate matter.

Every aspect of your revenue and expense can similarly be measured and compared to industry ranges. Cost of Good Sold (COGS) is a very significant area of expense for most funeral homes. This should be evaluated on a dollar per call basis as well using a percentage of revenue calculation. Our first funeral home from the previous example may have COGS at \$2,000 per call or 20% of revenue while the second business has COGS of \$250 per call or 10% of revenue. They are very different businesses that exhibit very different operating characteristics.

The single largest expense for almost every funeral home is the cost to pay staff in both direct wages as well as taxes and benefits. How much should you pay your professional staff? What types of benefits should you offer to attract and retain quality staff? Again, the type of business you operate will drive the correct responses to these questions. Also, your business location (urban/suburban/rural) and the number of rooftops you operate will further alter this dynamic. The licensing requirements of your state may further limit your ability to recruit potential employees.

Every direct cost of operation can similarly be measured for your business and compared against the industry as well as your own historical operations. Once our analysis is com-

plete, you will have an operating budget to measure yourself against. The SBA process provides this exact feedback by reviewing your actual quarterly results going forward and determining what is working in your business and what areas might benefit from some revisions.

How does a business make more money? It generates more revenue or it reduces operating costs. Or both. Another area of SBA review compares your actual cost of operations to your GPL and calculates your anticipated revenue. This allows a

methodical approach to your pricing that makes sure that your revenue exceeds your costs. In some cases, we will recommend targeted GPL changes that may increase or decrease your itemized GPL pricing. We will also look at your package pricing, including the four FTC mandated packages, and recommend changes. We will explain our analysis and why it leads us to particular conclusions. We make comments and suggestions, and you decide what changes you want to make in the operation of your business.

We hope to have the opportunity to sit down and review your business with you and your family as there is much valuable information to be shared. Right now, this unique service has a cost as low as \$0 for OGR members.



Kevin attended Arizona State University and received a B.S in Marketing in 1992. He began a career in research and consulting for a multinational firm located in St. Paul, MN. His focus transitioned to financial analysis and consulting and that continued upon joining Foresight in 2003.

Kevin takes particular interest in business succession and M&A assignments as well as managing the business analysis staff. The primary function of the Business Analysis group is to interpret the needs of a client by studying and evaluating the financial and operating data of their company. .