

## Pricing for Real

When you lose profit by setting your prices incorrectly, your firm loses value as well.

Imagine it's 1984 – prior to the FTC Funeral Rule being instituted – and we're having a discussion about the method to set prices. It takes all of 12 seconds – the price of your casket times four, five or six, depending on whether you want to be higher or lower than your competitor. It doesn't require a computer or a consultant. Whew, exhausting!

Well, as they say, those were the good old days, and since the FTC required itemized pricing, it has been a tough task to undertake and now requires a computer and a consultant with a computer!

Since 1984, funeral home profit has declined from about 15% to about 6% (based on a national accounting firm's published reports and as computed by my company), and this despite consumers spending more each year. How can profit be declining when consumers are spending more? The reason is not the Funeral Rule but because we haven't taken into consideration the true cost of overhead or the actual points of consumer spending. Allow me to explain and correct. Remember, this is the year of deconstructing your business leading up to our 2020 views next year.

When the FTC mandated itemized pricing, most funeral home owners/managers sat down, looked at their gross profit (revenue less cost of goods) and said, "How do I apportion this amount between the various items on the GPL?" Some of the less mathematically inclined just waited for their competitors to figure it out and then mimicked their GPL (plus or minus a few dollars). Each year since 1985, people have taken last year's number and added a few dollars to it. This is okay if last year's number was accurate and if you added the right amount based on your true indigenous inflation rate.

Setting itemized pricing for burial is one thing, but for partial services and cremation, we face hurdles. In the 1980s, when cremation services were rarely utilized, a mistake in pricing didn't affect overall profit. But as the choice of cremation became more prevalent and as this profession failed to embrace cremation, the pricing assumed that a cremation consumer was simply price focused. But they were not!

As cremation is now 50% of all calls nationwide, firms cannot have the price disparity of the past, and the funeral profession as a whole is going to have to wake up and realize this.

- By its very definition, the Basic Non-Declinable is the same for all calls. There is not one Basic Non-Declinable for burial cases and another for cremation cases.
- Removal has the same costs and therefore should be priced regardless of whether the body is ultimately going to be buried or cremated.
- It costs the same to transfer a body from the funeral home to the crematory as it does to an airport or to a cemetery for burial. The only difference might be the vehicle chosen for the transfer.
- Sanitary care of a body to be cremated costs the same as the sanitary care of a body to be buried.

Therefore, if these four services cost the same and all four are performed in a cremation service, why is it that the itemized cost of these items is usually more than the FTC-mandated package for a direct cremation?

More than 90% of all funeral homes we review make this mistake, and it's a very expensive one. We hear owners and managers ask us, "How do we compete with the guy down the street doing it for \$XX?" There are two responses I frequently give when asked this question.

Response 1: I hope you understand that you cannot match prices with someone unless you are willing to match his or her overhead! I acknowledge that funeral home operations are primarily a fixed-cost business. Therefore, if you gener-



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ate an extra 10 calls, they generate a 60%-80% profit margin. However, if you dilute your brand and offer to do calls for a significant reduction, you will cost your business a metric ton of money.

Response 2: Why is it the competitor is an idiot and a source of your humor most of the time, except when a family is shopping your firm against theirs?

When you lose profit by setting your prices incorrectly, you lose value as well. Funeral homes sell for the value of their tangible assets and goodwill. Goodwill is valued at a multiple of earnings. If earnings on a 100-call funeral home are reduced by \$500 per call, that is a decline of

about \$50,000. Therefore, you lose that amount in income and anywhere from \$200,000-\$400,000 in goodwill value. Can you imagine that that one error can cost you that much money?

It's no surprise that since the FTC Funeral Rule was put in place, profit has declined dramatically. We have four colossal events that have occurred from that tsunami of change:

1. *A rise in cremation every year since 1984.* As we make errors in setting cremation pricing, profit is the only point of absorption for this loss.
2. *An increase in the quantity of preneeds written each year.*

However, coinciding with this are the lower crediting rates on pre-need accounts and lower death benefit raises. Again, profit is the only point of absorption.

**AS CREMATION IS NOW 50% OF ALL CALLS NATIONWIDE, FIRMS CANNOT HAVE THE PRICE DISPARITY OF THE PAST.**

3. *An increase in overhead, almost double the CPI.* Most people set their prices and then amend them each year based on CPI1 or CPI2. CPI1 is the Consumer Price Index as measured by an agency of the government. It is a market basket of goods and services used by the average U.S. household. CPI2 is the Competitors Price Increase as measured by you after you send your second cousin into the other funeral home to get its updated GPL. Regardless, I have measured, from 1945 to 2012, the Funeral Service Inflation rate, measuring the overhead in the operation of funeral homes, and on average, it's more than 100% higher than the CPI!

4. *An increase in fear.* I recently spent a few days training leaders of some multiple-location operators and asked them where they were positioned in the market for cremation pricing. The answer may not surprise you – they were typically higher by as much as 100%. In most markets, their market shares were not changing, so I asked what led to this superior result? Usually, the answers were:

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# WHERE THE MOVERS MEET THE SHAKERS.

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Businesses that need to be seen are seen in The Director.

a.) We take fear out of the equation. We tell our staff this is where the price is. Short of dealing with an indigent family, all families pay the same amount.

b.) We train our people. Cremation is not about price shopping unless we make it about price. We need to have a game plan to demonstrate our value equation. We must give answers to shoppers about our differentiators. The biggest differentiator is usually our people, followed by our professional standards, followed by owning our own cremation equipment.

So, that takes me back to the process of pricing. To do pricing right, you must:

1. Understand your true overhead for operations and financing needs
2. Estimate your calls and call mix accurately
3. Estimate an accurate profit from merchandise
4. Allocate GPL selections to guarantee that enough revenue is generated, net of any profit from merchandise.
5. Packages. There are four FTC-mandated packages. Packages are first a convenience. If you choose to discount your FTC-mandated packages, explain why. This is where most funeral home owners/managers screw up the deliberate, well-thought-out efforts above.

6. Flexibility. If you find you've made a mistake, adjust on the fly. Do not wait until the end of a year and "chalk it up."

Setting prices is one of the most important steps in running a business. Most owners control their spending or at least keep it in line with previous years. They would rather argue with possible buyers about how much more profit the new buyer can earn by raising prices rather than doing it themselves. Sometimes a seller gets a young cub willing to take this risk, and that young cub will pay for that error the rest of his or her business life.

This is the year of preparation to set your vision in 2020. Be sure to open your eyes to the benefit of accurate pricing.

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