FINANCE
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PRICING

By Daniel M. Isard

Facilitating Your Vision

Twelve months, 12 steps to business success in 2020. This month: no-fear pricing.

This is the year of implementing your 2020 vision plan in your business, and using the year 2020 as a metaphor for 20-20 eyesight is perfect. Like your eyesight, while we are aiming toward the most successful outcomes, we understand there may need to be some corrections along the way.

As well as urging you in these columns to do everything in your power to facilitate your vision, I will be offering something different as well – a monthly video blog memorializing the written columns. I understand that some people learn by reading, some by doing and others by hearing/seeing. Visit *theforesightcompanies.com/video-blog* to view the monthly blogs, and I hope they will give you added insight.

Sometimes doing the right thing is more about the courage to act than just knowing the right thing to do. In my career, I have heard "Dan, that doesn't work with my families" so often that I often complete clients' sentences before they do. NFDA, other organizations and my company (on behalf of our clients) have surveyed tens of thousands of consumers each year, and their opinions tell us what we need to know to appropriately serve them. Let's listen to consumers and tailor our visionary funeral home to their needs.

I will break this year into 12 chapters. Each is a critical component to your implementation steps. I will tackle them in the triage of best results. This month deals with the one item that raises the most fear and gets the most results when handled properly.

PRICING

Imagine the indignation you'd feel if you woke up one morning and the federal government said, "We are now setting your pricing and your maximum profit." Most would take up arms in revolt. Now imagine you own a business and you're telling yourself, "You have to set prices not much higher than the idiot competing with you, and based on that price, you will not make much, if any, money." If this is the case, against whom will you revolt?

Pricing is really a simple exercise. Understand the cash flow needs of your total overhead and divide it by the assumed number of cases you expect to serve. It's so simple that it has not changed in my 40 years of being associated with this profession. Profit margins, however, have changed, and this tells me that we're doing things wrong.

If it is so simple, you must ask yourself, "How have we screwed it up?" Well, friends, that takes a history lesson. There was a time when funeral service was package priced. You bought the casket and all the services and facilities were thrown in.

Then came the Federal Trade Commission mandate in the 1980s, and we went to itemized pricing. We had to find a way to go from just marking up caskets by some amount to setting 16 different categories of pricing – and we guessed at it. Then each year thereafter, we reset those 16 categories by some perceived inflation rate.

But we guessed wrong when we set these up and we guessed wrong when we inflated them over the past 35 years. In arithmetic terms every funeral director can understand, Wrong X Wrong = Wrong^{35}.

Occasionally, we would adjust, but it was for the wrong reason. Our competitor's price was less than ours, so we dropped ours to be competitive. And while you have always regarded your competitor as an idiot, you let that idiot affect your pricing. In the simplest of terms, you cannot mimic someone else's pricing unless you can replicate their overhead. Therefore, our corrections threw us even further away from our true pricing point.

We also never understood cremation. In the 1980s, when cremation was less than 10% nationally, it didn't matter how badly we misunderstood cremation; we could screw up cremation pricing and still make a profit. But today, with cremation accounting for more than 50% of the national choice, you cannot let the minority choosing burial support the missed pricing of those choosing cremation.

There's an old joke about a retailer that sells shirts for $5 that cost him $6. When his competitor finally asks him how he can make a profit doing that, the reply is, "I make it up in volume." Well, friends, funeral directors cannot tax burial families to provide for the underpricing to cremation families and make it up on volume.

When the FTC Funeral Rule was instituted, funeral homes' profit margin was about 14% of revenue. It started falling each year even though average revenue per call would increase. While there is no longer a national analysis of such, my estimate is that profit margin is under 5% today and still falling. We must change!

In order to change, you must first understand that total overhead comprises two factors: operating overhead and financial overhead. Operating overhead includes your cost of staffing, livery, facility, marketing and general/administrative costs. Financial overhead encompasses the costs of principal and interest on any loans, the cost of income taxes from business profit, the capital that must be reinvested to keep your business and facilities

looking good, and one more thing – a minimum profit. Imagine you have $1 million invested. What would you want as your minimum return on that investment? This is the amount your minimum profit must be, and it must be in your financial overhead and, therefore, in total overhead.

Total overhead must be allocated in two ways, first over your annual expected calls. To this end, it takes a guess. I want you to assume you're going to guess wrong. In this example, guessing wrong is good – if you guess the right wrong!

Imagine you've served 200 families a year for the last three years. What would you want to use as an anticipated case count for your 2020 pricing? (Remember, guess wrong!) I hope you would not assume more than 200, and I hope you would allow me to implore you to guess less than 200. While there are ways of influencing market share, you don't influence mortality; that decision is well above your pay grade.

I would assume 180, or 90%. If I am right in my wrong assumption and serve 180 families, no problem. I will have met my overhead, paid my taxes, reinvested into my business and taken a minimum profit. But if I'm wrong in the right way, and I have served 200 families, I made more profit and can sock away extra money for the future.

Some observant readers are probably thinking, "Dan, you said nothing about merchandise profit." That's right. Merchandise is a variable profit and a variable cost. If I am going to do anything with merchandise profit, it's going to be part of my overhead recovery. You get to decide how much you want to mark up merchandise. For me, less is more. Since families are buying fewer caskets, vaults and other merchandise each year, why would I want to rely on this to provide more of my total overhead?

There are 16 itemized areas on a General Price List, and they apply to whatever type of funeral a consumer chooses; they should be the same regardless of whether the consumer chooses a burial or cremation disposition. Remember, there are the same number of steps in serving a family for direct cremation as for direct burial. *You cannot discount the minimum services and be profitable!*

You have options as the business owner. If you feel your market doesn't appreciate more complete services, you could reduce overhead. You could sell your building and move the business to a smaller site. You could lay off staff. But you cannot operate a Nordstrom's and set prices as if you're a Walmart.

You could sell more items or new services; many – dealing with DNA, repatriation of the deceased if they die away from home, reception centers, follow-up concierge support – are finding their way into funeral service. Find those you think the families you serve might be interested in and offer them.

Setting your prices takes some trial and error. After all, we are striving to amend the errors of the past 35 years. If you have a total overhead of, for example, $1 million and assume you are going to serve 180 families (again, as an example only), then you know you must generate, on average, $5,550 per call. If you assume you will generate $100,000 profit from the sale of merchandise, that means you must recover $900,000 from 180 families (in the example) or about $5,000 as an average service fee per call.

How do you apportion this $5,000? I prefer to see the highest service fee on the Basic Non-Declinable. Remember, this is the fee all families pay regardless of what type of service they want. That means it's the same for burial and cremation families. Maybe you're comfortable with half of your service revenue coming from this fee. If so, then you must allocate the balance. The second area to which I like to allocate a fee is the removal. While it is not a non-declinable fee, there are some things even Uber or Lyft won't do for a fare. The transfer to the crematory or cemetery would be the next area.

We see more and more families choosing to decline any embalming or body preparation fee, so don't rely on a profit based on a declining consumer event. Facility use is also declining, but I have found that families that choose to go to their church for a service don't do it for cost savings. Therefore, since it takes more man-hours to set up in a third-party facility and consumers are not price focused, I recommend you charge more than the fee for using your own facility.

It's never been easier to alter your prices if you find that things are not going as you anticipated. Don't wait until the next year. Recycle the current GPL and reprint with amended prices. Monitor to see what services are being used and which are not.

Now, what if your market share is not what you want it to be? Well, that will be the focus of this column in the February issue.

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