

Cremation: A CFO's Perspective.



EMBRACE THE CHANGE



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I HAVE SPOKEN TO MANY INDIVIDUALS

in the funeral service industry and many lament the increasing cremation mix shift taking place. The consistent message coming from the insiders is that it is getting more difficult to make money in today's environment. While the actual dollars earned is less per call when comparing cremation to burial, it has been proven time and again that the margin percentage is actually higher providing cremation compared to burial. Unfortunately, many insiders long for the "good old days – unfortunately for them, they are not returning." At some point, every industry or profession faces some sort of disruption – from technology, from regulation, and most significantly, from changing consumer preferences. When that happens, every business in the sector must answer a fundamental question, "Will I try to hold on to the old way, or will I try to evolve and seek out opportunity in the new world?" The most successful companies tend to be the ones that remain flexible during these times of change and stay laser focused on the needs and preferences of their customers. Periods of rapid change present businesses with great risk but also great opportunity. Many articles have been written about the reasons for the dramatic shift in customer preference from burial to cremation which has occurred and is continuing to occur across the United States –

changing traditions, cost, religious acceptance, increased options for the family, etc. But what is the real financial impact? How can looking at this type of shift with a finance mindset allow individual firms to take advantage of this changing consumer preference.

CHANGING TRADITIONS

Many funeral businesses are built on decades, if not centuries, of tradition, providing established firms with a level of protection that is rarely found in other industries. A change in family traditions can certainly erode the market share protections of established firms in a market and put many calls at risk. The upside to this phenomenon is that in a given market, the shift generally impacts every other established business in a market, providing a unique opportunity to grow market share for those firms that are attuned to the pulse of the community and present customers with

relevant service and cost options. It is important to remember that with every risk comes additional opportunity.

COST

Much is made of the lower revenue associated with the selection of a cremation rather than a burial; and rightfully so, as despite what we might prefer to believe, reduced cost is one of the most commonly cited reasons for families choosing cremation. However, we rarely hear about or consider the potential reduction in costs associated with serving a family choosing cremation. With a greater reliance on services than hard goods for the typical cremation, and thus a significantly lower cost of goods sold (COGS), cremations have the potential to drive greater profitability on a percentage basis than burial services. That said, to have a chance at realizing this opportunity, a funeral home must be willing to closely scrutinize its

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overall cost structure, in light of a higher incidence of cremation and in turn, the reduction in traditional services. Much of the impact of lower revenues can be mitigated by cost controls and more effective labor management. Historically, these two areas have been less about business need and more about owner preference, but as revenue per call declines, tough business decisions must be made about the level of staffing and other costs, given the new reality. Any re-structuring that also allows for variable labor to be a realistic option for your business (part-time team members, seasonal employees, commission-based compensation) will allow for the business to ebb and flow with the lumpiness of consumer preferences and associated services provided. This can be an

exceptionally challenging exercise for many established firms that may have large facilities and staffs that can become underutilized over time as the cremation rate grows.

INCREASED OPTIONS FOR FAMILIES

One of the often-referenced benefits of cremation is that it provides the family with a number of different options that are not available with a casketed burial. There is certainly no lack of creativity when it comes to the various options that are available for memorialization and inclusion of cremated remains. From jewelry to paintings to specialty placements to simple urns, there are a number of ways for families to remember their loved ones through temporary or permanent memorialization. That said, unlike with a casketed burial, when choosing cremation there is a complete difference in the sense of urgency with which options may be considered and buying decisions made. Our consumers now have the time and the ability to seek out the options that are most befitting their own personal situation or to ignore certain buying decisions altogether, for some time. Firms that insist on making sure that families know the choices they have to make, both during the arrangement and later on down the road, will have the best chance of retaining that revenue. The same can be said for ceremony itself. Planning a memorial ceremony incorporating cremated remains opens up a number of options that are just not available when dealing with casketed human remains.

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Families have considerably more flexibility with regards to venue and timing. This forces arrangers to think and act much less like caretakers of the dead, and much more like event planners, without the buying motivation of “having to do something” right away in place. While it may be perceived as a risk that this provides motivation to use options outside the funeral home, the opportunity is that you may be able to provide options that take advantage of underutilization of your building and better labor planning.

As families search to create new traditions to replace old ones, it is incumbent upon the profession as a whole and as individuals to provide information and direction to reach a fulfilling and healing solution. Fundamentally, cremation is still only a method of disposition and the family's choice of cremation vs burial does not diminish the regulatory need for a licensed funeral director in most states, nor does it diminish the need for the support and guidance provided by a funeral professional during a time of intense personal need. That professional,

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however, must now be a cremation and event planning specialist. There is nothing inherently risky about cremation or about burial for that matter – the risk is in the change and not being able to adapt fast enough. As an owner or manager of a successful funeral home coping with continued cremation mix shift, a few practical steps you should take proactively in looking at the mix-shift challenge with your CFO hat on are:

- 1. Know where your market stands on the cremation curve.** Looking at historical data on a statewide and local basis, the overall cremation rate seems to increase fastest when the overall rate is roughly between 40% and 60%. If you are in this window, you should be making changes to your business structure and selling strategy proactively, rather than reactively, as sudden jumps in cremation rate can leave you scrambling to find ways to address the associated revenue shift.
- 2. Understand what your cremation rate means compared to your local market.** I have encountered managers who were proud to report that they were serving less cremations in their firms than the competition. In fact, it is a very dangerous position to be significantly lagging your competitors in your cremation rate. While it may feel like you are winning the cremation battle, the reality is you are more likely just losing the market

share battle. Client-families are voting with their feet to go where they perceive value and an openness to serving their needs and preferences.

- 3. Review your pricing.** Many firms tend to have profit centers built into their General Price List that count on the selection of traditional casketed-burial services. Is your margin primarily built into caskets and embalming? Can your staff justify and explain your service charge? Is the spread between your burial cost and cremation cost supportable in the customer's eyes? Are you building out pricing structures for items which, while not required by the FTC, may be very valuable to a changing consumer-set (i.e. receptions, catering, beer & wine, themed enhancements, 1-year anniversary memorial celebrations, non-religious event moderators, etc.)?
- 4. Pay attention to the details.** Understanding how cremation impacts your particular business requires looking into every detail of how the consumer interaction takes place. Which options are most popular with families choosing cremation? Is there an arranger that connects better with these families? How much labor is utilized with a cremation case? What questions are these families asking that are clues to services you should add to your offerings? What are your competitors offering that is drawing consumers' attention?
- 5. Be intentional about your market positioning.** In many areas, cremation has re-defined the market by introducing alternate providers and marketing messages. Proactively establishing your position in your market will put you in a position of strength, regardless of what your value proposition is. Allowing a competitor to define your position is never a good situation. Only you have the opportunity to re-inforce your position as the trusted, high quality, burial and cremation provider.
- 6. Think differently about expansion.** Remember that your next funeral home is going to support your customers need for the next 50 years, not what they needed over the last 50 years. Using data you have

collected on your cremation (and burial) services, determine what your needs will be and build from there. It will be very rare to have a need to increase square footage or to build large facilities or highly specialized

venues, including things like church pews. Think efficient and multi-purpose. Designate a smaller percentage of space to merchandise, which is representing a smaller component of your revenue.

Consider design cues that are more in line with what the everyday consumer encounters in high-end retailers and service providers.

Above all, be purposeful in creating a cremation-oriented business plan. What would happen to your business if the burial rate was cut in half overnight? Would you be forced to make changes to survive? If you have a low cremation rate, assume that this will happen over the next five years, and make a plan for the changes you would need to enact to thrive. You may even consider bringing in a consultant proactively, rather than waiting until you are in crisis and adding that cost on top of the already challenging revenue shift. You can adjust your plan as your market shifts, but remember it is easier to adjust a plan as needs change than to create one on the fly. In summary, embrace the change – the consumers changing preferences are not going to revert to the old ways and the sooner you adjust, the more prepared you will be to operate in this new “normal” environment.

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