Success in Changing the Death Care Industry Requires a Business Approach

By Edward Horton, CPA

Do you consider yourself a funeral director? Or a business person? To survive and thrive in today's death care industry, you had better be both. Just like executives in other industries, funeral home owners need to respond quickly to emerging industry realities.

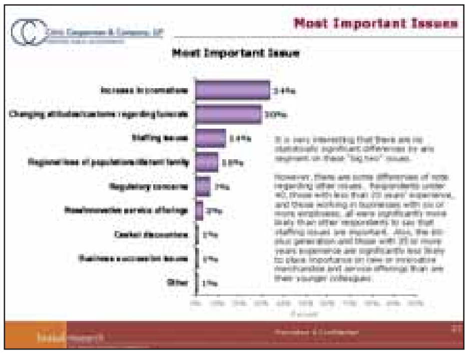
Funeral directors who want to do more than just survive the next 10 or 15 years need to think outside of the General Price List structure.

If the results of a survey our firm recently conducted are any indication, many funeral home directors may be in need of a crash course in business. According to the poll, nearly two in five respondents were not even aware that death rates in the United States are not expected to increase until 2020. What's more, many owners say they don't have any plan in place to remain profitable during this extended business lull. "There's not much we can do but take care of the families that call us," wrote one director.

Funeral homes are, by and large, family owned businesses that would benefit themselves — and their clients in the long run — by applying several business principles. Funeral directors need to remember that the real value they bring to families is in the service they provide, not the caskets, which are increasingly looked on as a commodity. Surveys show that families are very happy with the level of service provided by funeral directors, and they're willing to pay for that service. But in today's world, people are looking for more than just the traditional service. Some funeral directors are starting to realize that they can, and do, provide a wealth of knowledge to the community, both at the time of need and on a pre-need basis, including various financial, legal and long-term care issues related to aging and the end of life. These knowledge-based services are crucial to the community served.

Funeral directors who responded to the Citrin Cooperman survey overwhelmingly said that the rise in cremations was the most worrisome change in the industry. But most directors have not revised their pricing structure, offered new services or made a concerted effort to cover the loss of revenue from this trend. Not surprisingly, 74 percent ranked profitability and cash flow as their No. 1 concerns going forward.

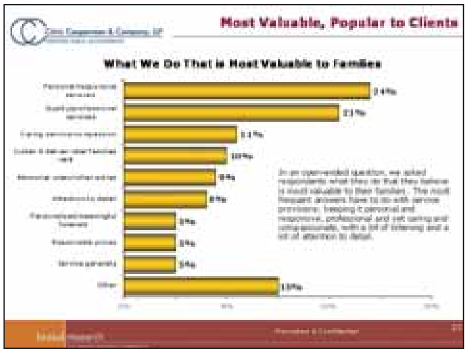
Funeral directors need to find ways to be competitive and, hopefully, to prosper over the next 10 to 15 years until the number of deaths begins to rise. If they do not, there will be a real reduction in the number of funeral homes that survive until then.



Source: "2006 Funeral Directors' Survey: Connecticut, New Jersey, New York, and Pennsylvania," Citrin, Cooperman & Company, LLP

Thinking Outside the GPL

Funeral directors who want to do more than just survive the next 10 or 15 years need to think outside of the General Price List structure and consider an approach where they formalize — and charge for — the valuable, knowledge-based services that families really want. The existing General Price List structure, which focuses on body-based services, was mandated by the Federal Trade Commission at a time when changing priorities and customs of today's world were not anticipated.



Citrin Cooperman's survey polled nearly 200 funeral directors from New York, New Jersey, Connecticut and Pennsylvania. The results, however, provide insights for funeral home owners and directors nationwide.

Among its findings, the survey showed that:

• Cremations are rising, and the loss of casket sales and rising operating costs of "traditional funerals" are cutting deeply into funeral directors' profits. Cremations now constitute 25 percent of all services, up from 16 percent five years ago.

• Funeral directors routinely counsel families on Social Security benefits, end-of-life planning, estate administration, and probate and life insurance needs — but don't charge for these services.

• Pre-need planning trust accounts comprise about 57 percent of an average funeral home's revenues – a healthy business trend and a 29 percent increase over the last five years. But the survey found too many funeral directors are locking pricing — which could come back to haunt them down the road as their costs rise.

• Only 40 percent of funeral directors live on the premises of their funeral homes — definitely a downward trend and an indication that funeral directors are increasingly separating their businesses from their personal lives.

• Only 55 percent of funeral homes have web sites.

Some funeral homes have tried to cope with loss of revenue by adding other services, such as the addition of a memorial service or a viewing prior to cremation. Relatively few, however, have added non-traditional services, such as the personalized, customized remembrance products clients have asked for, ranging from memorial DVDs with photos, music, home video clips and other remembrances of the deceased, to preserved fingerprints or death masks.

Fewer Merger and Acquisition Opportunities

According to those surveyed, there will be few mergers and acquisitions in the greater New York metropolitan area over the next 12 months — a figure we believe also applies to funeral home owners around the country. Just 1 percent of those polled said they would consider buying another funeral home over the next 12 months, while 4 percent said they'd considering selling their home. A modest 12 percent said they are considering expanding their business during the same timeframe.

The industry is changing rapidly and will continue to change with the rise of alternatives such as green funerals. Funeral home directors have begun and will need to continue to create new products and service offerings if they want to grow their businesses into the future. ▪

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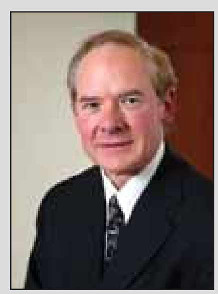
ABOUT THE AUTHOR



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