

## The Reality Primer of the Cremation Business



### The “No Frills” Cremation Business



This is the second installment of a series of articles on the cremation business. In Isard’s first article, he explained that there are three types of cremation businesses, and presented a brief overview of each. This month, he takes a closer look at the “no frills” cremation business.

Potter Stewart, a former associate judge of the U.S. Supreme Court, in describing his threshold test for obscenity in *Jacobellis v. Ohio*, said, in part, when attempting to give a description of pornography, “... perhaps I could never succeed in intelligibly doing so. But I know it when I see it ...”

To me, the “no frills” business is like pornography, but unlike Stewart, I will try to define or describe the no frills cremation business.

I see this business as one that focuses on price and limited services. Often their ads will have the price in the largest font and their name and address in much smaller fonts. They are one-stop shops.

There are some large “no frills” cremation businesses. Some are nationwide, and others concentrate on a region. Most are legitimate businesses, are well-run, and have a central business purpose. Most operate in populated areas because the math is against them.

Here are a few facts my company discovered as we did a business plan for a “no frills” cremation business. We found that depending on the market and competition, between 5 and 20 percent of the market is price sensitive. At the same time, depending on the market, on average, 40 percent of funeral purchasing consumers desire crema-

tion. Of those cremation consumers, 12 percent are interested in a direct disposal. So, the margins are set:

Now, introduce this factor to a population. If the town has 100,000 people, the “no frills” operator is probably going to serve 16 to 64 calls a year. That is tough to build a business upon. However, for a population

Range	Low	High
Price Sensitive	5%	High
Mortality Rate	0.8%	0.8%
Cremation	40%	40%
Therefore, Price Sensitive, Mortality Rate, Choosing Cremation	0.16%	0.064%

center of 1 million people, then the “no frills” operators can expect to split between 160 and 640 calls a year. Furthermore, if we look at a market such as Portland, Seattle or Southern Florida where the cremation rate is double the above assumption, you can see that they will serve about 320 to 1,280 calls a year.

There are two main ways in which a “no frills” company markets itself: either as an alternative funeral home or as a cremation society. A cremation society is an old concept. In an association there is a membership, and that membership affords a lower cost of services. In today’s world, the classic model still exists, but the 21st century spin on this model provides the member with some merchandise and service for their payment. Often the merchandise is memorial package goods, which are delivered with the certificate of membership.

However, state-regulated trusting relationship defines that if the merchandise is delivered when paid for, the assigned cost to the merchandise is not trusted. The balance would then be trusted subject to state pre-need trusting law requirements. Often, to generate some upfront profit to cover the cost of marketing, the merchandise is allocated at a relatively high price. The service fee set into the trust is an amount to assure the cremation can be performed in the future with a modest profit.

For example, a \$1,395 cremation can include a lovely 24 carat-plated memorial widget (a \$695 value). The consumer pays a \$25 membership fee and is given the 24 carat-plated memorial widget with their preneed certificate. When death occurs, the family notifies the society, and the society will take \$695 out of trust to pay their cost of removal, cremation and paperwork.

The alternative to a “no frills” operator is the “discount funeral home,” which does not promote its personal goodwill – just price. They do not promote their location either, as they will travel to the far reaches of the earth for removals. They generally make it easy for families to complete the paperwork regardless

of where they are located.

We see more and more funeral homes that think the grass is greener on the “no frills” side of the street. These classic brick-and-mortar funeral homes are opting to go into the “no frills” business. Typically they fail. They fail for a few reasons: First, they try to operate as a brother-sister business. If there is a price shopper calling in and the staff member isn’t making a connection with the caller, he or she will refer the caller to the sister business. Suddenly, what happens is that people learn they can get the same quality service via this sister business for thousands of dollars less.

Frequently, the brick-and-mortar business will share its staff to make removals for the “no frills” business. The staff shows up wearing their full-time uniform or name badge, and the word gets out that the low-priced provider has all the professional background as the brick-and-mortar business. These business faux pas are killers. The goodwill of the high-end business is sacrificed.

It is often more appealing for a family to employ a “no frills” crematory for a cremation service, rather than a “no frills” funeral home for a burial. Cremation families are taught by their funeral homes that it is acceptable to have limited or no services when disposition is via cremation. These companies may offer a family the use of a chapel, but the chapel within their business is usually small. Often, the family will then arrange to have a gathering at their own church or a public accommodation facility.

The “no frills” business operates under a different model. As I previously wrote, the revenue is less than the classic funeral home. The “no frills” can afford to charge less because they have less overhead. Not only do they have less overhead, but it is a different type of overhead. The chart in my previous article was a summary description of the three types of businesses. I highlighted that each of the three cremation businesses has a different business model. Allow me to explain the following key points as it pertains to the “no frills” business model:

	No Frills	Trade	Funeral Home
Revenue/Call	Low	Low	High
Consumer Expectation	Low	None	High
Fixed Costs	Low	High	High
Variable Costs	High	Low	Low
Goodwill	Low	Low	High

The staff often does not understand the two business concepts. One client noticed his “no frills” business had increasing calls as his brick-and-mortar business was declining. He thought this was a market shift. It was not. It was a staff shift. When families came in and requested limited services, the staff told them, “I can write this onto our cremation society paperwork and save you a lot of money.”

Overhead for the “no frills” business is centered upon controlling costs and making many of these costs variable, rather than fixed. For example, staffing is the largest cost of running a funeral home. A “no frills” business has fewer licensed staff and more nonlicensed staff. Furthermore, rather than hire a full-time embalmer, the “no frills” business may use a trade service.

While this is more expensive on a per-call basis, it becomes a variable cost rather than a fixed cost.

The classic funeral home business typically has more licensed staff and full-time staff. It is generally less reliant upon trade services. The higher fixed costs of the classic funeral home may be less on a per-call basis, but it is a financial commitment that often includes added costs such as benefits.

The “no frills” business typically has less building costs, vehicle costs and even less bad debt. If I charge 33 percent of what someone else charges, I cannot afford to have bad debt. Therefore, I need a payment policy that generates the maximum return. Just as the high volume grocery chains such as Costco or Sam’s Club are cheaper grocers, their bagging and payment policies have less flexibility. For example, the 1 percent savings realized by getting paid by a debit card versus a credit card

cuts overhead dramatically. So our conclusion is that the “no frills” business charges less because its costs are less. That business model works when you convert as much of your overhead as possible to variable costs rather than fixed costs.

The last component of profit is high case count. When I attended my 15-year high school reunion, the most successful kid from my class was Louie – the dumbest kid in my graduation class. Imagine our surprise when we go back 15 years later and Louie is awarded the “Most Successful” award.

As Louie was getting his award, this now 33-year-old multimillionaire was asked, “How did you do it?”

Louie explained that upon graduation he was drafted into the Army. He was so incompetent he was sent to Japan to work in an Army scrap metal yard. He learned that the Army paid a lot of money to truck the scrap metal. He offered to pay

\$1 a ton for the scrap metal and haul it out. He did this because he discovered the Japanese were buying scrap metal at \$10 a ton. He told us all, with the humility only Louie could show, “It is amazing how much money you can make with a 10 percent mark-up!” Those of us from the math club wanted to shout it was a 1,000 percent mark-up but realized it didn’t matter. When you think about the “no frills” business, you realize that if you can do enough calls, you can be as wealthy as Louie.

In the next article of this series, I will get into the methods of successfully running a trade business marketing to funeral homes. •

**This is the second in a series appearing in upcoming issues of American Cemetery & Cremation magazine.**

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