

“ I am not one to get hung up on semantics or proper spelling, but it annoys me when the word ‘preneed’ is applied to the cemetery business. ”

Cemeteries Don't Have Preneeed

This is a confusing world we live in. When a funeral home has an advance sale, we call it “preneed,” but when a cemetery has an advance sale, it’s cash money. I am not one to get hung up on semantics or proper spelling, but it annoys me when the word “preneed” is applied to the cemetery business.

This world went along well enough for hundreds of years with funeral homes being funeral homes and cemeteries being cemeteries. There have been a few combination properties that were operated for a long time, but they were the exception rather than the rule. In most cases, cemeteries are cemeteries, and funeral homes are funeral homes. Some states even pass laws that forbid the commingling of the two.

Black-and-white is order and discipline, but gray could be anything as it is a variation of black and white. The problem with variables is that neither side wants to have them as their own, unless they are very successful. If they are a problem then both sides tell everyone the variable belongs to the other group. Therefore I get back to my argument that the funeral world has its operating

methods and the cemetery world has theirs; in many cases, the two worlds are different or outright opposites. So, cemeteries do not have preneeed, but funeral homes do.

At the time that funeral homes started to think the grass was greener in the cemetery, cemeteries started to think the funeral business was easy. Both sides were mistaken; cemetery operators are different from funeral home operators, and before anyone thinks that I am favoring one over the other, neither one can easily run the other’s business.

I have watched in amazement as the large public companies who own both business styles have tried to adapt the operations of one to the other. Likewise, a number of firms tried to get cemeterians to operate funeral homes – but without success.

Preneeed is another example of this Tower of Babel we have built by trying

to bring the two business models into one combination business. Look at a funeral home that sells a funeral service, casket and vault for \$6,000. In more than 30 states, the funeral home will not recognize any money today if that consumer pays in full. In most states that have trust requirements, 100 percent of the money goes into trust. The funeral home may have spent money for the marketing of preneeed, taken time of a staff person (or salesperson) to write the contract and handle the paperwork and done so as part of the overhead of their business. Had they funded this with a preneeed life insurance product they could have received some commission as consideration, but the extent of that consideration is not known yet. Had the consumer died during the first year or two years, depending upon the insurance company, some or all of the commission paid would be due to be paid back to the insurer.

If that same consumer wanted to spend \$4,000 on an interment right, vault and marker, as well as the



Preneed

opening and closing of the interment right, the cemetery would have generated substantially more revenue. The interment right income in all states is going to be recognized today. The vault and marker might be recognized today if the cemetery purchases them now. The opening and closing might have some percentage going to the cemetery today and the balance when the interment takes place. The cemetery would have generated far more income today based upon a much lesser sale price. The reason is because cemeteries don't have preneed.

The Right Terminology

Cemeteries have advance sales and at-need sales. At-need sales are even handled differently between funeral homes and cemeteries. Cemeteries get paid cash in full for at-need interment rights, merchandise and opening and closings. No installment payments are accepted. Cemeteries know they cannot finance these at-need arrangements as there is no recourse. Funeral homes, on

the other hand, are usually happy to extend credit, even though they have no more security or recourse than the cemetery.

Advance sales are even different in the event of a default of an installment payment. Defaults at a funeral home preneed if in trust become a trust account for future application against a funeral bill. If the funeral home defaults on a life insurance policy, that would probably become a reduced benefit but paid up. Defaults at a cemetery would be a default akin to forgetting to pay on your layaway purchase. The item goes back into inventory. Any fees are lost. Any amount paid is lost.

The operating model of well-run cemeteries usually has a cemetery strive to have more advance sales than at-need sales. This ratio is often close to two advance sales for every one at-need sale. Funeral homes have accepted norms in this area, as well. Funeral homes tend to have 0.2 to 0.4 advance sales for every one at-need case. Therefore, cemeteries tend to have

about 10 advance sales for every one funeral home advance sale. However, the cemetery is mostly paid today whereas the funeral home is probably, at best, covering its costs of solicitation.

So, can you have funeral homes and cemeteries as one business? Yes, of course you can. I have managed combination operations in Texas, Nevada, Hawaii and Oregon. I have been a consultant to combinations in another 10 states. The better question is, "What do you have to do to make it be productive and profitable?" The answer is simple: You have to give each business what it needs to be profitable.

Funeral homes need calls to be profitable. The funeral home has a high fixed cost of operations. Staffing, autos, building, advertising and general and administrative costs are all fixed. The cost of goods can be a variable cost, but it is going to be about 16 percent to 20 percent of the revenue per call. A cemetery needs advance sales. In contrast, a cemetery has a much lower fixed cost than a funeral home. The



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largest cost of a cemetery is often commissions, which are a variable cost. The cost of goods sold, as a percentage of revenue per sale actually goes down over time in a cemetery. Advertising is a function of lead generation so again, that is a variable cost. All of the other costs are more modest in a cemetery.

When funeral home owners try to run cemeteries, they don't understand the variable cost model of the business. They don't understand the advance sale mentality of the business. They focus on "service," which is a key component in funeral service, but there just isn't much service in a cemetery: Open the grave before the family arrives, close it after they leave, and mow when the grass gets tall.

The cemetery that runs a funeral home doesn't comprehend the grief related issues that impair the funeral director from imposing business practices. A cemetery has credit policies, firm payment plans and no at-need receivables. Therefore the

cemetery running the funeral home is agog when a funeral director says, "I have an indigent family; what are we going to do?" I don't want to make the two personality types seem insensitive to each other. They are, but far be it from me to make it seem that way.

State Laws

The cemetery itself has the license to operate and not the cemetery staff (exclusive of some states that require sales licenses) versus the funeral home, which has the staff requiring a license.

State laws are designed to protect consumers in many cases. In some cases they exist to protect business owners. Several states forbid funeral homes and cemeteries to be owned by the same people or company. In many cases, these laws were promulgated by the funeral homes to keep the cemetery out of the funeral business.

Since there are actually a majority of states that allow the common ownership of the two businesses, what

can we learn from this? To me, it is similar to driving in some states that have school zones that are at 15 miles per hour and other states where a school zone is 20 miles per hour. It leads me to believe that in the latter states, their children can run much faster than in the former state. There should be no barriers to entry except those that exist in a capitalistic environment. The two businesses are not that similar, so one doesn't automatically drive business away from the other.

When a combination operation exists it must be run by one person from the funeral side to run the funeral operations and a cemetery to run the cemetery. There also needs to be one person that oversees both sides, and if he or she does a good job, you will have a dominating business. The funeral directors will be busy and the cemetery salespeople will be busier.

Now, let me end by asking you a question: Do cemeteries have preened? ♦

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