

By *Daniel M. Isard*

## Step 11: Valuation and Business Succession

The top five uninformed mistakes people make when buying or selling a funeral home.

**F**irst, dear reader, understand that our relationship involves mutual responsibilities. As the author, I write. As the reader, you, er... well, you read. I promise never to lie to you in my monthly columns. You promise never to plagiarize my articles. Given our sacred relationship, I must therefore make sure you understand this month's subtitle: "The top five uninformed mistakes..."

Note it does not say, "*The five* uninformed mistakes," but instead, "*The top five* uninformed mistakes." In 35 years, I've simply seen too many mistakes to list them all in a 1,500-word article. Maybe, after I retire, I will write another book about all the errors people make.

Secondly, dear reader, understand that these errors are not limited to buyers or to sellers but to *both* parties. Yes, there are times when one party gets the other party to make a mistake, which is called "gamesmanship," but in an ideal world, all transactions should be win-win transactions. Gamesmanship tilts the fairness to one side, and when the person who was gamed realizes this, things can get ugly and both sides can lose.

Finally, dear reader, understand that there's a difference between a "mistake" and an "uninformed mistake." The latter happens when someone doesn't use knowledgeable guides. I'm a scuba diver, for example, and during a trip to the Bahamas, I looked forward to my first shark dive. During this event, guides lure sharks to a specific area by feeding them while scuba divers sit beneath the sharks on the sandy bottom.

Well, the day before, I happened to notice the shark dive site and surmised that if I just swam to that spot, I would see many sharks. That was an uninformed mistake – something I discovered when surrounded by 10 sharks, each thinking I would feed it. When you seek to buy or sell a funeral home, you should have a guide to help you navigate the waters and fend off sharks.

### UNINFORMED MISTAKE 1: NO VALUATION

A valuation is an opinion rendered by someone with experience involving the sale or purchase of funeral homes. As a funeral home owner, it's unlikely you will

know what your business is worth because you have no framework and the figure you come up with is probably wrong.

You might ask your friends, but what makes you think they will give you a correct answer? Even assuming they are in the business, your friends are not impartial. They might not have firsthand knowledge of the sale of funeral homes, and even if they do, that knowledge might be old since the marketplace changes constantly.

Do not rely on rumors. While a valuation might cost you a few thousand dollars, relying on rumors and hearsay will cost you tens, or even hundreds, of thousands of dollars!

### UNINFORMED MISTAKE 2: TRUSTING THE WRONG BANKER

A banker is a vendor, and a banker "sells money." So how do you know you have the right banker on your side? After all, you solicit a loan from a banker just as you would ask for a quote from any vendor.

If this is your first time selecting a banker, you may have no idea whether that banker can actually move from their proposal to closing under the terms proposed and in the amount of time established in their proposal.

Remember, a banker's proposal is subject to "conditions," and those conditions might prove incorrect. Therefore, between the date of the signed proposal until the date you actually get the money, a banker may change the terms because the conditions relied upon were unsupportable.

Most buyers make two other mistakes when selecting a banker. First, the buyer might start looking for bankers while still in the deal, which is too late. Both parties face time pressures and might have already made commitments.

Second, buyers often talk to one banker at a time. When we work with buyers, we solicit multiple lenders at once and give them a deadline to submit their offers. Thus, we see the offers in a comparative light. Moreover,



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Sara Murphy, PhD, CT  
Foreword by Alan D. Wolfelt, PhD

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*Understanding the important role  
funerals and memorialization  
play in the lives of youth*

lenders realize they are bidding for the loan, which typically causes them to offer more competitive terms.

### UNINFORMED MISTAKE 3: BAD LAWYERING

Most people trust and love their lawyers – someone who is typically an honorable person. During the purchase or sale of a funeral home, however, it's more important to have a knowledgeable lawyer on your side than an attorney you love. The reason is because buying or selling a funeral home is not like buying or selling a bowling alley, for instance. Sure, selling either business involves many unique aspects, respectively, but bowling alleys simply do not involve preneed and do not face the same amount of state regulation!

The biggest part of any purchase/sale agreement involves “representations,” which are presentations of fact made by one party to the other in a contract. A lawyer who has never bought or sold a funeral home has no idea which customary representations to include in those legal documents.

Furthermore, when you make representations, you need to back them up with warranties. Therefore, that friendly lawyer you love might not know which warranties to include. At best, the buyer or seller might get lucky; at worst, he or she will meet a new lawyer called a “litigator.”

Bad lawyering can really hurt you. For example, in a recent case, the seller's lawyer said he could represent the buyer as well, arguing that he has known this business his entire life. Therefore, he drafted the sale documents but did not include a “Covenant Not To Compete” clause for the seller, who was retiring. This shouldn't be a problem, right? Well, two years after the sale, the seller started to work for a competitor and began soliciting preneed contracts from his former firm to move with him.

### UNINFORMED MISTAKE 4: NOT CONDUCTING DUE DILIGENCE

When you buy a business, you must check and double-check everything you seek to purchase, a process called “due diligence.” When the seller says, “I did 100 calls last year,” for instance, you need to do your due diligence and confirm that claim. This would involve counting each contract, looking at each contract to make sure it reflected retail calls and not trade calls,

and determining how many calls came from preneed and how many were at need.

Years ago, we helped someone buy the business he managed from the large company that owned it. This key person obviously knew the business since he ran it, but he didn't know what he didn't know. Thus, as we performed our due diligence, we discovered that while the business did perform the number of calls as represented, preneed calls had increased during the past five years from 40% to 65% of those total calls. This meant that when these preneed contracts were consumed, this firm would conduct only about 20% of its present call volume because it wasn't writing any new preneed contracts and the market share for at-need cases had gone to a competitor. The key person was too busy serving families to look at the critical details.

### UNINFORMED MISTAKE 5: NOT USING AN EXPERIENCED BROKER

Selling or buying a business is not easy. It takes a great deal of experience to do it properly. There are a handful of experienced and knowledgeable brokers in the funeral and cemetery profession, but what is the job of a broker?

A good broker will start by telling you what your business is worth and what the sale terms and conditions will most likely involve. He or she can then assess the types of buyers that might be interested in your business, as well as the length of time it will take to realistically close the sale. A great broker will also perform a tax assessment so you can see what you will have to fund your lifetime of financial independence. An exceptional broker will control everything on your behalf so that you, as the seller, can focus on running your business until the sale closes. (When representing a buyer, a broker performs almost all of these same steps, except from the other side of the table.)

Most of all, a good broker keeps his or her client *calm* throughout the process. This is a very exciting time, and someone needs to virtually hold your hand.

Knowing the future comes with a price, however. Brokers charge fees and, unlike real estate brokers, not all fees are the same. Therefore, get references before you hire someone.

Most of all, now that you are informed, do not make any of these mistakes!

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