By Daniel M. Isard

Protecting Your Investment

Estimating case count during/after a pandemic.

Creating and implementing a strategic plan starts with estimating your revenue. While calculating revenue involves a simple formula, estimating it during a pandemic is very difficult. More on that later in the article.

So, as I said, revenue involves a simple formula, R = C x $, in which revenue equals calls multiplied by $ or average dollars/call. For example, if you expect to serve 100 families annually and your average dollars/call is $6,000, then your revenue will be $600,000.

Now, during normal, non-pandemic times, you would need to make two basic assumptions to calculate your revenue:

Normal Assumption 1: *Upon how many calls should I build my budget?* Most people use a three-year average, while others look for trends up or down and make a pro forma estimate based on those trends. I try to use a trend analysis but, depending on the size of the market, I generally use 90% of that trend. You cannot control your call volume, so, when in doubt, be conservative.

Normal Assumption 2: *What will my average dollars/call be?* If your average revenue per call was $6,000 the year before and you raise your prices 3%, then you could assume $6,180 for the next year. Based on this example, your prepandemic annual revenue would probably be around $618,000 (or about $556,000 if you use my conservative Henny Penny "the sky is falling" approach).

Again, during a normal year, this was an easy way to start your strategic planning process, but given COVID-19 and all the changes in our society that have spun off from it, nothing is easy or normal these days. Therefore, you now need to make some new assumptions, which can fluctuate wildly.

New Assumption 1: *Will we be in a pandemic in 2022?* This is not a political question, and I do not care what you think about vaccines or herd immunity. This is a *business* question. If you think the pandemic will continue next year, then that should affect the way you price your services and estimate which services families will select. If you think that people are going to go back to their previous way of doing things, then bet your money that way.

Even if COVID-19 is totally under control in 2022, I believe our society is so totally changed that we will not forget the fear and trauma for the rest of our lives. Just as the Great Depression shaped my father and grandparents – they were always affected by the fear and images of their survival through that calamity – I think we will likewise be affected by our quest for survival.

Consequently, I think funeral service has also changed forever. We have learned lessons that will affect advance planning. We have fears about dying alone. Ours will be a generation that will remember the people we handshake and hug rather than fist bump or elbow swipe.

Cremation didn't increase dramatically during 2020 or 2021, but reduced attendance at funerals was a factor. If you were to build a new funeral home, would you build it for large, seated gatherings or would you build it with more outdoor gathering areas, more reception offerings and better Wi-Fi?

The reason for this analysis involves the first new assumption you must make. If you think we'll still be in a pandemic next year, then you need to decide (guess) whether your case count is going to rise, fall or remain the same. If you think we will be, then you not only have to set your prices based on it, but, more importantly, you must also reconstruct your pricing to fit where families will spend.

And no, you can't just add a few percentage points to each line item of your GPL. While you might have seen facility usage and staffing for services decline, your overhead hasn't declined and neither has your staffing. Thus, without adjusting pricing on the items families will be choosing, your average revenue per call *will* decline.

You also must invest in the features of your business influenced by COVID-19. The latest Foresight-SoCal consumer studies tell us that families want more technology. The funeral home of the future will be more of a "broadcast studio" than a live-audience location. Just using a handheld phone to stream a funeral on a social media site for long-distance mourners will not cut it. You need to enhance how you capture and broadcast funerals. Expensive? Yes, but families will appreciate it far more than adding cushions to your wood pews.

New Assumption 2: *How will the quantity of calls be different than during the pandemic?* This is a straight mathematical question. The mortality rate has been increasing. In 1950, the total U.S. population was 150.6 million, and we had 9.649 deaths per 1,000 people. In

1980, the population was 226 million, but due to improved medical treatment and diagnosis, we had 8.841 deaths per 1,000 people. (In 2008, we actually hit a low mortality rate of 8.124 deaths per 1,000.) In 2019, our population of about 335 million resulted in 8.782 deaths per 1,000.

What you should notice is that the mortality rate declined from 1950 to 2008, but since then, it has started to grow. This is akin to the bellows of an accordion. No matter how far out you pull that squeeze-box, it will eventually come back. In fact, taking COVID-19 out of the equation, by 2050, the United States will be back to about 10.3 deaths per 1,000 population, which is where we started and then some! If we include COVID-19, then the estimated deaths in 2020 indicate we might have hit 8.9 deaths per 1,000 population.

Many funeral homes saw a rise in calls in 2020. During a normal, nonpandemic year, we should have seen about 2.85 million U.S. deaths. Mainly due to COVID-19, we will see about 3.36 million. By some estimates, COVID-19 was the leading cause of death in the United States in 2020.

In terms of calls, firms have seen anywhere from a 7% to a 10% increase, depending on the location of the funeral home and population density. Some urban funeral homes had almost a 20% increase, mainly within a 90-day window.

While 2021 is not as dramatic due to the vaccination rate, we will still probably see 125,000 to 150,000 COVID-related deaths. Therefore, total mortality in 2021 might hit 3 million for the year rather than 2.9 million, an increase of nearly 3.5%.

At some point, the pandemic will subside, and when it does, what might your case count be that first year? Because the lives of many people who would have lived longer were cut short by COVID-19, the growth in our population might actually prove a negative one. In that first post-pandemic year, and perhaps after, funeral homes might conceivably experience a dramatic decline in case count (but that is fodder for a future article).

New Assumption 3: *What will families spend their money on during the next year?* Ultimately, the crux of your guess on the "pandemic/no pandemic" question and annual caseload is to prompt your strategic planning in this area. This is where entrepreneurial risk kicks in, however.

In 1984, the average profit margin of a funeral was about 14%, according to Federated Funeral Directors. Back then, it was easy to build a strategic plan. Every family bought a casket. Every time you sold a casket, you also sold a vault. You either sold markers or you didn't. Every family had a visitation and used a limo and hearse.

Back then, it was nearly impossible to screw up a funeral home. In fact, in the mid-1990s, the probability of a funeral home declaring bankruptcy was the second-lowest nationally, compared to all other Standard Industry Codes (used to classify industries). In those days, you could build a strategic plan once and then just cross out the year and use it again and again.

But then cremation caught on, religious funerals started to decline, families decided to drive themselves to the cemetery and consumers decreasingly saw the value in other funeral home offerings. Consequently, profit margins slipped during the next two decades to half of what they were in 1984.

So, on which changes do you need to focus to protect your investment in 2022? As noted earlier, you cannot just take a pencil to your GPL and increase every item by a fixed percentage. You also cannot just make up a number for your pricing on cremation and other partial services. Correctly determining your pricing is tough enough without a pandemic; during one, it's downright difficult!

In addition, do not compare yourself to other funeral homes in your market area. Why would you follow a dullard into a dark alley?

That reminds me of a dear client I had years ago. While many clients are great joke tellers, Charles never tried telling a joke but was still the funniest client I ever had. During lunch with him one day, his competitor came charging into the restaurant, right up to our table, with fire in his eyes. He looked at my client and said, "Charles, did you tell the sheriff I was an idiot?"

Charles calmly looked at him with an inquisitive face and said, "No. I don't know how he found out."

Again, don't base your pricing on your competition. Instead, make good decisions off the three new assumptions above. Don't follow; get *ahead* of these matters. Moreover, don't sit back and think it will all just work out. Make good decisions. And if you see that a decision is wrong, stop and change it.

Dan Isard, MSFS, is founder of The Foresight Companies in Phoenix, Arizona, which provides financial and management consulting to funeral homes, cemeteries and vendors within the space. He can be reached at 800-426-0165 or danisard@theforesightcompanies.com.

Financial/tax advice contained in this article is for informational purposes only and may or may not apply to your individual position. Readers are strongly encouraged to seek the counsel of qualified advisors before undertaking any action based on this information.