

FINANCE 301

BY DANIEL M. ISARD

My Knowledge Transfer Plan

Chapter 4: Pricing Considerations

As I attempt to transfer the knowledge I've learned over five decades in funeral service, I find I must ask questions as often as I answer them.

Q1: Why is it important to set prices accurately?

That sounds like a childlike question, but the way this profession sets prices would be an insult to most fifth graders.

In 1985, the Federal Trade Commission (FTC) forced funeral homes to change from a “package pricing model” (the family buys the merchandise and everything else is thrown in) to an “itemized service fee and merchandise-pricing model.” This caused owners to start by guessing how to allocate their fees on the 16 Funeral Rule-required itemized goods and services to account for the loss in revenue caused by dropping the markup on merchandise from about five times to roughly two times.

To make matters worse, once they guessed, owners then peeked at the guesses made by their competitor and decided to set their prices either higher or lower than that competitor. To make matters worse, owners then guessed at their cremation pricing. Back then, cremation made up only about 5% of the marketplace, so it didn't matter if they guessed wrong. With their prices set, then, funeral homes just marked up their prices each year based on some irrelevant factor they heard someone say.

Now, in 2022, we have taken a series of wrong numbers and compounded it for 37 years by a wrong factor. What's more, cremation has grown from 5% to more than 50% nationally, and funeral service continues to hold on to the belief that this service is price driven. Providers also rely on the merchandise markup at a time when the number of caskets sold –

and therefore the number of vaults sold – is declining. This makes reliance on the revenue generated from service fees increasingly important.

So, once again, why is it important to set prices accurately? Because if you don't, your profitability will take the hit. You need the right amount of revenue or you risk your business health.

Q2: What is it that people want from a funeral home and its staff?

There's been a big shift in how consumers view funeral directors and their services. These days, the public sees your offerings as more transferable than ever before.

In the 1980s, funeral homes were often tied to specific churches and might be known as “the Catholic funeral home” (or Protestant, Jewish, etc.). In fact, one town with a population of 10,000 could have three Catholic funeral homes, each tied to a different Catholic congregation. But that's not really the case anymore. Today, the public self-selects, and their choice of funeral homes is not restricted to religion.

Therefore, funeral homes must allocate their pricing toward the most widely desired services and merchandise. After all, Ruth's Chris Steak House doesn't focus on the pricing of the napkins; it puts the price emphasis on its *steaks*.

So, what do consumers want from a funeral home? They want a burden lifted, which might take the form of an “event service” or a “utilitarian service” regardless of whether the deceased is going to be buried or cremated. Some arranging families want a service, while others just want the obligation to be over.

It used to be that almost everyone in town knew a funeral director personally. With declining church attendance, less participation in community core groups and family members often living out of



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town, however, fewer people have that personal relationship with a funeral director.

The FTC has made it seem that price-shopping for a funeral is normal, but most consumers do not shop for funerals. Most families know what funeral home they will use when the need arises, most often because of previous service and, to a lesser degree, personal knowledge, location and, lastly, price.

KEY CONSIDERATIONS

If any business is to be successful, it should understand what its customers want and properly weight its overhead when pricing those desired service features. Hypothetically speaking, if you needed to recover a certain dollar figure per call, you would then

want to allocate that amount on the services that people are going to use and value most.

Of the 16 Funeral Rule-required itemized prices that must appear on your General Price List, four are used in nearly every case, but there is only one item that may not be declined by the family if it is listed on the GPL, i.e., the Basic Services Fee. (Instead of charging a separate Basic Services Fee, you could include the services fee in your casket prices.) The FTC defines the Basic Services Fee as “services that are common to all funerals, regardless of the specific arrangement. These include funeral planning, securing the necessary permits and copies of death certificates, preparing the notices, sheltering the remains and coordinating arrangements with the cemetery, crematory or other third parties. The fee does not include charges for optional services or merchandise.”

Two key knowledge-transfer points should be held near and dear. First, since the Basic Services Fee is required without regard to type of disposition, it must be the same in all cases.

Moreover, while the Basic Services Fee is non-declinable if offered, there is another fee that is essentially nondeclinable: the “removal” or “transfer to” fee. There are limits to what even an Uber driver will do, so families will use this service element nearly 100% of the time. Therefore, you should allocate much of the overhead you need to recover to these fees.

The second key point about setting prices correctly involves what *not* to base them on. If I showed you a graph, titled “Percentage of Embalmed Bodies 1985–2022,” do you think the line on the graph would be flat, increasing or decreasing? I hope you would agree that the line would be

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decreasing. (I'm not trying to get pro-embalming hate letters; I'm trying to help you set your prices properly!) I do not recommend raising the fee for embalming because you shouldn't be reliant on this for your future.

Now, the same question could be asked of visitations. They are declining as well, so don't raise prices on visitations and services! In fact, I suggest freezing or even lowering them, so they don't serve as a disincentive for families to use your facilities. You've probably seen the new kids on the block – businesses with limited investment in buildings and small or no visitation areas (unless required by state law).

What do consumers want to spend their money on? Today's families are more technological and see value in quality broadcasting of services. Just holding a phone in the back of the room or using one fixed camera is boring. Boring is better than nothing, obviously, but the funeral home of the future will offer full video production. Just as funeral homes went to stereo music some 70 years ago, the next big thing is video and broadcasting.

Families see value in receptions as people don't get a chance to come together as often these days, and a funeral is for the living. Thus, providing a common area for people to gather – so the grieving family does not need to worry about cooking and cleaning – is a big relief for all.

As you set your prices, think like a consumer. Where are you willing to spend

your money? Then change your GPL so it's a GPL of the future, not a continuation of the past.

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