

FINANCE 301

BY DANIEL M. ISARD

My Knowledge Transfer Plan

Chapter 6: The Truth About Compensation

The single largest cost of running a funeral home comprises salaries, benefits and employment taxes. Together, they make up employee compensation. In the 1980s, when some casket companies spent \$250,000 on their NFDA booth build-out and another million dollars on an extravagant cocktail party during the convention, the cost of goods was about 20% to 25% of revenue while compensation typically ranged from 26% to 40%.

Yep, you could eat and drink for free in those days thanks to the casket companies, but the people paid to run the businesses were getting the bulk of the revenue!

As noted above, compensation consists of three key components:

1. Salaries This includes those you employ, full and part time, licensed or non-licensed, as well as any third parties you pay to supplement your staff for removals and body prep. It also includes the salaries of owners and non-owners, of course.

When the business plan of the consolidators became well understood, one of the key financial carve-outs they represented as a form of profit was better staff management. In the 1980s, the average funeral home arranger met with just one family every four or five days. The consolidators were able to create better coverage, so they needed fewer staff members, and the savings went to the bottom line.

2. Benefits This involves the items you provide for your staff, such as health insurance and retirement benefits. Once again, the consolidators realized they could buy health insurance for less by covering larger groups, and those savings also went to the bottom line.

But benefits also include perquisites, aka “perks” in street vernacular. This includes time off, both personal time and vacation time. Most closely held businesses can tell an employee that he or she is not on call four nights a week, but if a high-profile death occurs, or if there are multiple deaths, then he or she will get called in. The highest-rated employee benefit that surveys reveal is the guarantee of time off. Things like a free suit each year are also perks, but

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this is not really something that will induce a person to change employers.

3. Employment Taxes This broad category consists of a few items, including payroll taxes, which are withheld from employee paychecks to cover income taxes. This includes federal and, where applicable, state and local taxes. (Yo! Shout out to my boys in Philly!)

Social Security is a benefit paid for by the employer and the employee, so both the company's and the worker's share of Social Security and Medicare taxes (required by the Federal Insurance Contributions Act, aka FICA) are included in this section, too.

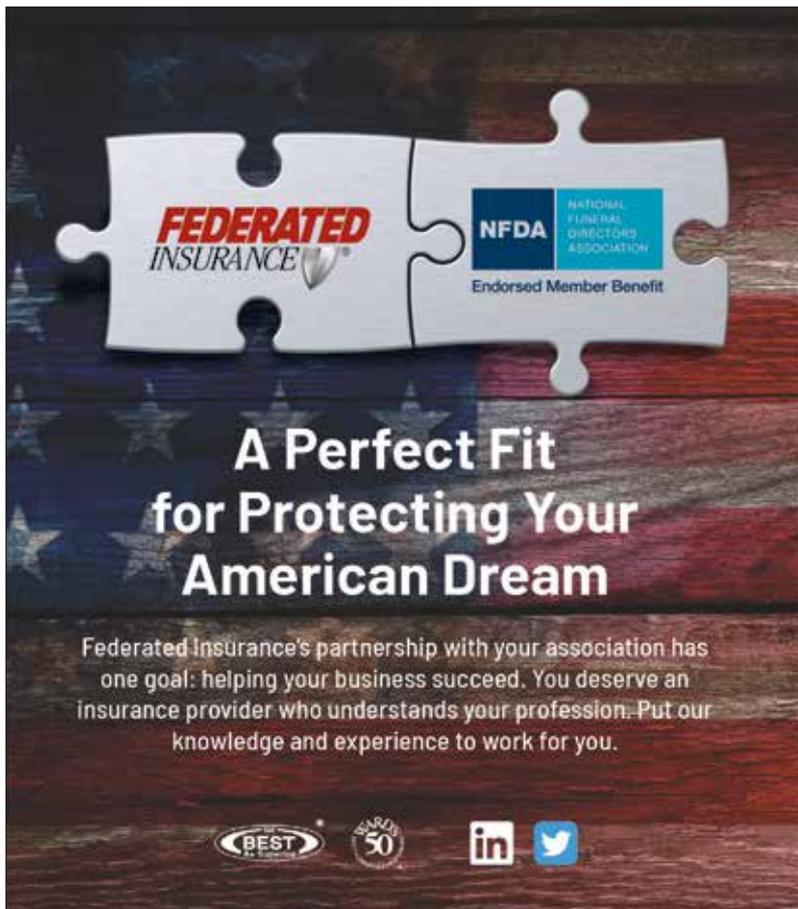
As noted earlier, the total spent by a funeral home for these three components makes up employee compensation. Compensation typically ranges between 26% and 40% of revenue. This includes real compensation for the owner. If an owner pays himself or herself more than a third party would pay for their same labors, then that amount above what a third party would pay is called "excess compensation." That is not included in my computation. In addition, an owner will often put a non-working family member on the books, and that amount is not

included in my stated compensation range either.

In my experience, the total compensation paid by a well-run funeral home should be between 26% and 32%. The difference often hinges on the number of locations the funeral home operates. If you have a one-location business, compensation should be near 26%. Those with a second location, however, encounter some redundancies. For example, this might involve hiring a full-time person to sit patiently at a small desk waiting for the front door to open in order to greet that person or summon someone to help them. (Incidentally, a dear colleague of mine calls this the "LOL." While you savvy texters might think LOL means "laugh out loud," when he says it with his Alabama Crimson Tide twang, he means "little old lady.") Anyway, a second location has staffing needs greater than one location, so compensation might get up to around 32% of revenue.

THE ATTRITION EFFECT

The price of compensation is a function of the economic principal of supply and demand. As I interpret the funeral profession's national employment numbers, about 1,600 to 1,800 people die or retire



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each year, and fewer than 1,000 people with more than five years of post-mortuary school experience replace them. That is negative employment.

Now, this is a small problem in larger metropolitan areas, but in the more-rural areas and states with cold climates that are already seeing a decreasing population, this is a problem. The effect of negative employment on the cost of compensation is to drive it up. At a time when the average revenue per call is flattening, funeral service employers cannot afford the single largest cost of operation to increase disproportionately.

No one ever came into funeral service, police work, the ministry, nursing or teaching saying, "Gee, if I do this right, I can make a lot of money!" People are attracted to funeral service and other ministerial jobs because they make them feel good. But if that is the case, then why does the funeral profession have such a high attrition rate?

No one I know of has actually computed the attrition rate in funeral service after five years, but I estimate it at 50%. This is very high, especially when there is a post-high school education cost that is not transferable to other careers.

What I mean is that if I go to college and major in art history but find I don't like the jobs I qualify for with that degree, I can find other areas of employ-

ment and just tell people I have an undergraduate degree. When you have a post-high school mortuary degree that cost you \$20,000 or more, however, it is hard to transfer that degree to other fields. It is money and time lost.

The question, therefore, is why does someone enter the funeral service profession thinking they are going to "save the world, one family at a time" and then burn out on that concept? I know some people sign up for mortuary school thinking of the quasi-surgical skills of the embalmer, but I don't think they are the ones leaving the profession at this high and sudden rate. Instead, I suspect that the lay ministerial role some people think they will assume after entering the profession is not required in reality.

I blame the antiquated laws of some states for this quagmire. Funeral careers are either focused on arranging (funeral director), body preparation (embalmer) or a blend of the two (funeral director/embalmer). In more than 20 states, however, in order to make arrangements, you still need to be an embalmer because the profession's footprint from 50 years ago is set in caskets and embalming.

That seems misplaced; the profession needs people to be able to guide families through the decisions of planning a funeral and the disposition. It's time to wake up! This ain't that profession any

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longer. Think about this: Since there are a growing number of states where the cremation rate is above 50%, why don't we require people to be certified crematory operators?

RETOOLING FOR THE FUTURE

Imagine that you employ four funeral directors. Would you want all of them to have 30 years of experience? No, because you couldn't afford that! Ideally, you would employ one senior person, two mid-career people and one young'un. As I noted earlier, however, the 30-year person is retiring and is not being replaced by someone out of the field of new talent, so funeral service needs to adapt to this.

We can learn from the past, however. The funeral service profession's DNA transcended the original

casket-building carpenters. With the massive number of battlefield deaths far from home during the Civil War, a new thing called embalming allowed Americans to ship their dead back to their family cemeteries, even if it took weeks or months to get them there. Eventually, practitioners created education and licensure requirements because of the need to protect the dead from the point of death to the point of interment.

Similarly, the future of staffing will require a rebuild of licensure first of all. Then, after rebuilding the education necessary to qualify people for licensure, the profession will be ready.

Ironically, the greatest fear of the 1980s – *cremation* – might prove the salvation to the possible staffing problems. By my study, it takes about 40 man-hours to serve a family selecting a casketed burial with a visitation and funeral service. Of those 40 man-hours, about 16 must be provided by a licensed person. For the average cremation with a service but no visitation, it takes about 26 man-hours, and roughly eight of those hours must be provided by a licensed person. In other words, as the cremation rate increases, the man-hours that licensed people must provide go down.

As a funeral home owner, did you ever think that cremation might be the solution to the number-one problem you face running your business today?

Dan Isard is founder of The Foresight Companies, which has served thousands of funeral homes nationwide for the past four decades. The articles in this series can be found in the Insights section of theforesightcompanies.com. Contact Isard at 602-274-6464 or danisard@theforesightcompanies.com.

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