FINANCE 301

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Most Important New Metric In Funeral Service Analysis

My Knowledge Transfer Plan: Chapter 14

I just returned from the annual conclave of GIFS (Geeks In Funeral Service), which I have chaired for many years. Our meeting was well attended; we filled every seat in the Volkswagen van we rented (our budget is small). Significantly, every member arrived at the same conclusion: We need to promote a new metric in the financial analysis of funeral homes.

You see, before I joined the group in the 1980s, the prior generation of GIFS had created "average revenue per call" and "casketing rate" as key metrics. We used those two stalwart mathematical assessments, along with ratios, to understand "accounts receivable days" and "number of licensees per 100 calls."

Early in my GIFS tenure, we eliminated the word "livery," which was later to be replaced by "Ubers in the procession." And now, after exhaustive study, we are prepared to implement the following two conclusions.

FAREWELL, AVERAGE REVENUE PER CALL

Our first conclusion involves average revenue per call. This metric has served funeral service providers well for a long time – some even used it to help with valuation conclusions – but, alas, you must eliminate your reliance on this calculation. Six of the seven GIFS chairs (and the van driver) overwhelmingly approved the retirement of this metric, by the way.

Average revenue per call and its offshoot, metric average merchandise per call, were good when every family bought a casket. In those days, if they bought a casket, then they would also buy a grave vault or liner, usually from the funeral home. And if they bought a casket and a vault, then the family would also buy a grave marker of some kind (the base with a bronze marker or a headstone). In addition, families that bought bronze and copper caskets bolstered average revenue per call.

In the 1980s, consumers buying these items received all the ancillary services, facility, staff and livery needed to create the funeral event. Back then, merchandise represented almost 30% of the total revenue spent with the funeral home (net of cash advances).

In other words, back when Tom Selleck introduced us to a laid-back Hawaiian private eye on *Magnum P.I.,* these were important computations. When the Dow Jones Industrial Average was a mere 10% of its current value, the casket and vault companies and the distributors of markers ruled funeral service, and this metric paid homage to the industries that paid for our conventions.

But, sadly, we at GIFS feel average revenue per call and average merchandise per call have gone the way of the human appendix, the buggy whip and the typewriter. Our reasoning for the need to purge these anachronistic computations is simple: More than 50% of families choosing funerals today do not require merchandise!

Here is an explanation that doesn't use a lot of math. Imagine both Funeral Home A and Funeral Home B are located in the same city, serve the same broad spectrum of consumers and have a caseload of 100 families a year. Now, suppose Funeral Home A's average revenue per call is $7,000 while Funeral Home B's is $5,500. Based on this limited information, can you determine which company is more profitable?

Is this a trick question? From me?! (The use of "?" followed immediately by "!" is the international sign for sarcasm, by the way.)

Of course, it's a trick question! If Funeral Home A has an average cost of goods sold to consumers of $2,500, while Funeral Home B's average is $500 (reflected in its casketing/cremation rates), then Funeral Home B would achieve a higher gross profit per call.

That sound in your head right now consists of trumpets in perfect harmony, the Mormon Tabernacle Choir hitting the high note on the "Hallelujah Chorus" and Sponge Bob shouting "Aye Aye, Captain!" at the same time. Congratulations, you get it!

HELLO, AVERAGE GROSS PROFIT PER CALL

Now, as deemed by the membership of GIFS, our second conclusion is that, for the foreseeable future, the metric that must drive all funeral provider analysis going forward is average gross profit per call. If the GIFS held meetings more frequently than once a decade, we would have revealed this simple and obvious conclusion sooner.

Here's an example of why this new metric matters.

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In the 1980s, a debate raged about whether cash advances should be included when computing average revenue per call. Some firms included that in their revenue but then backed it out as an expense under cost of goods sold.

Others, like me, challenged this. First of all, cash advances are an "exchange item" in the world of accounting. In other words, without an expectation of profit, funeral homes were doing nothing more than acting as a conduit for the transfer of money. In fact, many funeral homes didn't even take cash advances and instead merely told families to make their checks payable to various companies and/or individuals and would then forward them on the family's behalf.

Secondly, back then, people couldn't even agree on what constituted a cash advance. For instance, did purchasing a cemetery interment right qualify as a cash advance? Suppose that after dad's death, mom needed to purchase not only a grave for Dad but also wanted the accompanying spot for herself. Would both of those purchases be deemed cash advances? Suppose Mom realized the kids didn't have gravesites and wanted the family interred in adjoining plots? Would her magnanimous purchase of all of those graves constitute cash advances? I think not.

Finally, I objected to the inclusion of cash advances in a firm's revenue because of consistency. How could I, a financial geek, compare funeral homes if some included cash advances in their revenue and others did not? How could I compare a funeral home that served families that used an expensive cemetery or purchased mausoleum units with one whose clients chose burial in a city cemetery?

In fact, the entire argument about firms not including cash advances in their revenue formed my campaign platform when I ran for leader of the GIFS caucus. (I won by only one vote.)

Anyway, as families increasingly choose cremation, fewer caskets are sold. In 2019, with about 2.85 million deaths in the United States, there were about 1.6 million caskets sold. About 56% of all bodies were casketed, which included caskets manufactured for burial and for cremation. Of course, the number of "rental units" has continued to increase since then.

Now, if you contrast those figures with the numbers from almost two decades earlier (1990) – when about 2.15 million U.S. deaths occurred, roughly 1.8 million caskets were purchased and about 84% of all bodies were casketed – then you will see something alarming. While the number of caskets purchased between 1990 and 2019 only decreased by 200,000, the ratio of caskets-per-decedent dropped *dramatically.* In 1990, that number was 83.72 caskets per decedent; in 2019, it was 56.14. In other words, the number of caskets sold in the United States in 2019 had declined almost a third (67%) versus the total number of Americans who died that year, when compared to 1990.

Now, please understand that the importance of focusing on average gross profit per call as the key financial metric going forward doesn't reflect on anything you as a funeral home owner/manager are doing wrong. Instead, it involves how today's families choose to spend their money. For example, before the Federal Trade Commission implemented the Funeral Rule and required a General Price List, almost every funeral home owned at least one limousine. Afterward, families could choose whether to use the limo or not. Most families chose not to, and therefore, few funeral homes still own a limo. Instead, they find it more cost effective to rent a car and driver for a family and then bill it out as a cash advance.

Likewise, today's families are willing to spend money on a reception following a service, or even in lieu of a service. In fact, an increasing number of families would rather feed 100 people for $2,500 than spend $2,500 on a casket that is only viewed for a few days.

No, I am not saying that receptions will ultimately replace caskets, but… (you can fill in your own narrative there). Personally, I think the existential threat to the future of your business might arise from hotels and caterers, but that is an editorial I will write after I formally retire so I don't bring any hostility or threats to my editor.

So, on behalf of the seven GIFS (and the driver of the Volkswagen van in which we met), I urge you to amend your focus on funeral metrics and keep an eye toward the future by adopting average gross profit per call.

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