

## Key Performance Indicators You Should Follow

My Knowledge Transfer Plan, Chapter 18, Part 1

**D**uring the past five decades of my career, I've had to learn the funeral service profession's key performance indicators. (We cool geeks just say KPI.) Many of them I had to disprove. Many I had to segregate based on operating factors. Many of them I had to defend from stupid but assertive people. This month, I will try to influence you to follow these KPI as of 2023 and for the foreseeable future.

First, you need to know what a KPI is and why we, as business operators, use them. A key performance indicator is a uniformly accepted analysis point that helps you run your business. These analysis points usually involve a computation of at least two key points of operation. For example, dividing revenue by total cases results in a well-known KPI called average revenue per call. While there are many KPI used in business management in general, I will only explore KPI that apply to funeral service.

Typically, KPI involve four main business areas: financial, operational, value and marketing. During my professional lifetime, I have identified almost 200 various KPI within these four categories. In this article and next month's column, I will impart my final conclusions about KPI and, wherever possible, where I see them trending.

One of the most common KPI, as stated above, is average revenue per call. To compute this, you must start with all of your revenue and subtract cash advances, which are not-for-profit revenue (and the bane of this profession). Once you determine your revenue, then compute that against *all* calls – not just casketed calls. In the 1940s and '50s, funeral home owners could assume all calls were casketed calls, but no more!

"All calls" also means every time you serve a consumer regardless of whether this involves a family directly (a retail call) or via another professional (a trade case). Can you compute just retail calls? Sure, that is another form of KPI, but if trade calls become more

than 10% of your total calls, then you should compute the average revenue per trade call as well.

Why? During my career, I have seen most funeral companies that are both trade- and retail-based encounter pricing problems because they do not look at the pricing for their trade calls versus the costs of servicing those trade cases. A trade call does not mean you are "doing someone a favor." If you think that is the case, wait until a trade call becomes a problem case – *then* you will see what the cost of litigation is for doing that favor.

This month and next, I will share my biggest KPI and why they are crucial. There is an order to them, but it's not the order of importance because each is equally important, depending on the issues you face operating your company.

### AVERAGE GROSS PROFIT PER CALL

In days of old, average revenue per call was the critical component of study. The confusion, however, concerned whether to include or exclude cash advances. Those wanting a false feeling of accomplishment would include them. But, as I mentioned earlier, cash advances are non-profitable revenue. In accounting parlance, it's called an "exchange"; you merely act as the agent passing the expense payment along to the intended party without compensation.

But that was done at a time when everyone was buying caskets. In case you haven't noticed, when someone doesn't buy a casket, they rarely buy a vault and usually have no need for a grave marker and all those trimmings. This loss of revenue can amount to \$3,500 or more on average per contract.

Anyway, gross profit is defined as total revenue (net of cash advances) less the cost of goods sold. Therefore, gross profit per call is the total revenue (net of cash advances) less the cost of goods sold, divided by all calls. Why divide by all calls? Because your overhead supports all of your calls, not just the burial or cremation

cases. Your overhead exists, in part, to cover trade calls, shipping calls and indigent/not-for-profit calls, too.

In the new world of interactive publishing, which do you think is better for your profit: a burial call with a casket, vault and marker generating a revenue of \$7,000 or a cremation call with a revenue of \$5,000? The answer might surprise you. When you net out the cost of the casket, vault and marker of \$2,500 (estimated), your gross profit is actually \$4,500. Assuming the cremation call involves no material purchases and \$5,000 is the starting point, versus the \$4,500 starting point for the burial case, then I would say the cremation case offers a better chance for profit. I hereby decree, in my last days of influence in this kingdom, average gross profit per call is the most powerful KPI of them all!

### AVERAGE REVENUE PER CALL

Despite my words above, this does not mean that you no longer need to watch your average revenue per call. You do even if it's no longer the number-one KPI, as it has been for the past century. To derive your average revenue per call, take your total revenue (net of cash advances) and divide it by all calls.

This is a great KPI to help you plan for marketing

and budgeting. In the old days of building a funeral home, the selection room was the “money room” and each arrangement office led into it. It was also, usually, the second largest use of space after the chapel. But with fewer families now choosing a casket as part of the funeral, that room’s importance has changed. Many funeral homes today utilize a virtual selection room – and have seen no decrease in consumer merchandise spending – thus eliminating the need for the selection room (except in states that require a selection room to exist).

### EBITDA

Earnings before interest, taxes, depreciation and amortization is a universal measurement that allows you to compare a business with debt to a business without debt. You can compare a C-corp to a pass-through entity, for example, or the profit of a company with a new investment in capital, equipment or goodwill to one without that new investment. EBITDA is the Holy Grail of KPI in all businesses.

In funeral service, which is usually a very fixed-cost-focused business, this measurement is key because as a firm’s revenue fluctuates, its overhead usually does not



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change dramatically. The elasticity in a business model is therefore profit, and EBITDA is a means to measure that profit across the board.

As a KPI, divide EBITDA by revenue (less cash advances), which results in a percentage. This percentage should correspond to your budget planning. EBITDA allows a business manager to make decisions on the careful balance between revenue and expense management. Many managers try to get their EBITDA result by cutting costs, which is not always effective.

While EBITDA is critical, it might not be the right KPI for you and your business. In some cases, the real estate used by the company is owned by someone outside of the operating business entity. When this is the case, the measurement should go from EBITDA to EBITDAR, with the “R” representing rent. Thus, you would add back the rent to measure the total business earnings in order to compare businesses that have the real estate in the business entity versus in another related entity.

#### CASE MIX

This is another evolutionary item. At the start of my career, case mix measured burial versus cremation and shipping. I led the charge to break down case mix by contrasting casketed, non-casketed, shipping/trade and indigent/not-for-profit calls. Today, with the declining use of caskets, we must look at this in different computations, as well as this newer mix analysis.

First, you need to look at your at-need cases versus maturing preneed cases. Preneed is a great service to the consumer, but you need to see how your case count is changing when that change is driven by your maturing preneed contracts. If your firm does 200 calls, for example, and 50 of those come from matured prearranged services, then 25% of your total calls arise from preneed.

Another additional case mix analysis would be “use of facility” versus “no facility use.” The number-one investment when constructing a funeral business is in property. In 1980, creating a new funeral home resulted in three or more acres of land and 12,000-20,000 square feet of building. At a cost of \$400 or more per square foot for construction, a funeral home built today that follows the 1980s business model would require a ridiculous amount of money. Today, I see some

of the most profitable funeral homes in the United States operating out of commercial real estate space – either shopping centers or office space – because the families they serve do not need a funeral home chapel.

If that same 200-call firm cited earlier had 100 calls using their facility for either a visitation or a service (or both), then that would be a 50% facility use relative to all calls.

While this might seem very analytical, you should do all three of these analyses because they are independent computations from each other. Concerning case mix, however, I think the KPI for the future is the assessment of casket/noncasket. This is a KPI to follow and use in planning, but for the efficacy of your business sustainability, you must also watch the case mix KPI of at-need/preneed and facility/no facility. For example, if your at-need to preneed mix shows an increase in preneed, then that tells you that your current marketing might not get the message home. If your at-need cases are rising versus preneed, then that tells you that your advance-planning marketing is not effective.

Similarly, if your KPI for facility use indicates it's dropping, then this might signal that your community is moving away or doesn't see the value in coming together after a death to comfort the surviving family. Thus, your investment in your facility could be in jeopardy.

Finally, there are three relative ways in which you need to look at your KPI:

- Against your firm's historical operation or its budget
- On a regional basis, if possible, to compare your business to others in a similar geographic aspect
- Against national figures.

The latter figures are important to determine if you are ahead or behind the curve versus your professional peers. Often, it's difficult to get regional or national figures, but using an accountant or consultant who specializes in funeral service could be a source for this information.

Next month, I'll feature the remaining KPI that I hope you will watch in the future.

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