

Know Your Key Performance Indicators and How to Calculate Them

by Daniel M. Isard, MSFS

WE ALL LOOK TO COMPARE OURSELVES TO OTHERS. In the world of business, we can only do this by relying on a common set of indicators. These indicators are called Key Performance Indicators or abbreviated as KPI's.

In the cemetery business, there are only a few reliable KPI's. I have studied this phenomenon for 40 years. As I reach the end of my career, I feel compelled to raise the subject and explain why it is so.

Here Comes the Math

KPI's are expressed as a percentage. As you remember from seventh grade algebra, the percentage is computed from a ratio. To understand the KPI for overhead, you have a nominator that is the Expense over the denominator which is Revenue. Therein

Therefore, the ratio of expenses to revenue can be computed and compared. But with a cemetery, if you recognize the advance sales it can increase the revenue dramatically.

Premium cemeteries can have advance sales that are 100% to 200% more than at-need sales. As a mathematical example, a 100 interment cemetery generating (for example) \$300,000 in revenue if they have an effective advance sales objective, they can be generating another \$300,000 to \$600,000 in revenue from advance sales.

So how do you compare the mainte-

overhead of about \$42,000. So you might compute this as needing \$63,000 to \$84,000 for example. With a higher advance sales agenda, you need more cash on the books. The reason is your commission and other marketing costs are going to be higher than a cemetery without an advance marketing objective.

Recognition of Income

Another reason KPI's are difficult is because of the concept of "recognition of income." Businesses have cash received and they have phantom income. Phantom income is when you are assumed for tax purposes to have received income, but in reality you didn't get all the cash you are construed to have received.

As an example, assume you make an advance sale of \$2,000. Assume your policy is to receive at least 35% with the contract, and the balance is paid over some period of months. You actually received \$700, but the IRS is construing your income to have been \$2,000. You had Phantom income of \$1,300! The reason this matter exists is that cemeteries are deemed to be dealers in inventory that they create. But it interferes with the ability to make a fair comparison.

The good news is a cemetery can make these advance sales, and if a default occurs, the inventory has not yet been turned over to the purchaser. The cemetery merely deems a default and places the intended sale back into inventory. The unreceived Phantom income is a bad debt write off.

A cemetery does not usually allow a family to pay over time on an at-need use of an interment right. This is because there is no right to reclaim the interment right once it has been interred within. So any accounts receivable a cemetery has, usually, are fully secured. This is different in the funeral world, where funeral directors often allow families to pay over time for at-need services.

**Even not-for-profit cemeteries need to make a profit!
If there is a need for capital improvements, you need cash to either pay for it or to pay the bank financing it. Better to have more cash than not!**

is the problem of establishing a KPI for cemeteries. The Revenue is inconsistent because some cemeteries have an emphasis on advance sales, and some do not.

The premium cemetery is going to have advance sales. In reality, there is no "advance sales" because a sale is a sale. The only question is whether an interment is taking place at the time of the sale. Unlike the funeral world where an advance sale is usually not recognized as income until the time of a death, in a cemetery, a completed sale is when the deed is signed over on the interment right.

Again, comparing the funeral side to the cemetery side, the funeral side will have people choose to advance purchase and often pay over time. Regardless of purchasing a funeral in advance, as a flat fee or over time, the revenue is not recognized.

nance budget of a cemetery that will not change based on the quantity of sales when the revenue can be \$300,000 or as much as \$900,000? It is the same cost regardless. If that cost was \$50,000, the ratio without advance sales would be \$50,000/\$300,000 (or 17%) or it could be \$50,000/\$900,000 in a cemetery with advance sales (or 6%). So, you cannot compare these two in a standard calculation of the expense/revenue.

We not only use KPI's to analyze business expenses, we use them to analyze the business balance sheet. For example, how much cash should a business keep on hand? Usually, we would say a business should have cash equal to 45 or 60 days of overhead.

Here again the advance sales objective of the business manager ruins our ability to compute the KPI. If a business has \$500,000 in overhead, that is a monthly

You Have Options

Now that you know the dilemma of trying to create KPI's in a cemetery business, here are some of the KPI's that I have found you can use to measure your business against others within the profession.

■ Average Revenue

- Per Interment. This is the sale price of all goods and services for at-need interments divided by the number of at-need interments.
- Per Advance Sale. This is the sale price of all goods and services for advance sales divided by the number of advance sale contracts sold.

■ Cost of Goods Sold

- Per Type of Interment. This is the allocated cost of the inventory divided by the quantity of the sales per that type of inventory (e.g., ground burial and inurnment, above ground crypts and inurnments). For example, 200 graves were sold at a book cost of \$20,000. This is \$100 per grave cost.
- Overall. This is the allocated cost of the interment inventory overall divided by the quantity of the sales overall (e.g., ground burial and inurnment, above ground crypts and inurnments). For example, 400 total interment units were sold at a total cost of \$80,000. This is a \$200 per unit cost overall.

■ Sales Mix.

- At Need. This is the individual units of each type of inventory sold at-need (e.g., ground burial, ground niche, above ground burial, above ground niche) as a whole versus each type of inventory sold only for at-need sales. For example, 100 units of all inventory sold with 40 of those being ground burial would be 40% ground burial. The importance is to see how this compares to your plan.
- Advance Sale. This is the individual units of each type of inventory sold in advance (e.g., ground burial, ground niche, above ground burial, above ground niche) as a whole versus each type of inventory sold for advance contracts. For example, 100 units of all inventory sold with 40 of those being

ground burial would be 40% ground burial. The importance is to see how this compares to your plan.

■ Earnings. Earnings can be measured versus Total Revenue:

- Before Interest expense, Taxes, Depreciation and Amortization
- Before Interest expense, and Taxes
- Before Taxes
- After Taxes

■ Earnings. Earnings can be measured versus Total Cash Received:

- Before Interest expense, Taxes, Depreciation and Amortization
- Before Interest expense, and Taxes
- Before Taxes
- After Taxes

EBITDA Is the Key!


I can tell you that regardless of whether you are a proactive marketer of advance sales or you have a casual advance sale mentality, EBITDA is the KPI of all KPI's! EBITDA as a percentage of Total Revenue should be above 30% and for award-winning operations, it should be above 40%.

So, how do you get your ratio of EBITDA to Revenue higher? Generally, most cemetery managers manage the overhead. They try to cut costs. Most do a good job with that. But cutting costs is the easy part. Often, revenue needs to be worked on along with a management of overhead.

I think there are two easy moves to enhance revenue. First, do not ignore the trust investments. I am not recommending

that you invest aggressively but take an interest. The principal of the trust must be secured for perpetuity, but you can invest in a ladder of bonds. You can lock in longer-term bonds in today's market. Bring in another investment advisor to give you recommendations. Sometimes people get lazy in their investing.

Another option to enhance revenue is pricing. I don't want to give generalized recommendations on pricing because every market is different. However, you can recover profit from so many places. Of course, the interment right fees should be set properly. There is a relationship between the pricing of crypts and columbaria spaces, relative to ground interment spaces. The opening and closing should be viewed not as a cost but a profit center.

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