

## *Autopsy and Eulogy: Business Autopsy, Part I*

### My Knowledge Transfer Plan: Chapter 21

In the last generation or so, the funeral industry has lost more than 2,000 funeral home rooftops – from about 22,000 to just under 20,000. How many more are on the brink of going under in the next decade?

This month, I offer my assessment of why funeral home businesses die.

Charles Darwin is well regarded as a naturalist and biologist, but his thought-provoking propositions dealing with evolution do not just apply to zoology. I believe they equally apply to economic matters. When it is too easy for people to make lots of money, a Darwinian “economic pall” will occur so that only the best and brightest can dominate the business landscape. In short, I think businesses must “migrate, mutate or die.”

Some think prejudicially that cremation is a factor in funeral home failures. I disagree. Cremation is only the choice of what to do with the body. This profession has failed to understand cremation and why consumers choose it. Because most funeral directors would not select it for their themselves or their family members, they think cremation is an alternative.

No! Whether a consumer chooses burial or cremation for the body, they still need a funeral home. What that funeral home charges and how that business plan is effectuated is a matter of how prepared the business is to deal with cremation consumers.

With that in mind, here are the three most prevalent reasons funeral home businesses die off, as I’ve witnessed during my career.

#### **1. Hubris**

Hubris is defined as “excessive pride or self-confidence.” In order to buy a funeral home, you must invest millions of dollars in a service business with a huge capital asset, fixed costs and the uncertainty of future business. That obviously takes self-confidence.

But hubris is excessive self-confidence. Too many people have felt they were hyper-crucial to the process of serving families and getting dead loved ones to their final resting places. They felt that families must use their firm because their “secret sauce” was better than that of every other provider in their service area.

I have met countless business owners during my tenure and have asked most of them this question: “What makes your business different from your competitor’s?” Those destined for bankruptcy tend to offer one of two answers. The most prevalent is what I call a “vortex reply” – an unquantifiable answer that no amount of technology or people skills can measure. (Sedona, Arizona, residents like me know all about this vortex thing. Look it up.)

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Anyway, vortex replies comprise the old “We care more” or “We embalm better” answers. These are the same people who, when asked why their case count has dropped in the past few years, reply: “My competitor stole those cases.” Again, it’s something that cannot be measured by any means.

The second answer I often hear is: “Because I am [insert name here].” These arrogant people truly believe that their personal superiority is the only differentiation point they need. This reminds me of the old Chevy Chase intro for “Weekend Update” on *Saturday Night Live*: “Good evening, I’m Chevy Chase and you’re not.” When I hear this reply with

others in the room, I can actually see them cringing. They won't speak up, but their body language is unmistakable.

The history of the undertaker is clear: You need to be confident, but a servant leader leads by example, not his or her ego.

Business failures due to hubris are not unique to funeral service. Public and private companies alike have died due to a leader's belief in their invincibility. Politicians and preachers have derailed their careers by forgetting that success is something you work for, not demand. If you don't agree with me, just remember this: You will not be the funeral director at your own funeral.

## 2. Preneed

In the 1980s, the second article I wrote for *The Director* was about preneed. Now, I understood the wisdom of prearranging a funeral, but I did not understand how a funeral home could "guarantee" that the value of the trust or insurance death benefit would, at a minimum, equal the future cost of the service. In my study of the historical pricing of at-need funerals,

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I had deciphered the true industry inflation rate and did not see any short-term financial product that could equal that.

For many years after, I watched as funeral home owners were caught stealing preneed money or submitting claims improperly and were sentenced for their crimes. Understand, I'm not talking about the huge thefts committed by a few but, instead, the simple funeral home owners who saw the short-term use of preneed money as the salvation for their failing businesses.

The final words said by these defendants before sentencing were strangely similar, something to the effect of: "Your Honor, I am not a bad person, just a bad businessperson." This is not a compelling argument to



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*Worst of all, the preneed laws of several states basically told funeral home owners to take the money and just promise to provide the funeral in the future. Too many funeral directors did just that, except some of them didn't think long term.*

make before losing your freedom for a long time.

I also could not understand how the accounting for preneed (or lack thereof) existed. How could people think they could invest without accountability, either as a state trust or privately controlled business preneed trust? How could people with no training in investing, and the business owner, suddenly qualify to invest funds intended for future services with some of their buddies in some scheme?

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### 3. Lack of Business Savvy

Running a funeral business is difficult – more like running a hospital than a for-profit business. For most of the 20th century and before, funeral homes were primarily aligned with churches, which garnered a firm the reputation as a particular religion's funeral provider. Today, funeral service is still mostly segregated on racial lines without any business promoting such.

A funeral home is still a business, however, and it must be run as a business. If your firm historically conducts 100 calls a year, then the law of large numbers would tell you that three out of every five years, you will perform 100 calls a year. During the other two years, one will be under your average and one will be over. (Often, these two abnormal years occur next to each other.)

Despite this, you would still face a fixed commitment to your staffing, facility, livery and other costs to maintain profitability. Unfortunately, the most common business failings in this realm include:

- Setting your prices based on your competitor's pricing. You don't have their overhead, so you cannot match their pricing! Does Ruth's Chris Steakhouse amend your final check when you tell them Golden Corral offers a steak dinner for half the price?
- Receivables are a huge problem, especially for failed businesses. Does Amazon allow you to write a post-dated check for the goods you need today?
- This profession usually just “makes up” its human resources rules, even though staffing costs are the single largest cost of operations. Are funeral directors exempt or non-exempt in the eyes of the Department of Labor? As a business owner, you cannot just invoke the solution that is best for you.
- Marketing is not a meaningless message. These days, “We care” means as little as Holiday Inn wrapping its toilet seats with paper bands imprinted “Sanitized.”
- Failure to embrace the online world. The successful person does things the unsuccessful individual does not. The evolution of tools at your disposal that you choose not to employ is a disaster waiting to happen. Yes, I am talking about you if your funeral home email includes the word “info” in the address, or if you only have one email address.

Whenever I'm driving somewhere and see a business closing, I mourn. Somehow, I can see the business owner sitting up late at night – for months or longer –

frustrated at failing to achieve his or her dreams. I also picture the discussions among family members, each gnashing their teeth in frustration.

For many years, the federal government's "Standard Industry Codes" listed the lowest bankruptcy rates. Throughout the 20th century, funeral service held the second lowest rate out of more than 1,500 businesses. Then came The Loewen Group electing bankruptcy on June 1, 1999. The number of funeral home bankruptcies have dramatically increased since that date.

As Tevye, the father in *Fiddler on the Roof*, talks to the Heavens, he states: "Oh, dear Lord. You made many, many poor people. I realize, of course, it's no shame to be poor... but it's no great honor either." I hope you never lose sleep worrying about the cash flow or value of your business, so please either learn from the losses of others or stock up on Ambien.

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