FINANCE 301

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The Intersection of the Annual Business Plan and Your Life Plan

My Knowledge Transfer Plan: Chapter 23

Every year for almost 40 years, I have worked with funeral home owners and managers, as well as cemeterians, to create their annual business plans. As I prepare to exit my chosen career, I want the next-to-last lesson plan I offer you to be about, er, well… *planning.* I have learned more than I ever thought possible about planning for my lifetime, so allow me to be your wise "Uncle Murray" this month.

The "big picture" is actually not one image but more like a jigsaw puzzle, made up of all sorts of pieces, small and large, that together form your life. While those of you who chose to become business owners have a picture within the big picture called your business, each individual's pieces should all fit together to form their life plan. It's only after retiring that you will find out if that puzzle was constructed correctly, by the way. And if you die before retiring, then there is more crying at your funeral if you screwed it up.

For many of those who are not owners, their life plan at retirement is based on their home equity, Social Security savings and perhaps an IRA and other investments. According to the Federal Reserve Board's "Survey of Consumer Finances" (1989-2019), the average person has retirement savings of $426,000 at age 65-74. That is the equivalent of putting aside about $30 a day from age 25 to age 65 (including interest earnings) for the average working person.

As a business owner, however, you want more. You chose to own a business in order for your life plan to prove more successful than those choosing the less stress-filled work/life balance path. In other words, you took a risk. You mortgage your home, you lose sleep at night worrying about your business world.

You cannot fake it as a business owner. You do not want to reach normal retirement age and be guessing whether your savings, pension and IRA will be enough. You cannot debate internally whether you can afford a business valuation to learn the actual value of your business. If you can't afford the valuation, then you should realize that your business plan has not worked and that your life plan is going to be disappointing.

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Moreover, your options as you near retirement age should not be about changing your needs. You can, of course, but I recommend against it. You could die sooner, but that is a bad option. You could reduce your retirement-spending needs, but that will just make you cantankerous. You could eat only two meals a day to save money, but that will just make you cantankerous *and* hungry.

Therefore, it is better to create a life plan and a business plan and then work hard to make sure both goals are met.

CREATING A LIFE PLAN

When we are young, we have dreams and aspirations. Most are a mixture of wishing and guessing, with a bit of improvisation thrown in. We have personal goals and objectives. We might hope for children, as well as for good health and a "normal" retirement someday. To protect against calamity, we buy life, health and disability insurance – hoping that these insurance premiums prove wasted because we did not die early, become disabled or need long-term hospitalization.

But just spending money on protection without saving for a living income is foolish. The odds are simple:

- 85% of all 25-year-olds live to age 65
- Only 5% of all 25-year-olds will become disabled for some period before age 65
- Only 1% of 25-year-olds will be hospitalized long term before age 65

So, your life plan should protect you for the possibilities but also invest for the probabilities. Therefore, when crafting your life plan, you must establish:

- The age at which you want to be financially independent of your business and labors
- An estimate (in today's dollars) of the amount of buying power you want when you retire
- An estimate of the interest rate at which you will invest your money
- A guesstimate of what the inflation rate will be to keep your buying power even.

How are you going to build the wealth to provide the income? Your business will do that, assuming you work your business properly. With that plan established, you can then create your business plan to increase the odds of success (and put $30 a day into a piggy bank).

ANNUAL BUSINESS PLAN

To create this plan, you should start backward. Write down the annual profit you want your business to generate. Profit is good! Do not be embarrassed to earn a profit. The U.S. economy is based on capitalism. Adam Smith, the forefather of capitalism, believed that humans were self-serving by nature but that if every individual sought to fulfill her/his own self-interest, then the material needs of the whole society would be met.

There are three main components to a good business plan. In descending order of importance, they are:

1. REVENUE Once you establish what your profit should be, keep working backward to program your business to get there.

- Estimate your fixed costs of operation for the year.
- Add your desired profit to that fixed cost of operations to determine your total fixed overhead.
- Estimate your total variable costs of operation, not including cost of goods.
- Estimate your probable case count for the year. Here, I suggest doing something unusual by using 90% of your probable case count. If you use 90% and hit 100%, well, yippee, more profit! And if you assume 90% and have an off year, so be it.
- Divide your total fixed overhead by your probable case count. This is one component of your required pricing.
- Add to your required pricing your variable cost per case to determine your gross pricing required on a per-call basis. If you want, allocate that amount throughout your GPL so that the average family spends that amount on your services.

2. MARKETING This is the second most important part of your annual business plan. Do you know why families choose your firm? If you say, "We embalm better" or "We care more," then just stop reading now and keep playing the lottery.

In reality, you probably have suspicions, but they are inaccurate. Therefore, conduct a real family follow-up survey. (NFDA's Family Satisfaction Survey makes it easy.) Families will tell you. Build your marketing around their answers.

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Marketing does not provide a single "silver bullet"; instead, it offers many. First, you will understand why the families that have used your firm in the past continue to do so. Second, you will discover why the families that have not used your business in the past chose to use you. Third, you will learn why families that chose your competitors used them instead.

Marketing requires multiple approaches. Early in my career, marketing involved the "Big 4": Rotary, *Yellow Pages,* church calendars and ads on newspaper obit pages. Four decades later, none of those are useful. Today, your business needs online marketing and community outreach, so work with a company that can get you proven results in these areas.

3. STAFFING You cannot run a service business without people, and you want your staff to serve as a positive reflection of you. Therefore, train these people. Work to make them the best they can be. If you are worried they will be recruited away, plan for it. Have a good HR practice to support you.

Staffing is the largest cost of your firm's fixed overhead. Therefore, hire good people. Remember, your average licensed staffer is going to arrange between $400,000 and $800,000 of revenue for you each year. That is significant.

Looking back, I know I have been lucky. My diligent efforts spent blending my life plan and my annual business plans have proved successful. My insurance premiums were flushed down the drain by living to retirement age. My $30-a-day deposit in the piggy bank was well invested. My monthly Social Security benefit checks arrive like clockwork, but I do not need to rely on them. Adam Smith would be proud of me.

Most importantly, I have not needed to pocket some range golf balls to play on the course!

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