

THE VALUE-CREATION MINDSET

Five areas of focus that will help you increase the value your business provides to families.

BY GABRIEL NGO



So, to the best we can, what we do is focus on creating value for others, and how do we do that? We do it by trying to produce products and services that our customers will value more than their alternatives, and not just their alternatives today, but what the alternatives will be in the future.

– Charles Koch
Chairman/CEO, Koch Industries

The rising cremation rate. Changes in consumer behavior. A growing number of unchurched people.

We've all heard and talked about these things, and many more, ad nauseam. But what have you done about it? Have you introspectively looked deep within and stayed true to your beliefs and principles by providing high-value services to your community? Or did you level down so you could compete with the "\$995 Guy" in a race to the bottom? Did you listen to the families you serve, to your guests? Or did you simply decide you knew best what they wanted because the family was Baptist, or Catholic?

Yes, all of these things are challenges or obstacles to your profession. But challenges are just the flip side to the coin of opportunity, aren't they?

Notice that the quote above mentions nothing of competition. You would think that a billionaire businessman got to where he was by beating down his competitors, yet Koch mentions nothing of competition in his value-creation quote.

Speaking of quotes, here's another: "Companies

that solely focus on competition will ultimately die. Those that focus on value creation will thrive." Edward de Bono, a British-Maltese physician and the father of "Lateral Thinking" stated that. Yes, you should know your competition but focusing entirely on what others are doing will distract you from focusing on your business becoming better.

FIVE AREAS OF FOCUS TO HELP YOU ENTER AND STAY IN A MINDSET OF VALUE CREATION

1. Know Your Value and Vision

Whether you lead a multigenerational firm or started it yourself, the first area of focus involves staying true to the identity and culture of your business. If the mission of your business focuses on serving your community with the highest/best level of service, then you must remain dedicated to that and not make decisions that contradict the values, vision and culture of who you are.

Are you and your staff's experience, education, licensing, expertise and level of service worth more than \$995? If so, then stop yourself whenever you feel the urge to match a competitor's low-cost cremation pricing or reduce your own pricing structure. Your values, vision and culture separate you from other (even worthy) competitors, so do not stray from this and commoditize yourself.

2. Understand Basic Financial Principles

The second mindset focus involves taking the time to educate yourself on the dynamics of how cash flows in and out of your business. Do not let



financial terms such as “Gross Margin” or “EBITDA” (earnings before interest, taxes, depreciation and amortization) intimidate you.

That said, understanding financial terms is great, but truly understanding how an action taken (or not taken) could impact your numbers is the goal here. For example, funeral service is a relatively high-fixed-cost business. This means that the overhead costs of everyone who serves death calls remain relatively constant, no matter how many cases they serve – including the low-cost provider.

Thus, even if that low-cost provider takes 10 calls from you, and 11 calls from your other full-service competitor, in a given year, that “\$995 Guy” will likely fail to eke out survival long term on \$20,895 annual revenue – assuming he still has to expend costs on people, at least one vehicle for pickups, the cost of a retort (or the fees if a third party provides the cremation), rent for space, gas, a website, a phone number, etc.

3. Stay Open-Minded and Listen to Everyone

The third mindset focus holds particularly true relative to the families and guests you serve. In Foresight’s 2024 “Funeral & Cemetery Consumer Behavioral Study,” almost 40% of respondents stated they did not know enough to make an informed decision about available funeral service options and products. On the other hand, while they might not know what they want, they almost assuredly know what they don’t want.

Fortunately, these educational and consultative opportunities allow you to build and earn trust. If a family is candid enough to tell you what they don’t want – and you earnest enough to truly listen to them – then your focus can easily shift to identifying what they want and providing it. Conversely, if your big dilemma still focuses on whether or not you should let guests bring coffee or beverages into your chapel, then chances are you will need to be

a little more open-minded and listen better. (By the way, this third mindset focus speaks directly to the introductory quote regarding “alternatives today” and “what the alternatives will be in the future.”)

4. Keeping Score

When we go on a diet or begin working out, we step on a scale in order to monitor our progress. After all, there must be accountability.

What should you keep score of to measure your firm’s growing value? While volume and market share are still important, long gone are the days of cremation at 30% and the thinking that as long as your firm did the same/similar to last year, the business would be in good shape.

The recommendation today is to exclude all the calls that direct-disposal/low-cost providers take from your firm because they are not your competitors. Instead, whenever possible, count how many calls a true competitor handles – one that more closely resembles your business – and compare it to how many calls your firm performs.

Next, examine the number of cases you serve in a given year against your top-line revenue (less cash advances) and your EBITDA. Here are two hypothetical scenarios about EBITDA and EBITDA Margin (percentage) to help you understand how they can help you keep score:

Scenario A

Your firm has \$1,051,800 revenue on 300 calls, but

you lowered your direct-cremation price to \$1,295 in order to keep 40 of those calls. Your firm has a \$31,554 EBITDA and an EBITDA Margin of 3%. This means that for every revenue dollar your business brought in, you were able to capture \$0.03 of EBITDA profit. You expended extra staff, time and expenses on those direct-cremation calls, and you were lucky to make a profit.

Scenario B

Your firm has \$1,000,000 revenue on 260 calls, and you did not lower your direct-cremation price to try and match the competition. Your firm has a \$110,000 EBITDA and an EBITDA Margin of 11%. This means that for every revenue dollar your business brought

in, you were able to capture \$0.11 of EBITDA profit. You made more profit while serving fewer cases because the 260 you served were of higher quality and you did not have to spend the resources and costs on the 40 direct-cremation cases in Scenario A.

5. Know Your Value

The final value-creation mindset refers to the actual value of your business, not your personal values. Similar to “Keeping Score” above in order to measure your progress and hold yourself accountable to your values, vision and culture, knowing the annual value of your business (it changes year to year!) will help you stay in the value-creation mindset. Even if serving others is your undisputed professional calling, you might not be able to serve your community at the highest level if your business can’t stay profitable annually.

While I recommend retaining a firm to professionally perform an annual valuation of your business, here are two general, high-level concepts you should examine:

- Businesses with typically higher EBITDA and EBITDA Margins will likely be valued higher than those with lower such metrics, and most certainly against these businesses that are struggling to stay EBITDA positive. This is true regardless of annual revenue, even though higher revenue generally commands higher value.

- High EBITDA and EBITDA Margins are a good thing, of course, but growing these metrics provides a truer litmus test of value creation. For instance, if, during a five-year time frame, you grew your EBITDA and EBITDA Margin from 12% to 16%, then you created value (not to mention goodwill value).

As I travel for work in certain major metropolitan markets, I feel sad when I see that every funeral/cremation provider within a 15-mile radius of the “\$995 Guy” is about \$50± of a \$1,250 direct-cremation price. What that tells me is that every competitor within



that market radius abandoned their values, vision and culture and raced the first low-cost provider to the bottom.

Notice I used the active verb “abandoned” in the previous sentence. This race-to-the-bottom scenario did not just “happen” to them; consciously or not, they chose their response. None of them resisted the urge to compete for every single call, no matter the cost. Instead, they focused almost solely on what others were doing instead of focusing on their own business – its values, vision and culture.

Perhaps they did not understand (or felt too much pressure) from the financial “fundamentals” of funeral service and that there might be viable markets for both cremation with service and direct cremation. Perhaps, they did not listen to what the families they serve, or consumer studies, were telling them about how they wanted to be served better or

differently. Perhaps, in their efforts to hold onto as many calls as possible, both revenue and profitability waned.

Regardless, because of their choice, these competitors are now commodity traders in a marketplace that has conditioned itself to low-cost alternatives everywhere... today and in the future.

To drive that thought home, I leave you with a quote by Joker in *The Dark Knight*: “If you’re good at something, never do it for free.” ☰

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