

Business Reality Check

The Cost of Holding on Too Long

Business Reality Check #2



SCENARIO: Paul Gibson, age 63, was the owner and operator of Gibson Funeral Home, a small-town funeral home in a micropolitan area of the Midwest. Paul had built a reputation over decades as a dependable figure in his community, serving approximately 140 families per year. With a lean operation staffed by only himself and another funeral director (also nearing retirement and uninterested in ownership), Paul found himself at a crossroads.

After decades of running the funeral home, Paul was ready to retire. He had a two-year horizon before he planned to fully step away and become eligible for Medicare. Willing to consult for a buyer during that transition, Paul envisioned exiting the business gracefully. In 2023, he put the business on the market hoping to achieve a \$3 million sale price, a figure based on inflated financials during the COVID-19 pandemic, when deaths spiked and call volume temporarily surged.

At the time, Gibson Funeral Home

reported annual revenue of \$1.5 million with cash flow of \$450,000, suggesting a 6.67x multiple of cash flow, a reasonable valuation, even for operators under the \$5 million enterprise value mark. However, the COVID boom was clearly waning, and the business's market reality began catching up.

There were only two competitors in Paul's market: a national consolidator and a small independent that wasn't looking to make acquisitions. This meant the pool of potential buyers was narrow from the outset. While the consolidator showed some

interest, they recognized the staffing headwinds they'd face: both current employees were over 60, and the buyer would likely need to replace the entire team within two years. They expected that hit to come with a \$100,000 bump to annual staffing costs just to stabilize operations.

As a result, the consolidator offered \$2.1 million, a price that reflected their internal cash flow projections and staffing needs. Though still based on a 6.0x multiple, the optics looked worse: it was only a 4.67x multiple on current performance. Paul, understandably frustrated by the

perceived lowball offer, refused to accept. The deal stalled. And that's when the business grinded through the next 18 months, value eroding, operations stagnating, and Paul becoming more desperate to sell.

LESSON #1: A SHORT TIME HORIZON REQUIRES CLEAR SUCCESSION ACTIONS

The most critical mistake Paul made was failing to create a viable succession plan well in advance of his planned retirement. Per the 2024 National Funeral Directors Association Member Succession Planning Study, 46% of owners plan to sell or transition their business within the next five years, yet only 29% have a plan in place to do so. That means nearly 80% of future sellers are in the same boat as Paul was. With a short, two-year exit window, time was never on Paul's side, but he didn't take the necessary steps to mitigate that risk.

Succession is rarely a straight line. It takes years to find, vet, train, and transition a successor, whether internal or ex-

ternal. Paul had no identified buyer and didn't groom a successor from within. His one employee wasn't interested in ownership. With no junior funeral director to mentor, Paul left himself without options when the time came to sell.

Had Paul started five to seven years earlier, he could have brought on a younger licensed funeral director, cultivated them into a leadership role, and created a structured buyout plan. This could have added internal continuity, made the business more attractive to external buyers, and potentially increased the value of the firm.

LESSON #2: DON'T CHECK OUT BECAUSE A SALE IS IN SIGHT

When Paul listed his business in 2023, he likely believed the sale was imminent. But the gap between the initial offer and the closing of the sale widened. Over the next 18 months, his funeral home's performance began to steadily decline.

Revenue dropped from \$1.5 million to \$1.2 million. Cash flow fell from \$450,000 to \$360,000 – a 20% erosion. While some of this decline was due to external forc-

es like the "COVID pull-forward effect," the deeper issue was that Paul may have stopped investing in the business altogether. His awareness of his own position in the market became clouded by the common pitfall of "everybody's case counts are down right now too." However, no action was taken to ensure his decline was in line with others, that the others were truly declining, and that he wasn't just losing market share. During this time, he was hesitant to upgrade technology, hesitant to hire, and hesitant to change – after all, why invest in a business you're about to exit?

But here's the flaw in that thinking: Buyers pay for the future, not the past. And Paul, in an attempt to avoid spending money he wouldn't see a return on, ended up diminishing the very asset he was trying to sell.

Paul may not have gone public with his sale intentions, but he certainly didn't future-proof his business. This lack of reinvestment and strategic focus made the business look less appealing than a healthy acquisition opportunity should.

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LESSON #3: RESISTANCE TO CHANGE CAN COST YOU DEARLY

Paul prided himself on his traditionalism. He still used typewriters, kept cremation merchandise out of sight, and ignored trends like online arrangements, livestreamed services, and e-signatures. In his view, personal service meant physical presence, and technology diluted that.

But today's consumers, especially post-COVID, expect digital convenience. From Zoom arrangements to webcasts and even AI-assisted grief tools, funeral homes must rapidly adapt to meet modern expectations.

This is something that's relevant to the entire profession. In Foresight's 2025 Funeral and Cemetery Consumer Behavior Study, the 5,000-plus consumers polled graded the funeral profession's "ability to provide technology-based products and services" at a measly 49% rating. Meaning we are lacking in technological adaptability. One of the leading causes of market share shifts since COVID has been effectively implementing technology into service offerings. The businesses that have adapted to consumers' technological desires have been able to pull market share from their less-progressive competitors.

Paul's unwillingness to change had two key impacts:

- He lost relevance with younger families. Without visible cremation options, easy digital arrangements, or website engagement, Paul lost out on cremation-driven growth and modern consumers seeking transparency and convenience.

- He limited buyer appeal. Acquirers look for businesses with updated infrastructure and systems that can scale or integrate into their existing platforms. A business running on paper, typewriters, and manual processes is not only harder to value, it's harder to operate post-sale.

By not adapting, Paul was left with a smaller market of buyers willing to take on the operational risk of modernizing the business themselves.

THE FINAL OUTCOME: A HUMBLER BUT RESPECTABLE EXIT

After 18 months of stagnant deal talks, declining performance, and limited interest, Paul was finally able to find a buyer, a regional group interested in expanding into Paul's part of the Midwest. Importantly,



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tantly, this buyer had a director on hand that was eager to enter a lightly competitive market.

But the deal closed at \$2.4 million, with revenue, by then, down to \$1.2 million and cash flow at \$360,000. Ironically, this still represented a 6.67x multiple – the same multiple Paul originally expected – but on a smaller cash flow base. The value of the business didn't drop because the multiple changed, it dropped because the funeral home's performance did.

The key takeaways for funeral home owners from this scenario boil down to five items:

1. Plan succession years in advance, not months

Paul waited too long. Bringing on a younger director five to seven years earlier and training them as a successor/manager could have changed everything. If there's no internal successor, start courting external interest while business is still growing.

2. Continue investing, even while nearing your exit

The belief that you shouldn't reinvest because you're about to retire is short-sighted. Deferred maintenance and ignored upgrades signal to buyers that the business isn't future-ready. And if the business declines during negotiations, so does your leverage.

3. Know the consumer's taste and don't resist adapting

Buyers want continuity, digital capa-

bilities, and operational efficiency. Typewriters, hidden cremation displays, and analog processes are red flags. Technology doesn't replace care, it enhances it.

4. Valuation is about normalized performance, not inflated spikes.

COVID inflated revenues for many businesses, but those spikes are viewed as anomalies, not baselines. Basing your valuation on temporary pandemic numbers will only lead to disappointment when offers come in.

5. Accept that price is what the market says it is.

Ultimately, businesses are worth what a qualified buyer is willing and able to pay based on current performance and future potential. Regardless of whatever criteria you use to set your desired exit price target, the market (the buyer) dictates that price. Selling a business is one of the most emotional decisions in any business owner's life, but the facts and realities of the business are going to determine the outcome.

Paul Gibson's story isn't a disaster. He still sold his business, exited with dignity, and got a respectable value for the asset he sold. But his experience offers lessons in what happens when traditionalism, delayed planning, and disengagement collide during a business sale.

Had Paul modernized earlier, groomed a successor, and maintained his operational focus during the sale process, his \$3 million target might have been achievable. Instead, he exited for \$2.4 million – again, a respectable number – but not without stress and nearly a two-year delay.

For those nearing retirement, the message is clear: succession planning starts today, not when you're ready to leave. Surround yourself with the right advisors. Know your numbers. Stay engaged. And above all, build a business not just for the present – but for the next owner, whoever they may be. **KB**

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