

body prep and transportation for burial and all but body prep for cremation cases,” he says.

Analyzing the survey’s results, Isard points out that the number of businesses with one location is declining. “Those with two, three or four are stable to increasing slightly. That can only be by small operators closing down unproductive facilities,” he says. “With a declining average revenue per call due to cremation pricing, it makes sense that people are realizing that some satellite locations are better off being sold off for real estate value than operated unsuccessfully.”

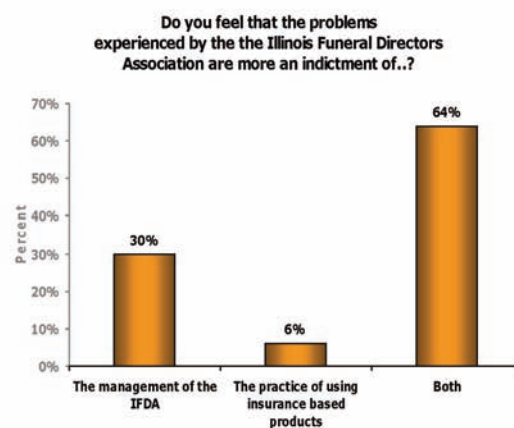
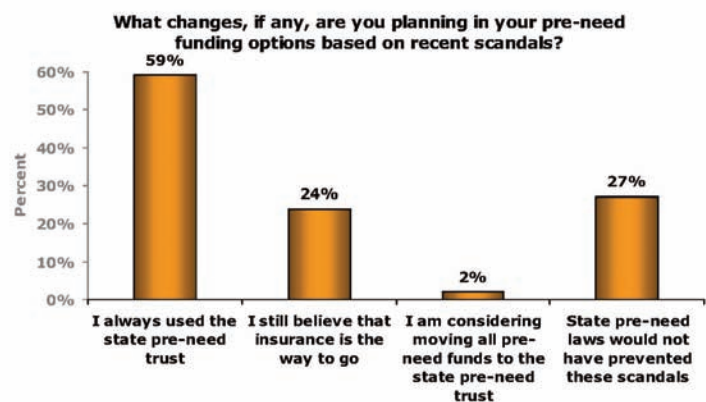
Horton says mom-and-pop-type funeral homes are finding it increasingly hard to survive with a fewer number of calls, and even though real estate has gone down in value recently, many smaller operators have still found it in their best interest to sell. “The other part of it is we are getting a new breed of funeral director that is focused on the business aspects,” he says. “So you see some forward-looking funeral directors that have a business orientation and who are acquiring other locations within a cluster. They can move staff, move livery and even consolidate prep rooms in some cases.”

Preneed

One of the survey’s key findings is that funeral service professionals in the Northeast are aware of the preneed scandals that have hurt the profession. It is interesting to note that 94 percent of respondents blame woes at the Illinois Funeral Directors Association’s Preneed Trust on mismanagement or a combination of mismanagement and the practice of using insurance-based products. (Randall Earl, now the treasurer of the National Funeral Directors Association and third in line to become its president, formerly served as IFDA president and also on the board of IFDA services, which at one point managed the preneed trust. He’s been named in several lawsuits, and NFDA continues to support his role within its association. While Earl has not been found to have done anything wrong, some people have publicly called for his removal from his post at NFDA.)

Thirty-eight percent of respondents answered “yes” when asked if recent preneed funding scandals have colored their opinion of preneed funding options. And 70 percent answered “yes” when asked if they were familiar with the fact that some funeral homes are uncertain as to whether preneed funeral contracts will be honored due to scandals involving National Prearranged Services and the IFDA.

The survey does share what Citrin Cooperman thinks is good news: Fewer funeral homes who responded to the survey are allowing customers to lock in pricing on a preneed basis. In 2009, 67 percent of respondents always or sometimes locked in pricing as opposed to 75 percent in 2008. **But even with the improvement, that still leaves too many funeral homes following the wrong strategy. “We understand that many funeral directors feel that locking in prices ensures future revenues,” Horton says. “But many homes may be mortgaging their future on today’s preneed sales.”**



Bruce Bratton, owner of IQbrew, a consulting firm that serves funeral homes, has been valuing and buying funeral homes since the early 1980s. He thinks locking in prices on preneed contracts will have dire ramifications. “Any funeral home issuing guaranteed-priced preneed is creating an off-balance-sheet liability since most funeral homes don’t currently disclose preneed on their balance sheets,” he says. “That will come back to haunt them because the greater the size of the guaranteed-priced preneed portfolio, the more of a discount that will be applied to the overall valuation of the funeral home when that funeral home is sold at some time in the future. A funeral home should value its preneed portfolio by the same mark-to-market methods used for other types of securities so it knows what size liability is being created by guaranteed-priced preneed. I won’t be surprised to see states come to realize that the creation of a guaranteed-priced preneed account is, in effect, the creation of a security instrument – currently unregulated – and should be regulated by the state and overseen and policed by the state’s attorney general.”

Isard, long an advocate of nixing the guarantee, declares, “Preneed is the crack cocaine of the funeral industry. We are now relying upon 25 percent or more of all calls being paid for by a third party. In some markets, it is 50 percent or more. Yet we don’t watch the financials of that party. The guarantee is the first problem, and the inability to stop making decisions based upon relationships is the second problem.”

Knowledge-Based Services and More

One of the opportunities in funeral service that Citrin Cooperman says is largely being ignored is charging for knowledge-based services such as end-of-life planning, estate administration, life insurance needs, estate and financial planning and other problem areas. “I know it’s a new concept and no one has come up with a formalized and effective plan in implementing knowledge-based services, but it is being worked on,” Horton says.

Funeral directors do see the potential in this area, however. Sixty percent of respondents say they believe offering additional knowledge-based services would benefit families and 55 percent say that offering formalized, professional knowledge-based services would help the profession itself. (However, that is a drop from last year when 74 percent said more knowledge-based services would help families and 61 percent thought it would help the profession.)

The survey shows that about 75 percent of respondents offer some type of knowledge-based services beyond Social Security and VA benefits counseling, but the majority of these businesses are simply giving their services away. There seems to be disagreement about whether and how formalized knowledge-based services should be priced in the General Price List. “Respondents tend to be more hesitant about turning informal, giveaway advice into formalized, professionalized service offerings with prices attached,” the survey states.

Nixon wonders how funeral homes will really profit from knowledge-based services. “Unless they offer these services themselves, with liability concerns, how can they collect referral fees within the restrictions on this type of activity?” he asks.

Here are some other key findings that round out the survey. (For a complete copy of the 73-page survey report, call Anca Munteanu at 212-697-1000.)

- Less than 60 percent of funeral home executives surveyed say that they know the present value of their business, and only half of them have an exit strategy or a formal plan to transfer ownership.
- Respondents are more familiar with “green” cemeteries, with 94 percent stating that they have at least some familiarity with them as opposed to 63 percent just two years ago.
- Cremation is still ranked as the No. 1 issue facing the profession, with 29 percent singling it out. Profitability concerns, which are closely related to concerns regarding cremation, ranks close behind at 25 percent.
- Personalization of services remains important but technology is taking on more importance, with 26 percent saying it is a priority versus 12 percent in the prior year.

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