3 key preneed questions facing funeral service today

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At the kind invitation of International Order of the Golden Rule (OGR), I will be presenting an audioseminar/webinar later today — Thursday, July 19 — entitled "Funeral Service Update/Current Issues." OK, so I could have probably angled for a more imaginative title, but at least it's clear what I'll be talking about — and I can't wait to discuss today's trends and recent news developments with the service-minded, business-savvy members of OGR, which I believe is offering some of the best educational content in the profession. Naturally, I'll be touching on everything from the flat-to-drooping death rate, the increasing challenges of cremation (both in terms of profitability and due-diligence) and the growing "war for talent" in funeral service and many other professions, including healthcare and information technology (IT).

But I plan to spend more time on preneed than any other issue, in part because I've heard more tough questions on the topic in the past year than ever before. Certainly, since I started covering deathcare 15 years ago — and for decades prior to that — funeral service has had any uneasy, complicated relationship with preneed. Howard Raether — the late, legendary exec of the National Funeral Directors Association (NFDA) — famously believed that preneed would be the ruin of funeral service and discouraged funeral directors from embracing it. But a growing percentage of consumers wanted to pre-arrange and pre-pay, and funeral homes nationwide were reluctantly nudged to the preneed trough. Since my introduction to funeral service in 1992, insurance-funded contracts have steadily grown as a percentage of overall advance sales; trust-funded preneed simply has not offered the variety of multi-pay options, marketing support and, most important, the 3- and 4-figure commission checks that insurance companies provide.

Of course, Forethought had a lot to do with sparking that shift toward more insurance and fewer trust-funded contracts — and many believe that the recent 20-year anniversary of the market-leading preneed provider's debut has inspired a deeper examination of whether some of the core assumptions underlying advance sales are indeed valid. There's also a healthy, growing debate about what needs to be done to make preneed a better deal for both consumers and funeral providers in the decades to come. Raether died in 1999 ... but were he alive today, he could point to plenty of problems in preneed that would buttress his deeply held concerns: rampant shortfalls, the growing fraud crisis and emerging fears that preneed just might be shortchanging survivors by encouraging their loved ones to micromange the fine details of their end-of-life ceremonies. That's especially so with preneed customers who sign contracts stipulating direct cremations, with no sort of remembrance whatsoever.

In the spirit of fair disclosure, I'm a believer in preneed and the author of a best-selling guidebook on the topic — *The Preneed Sales Field Manual*, published in 2005 by Kates-Boylston Publications. (Visit **www.kates-boylston.com**, and click on the "products" link at the left of the home page for more details.) I think preneed done right is both good for the consumer and a powerful business tool for funeral homes, allowing them to retain previously served families, expand market share and, in some markets, preventing future erosion in revenue-per-call. But there are honest disagreements within the profession on whether preneed provides these and other benefits to funeral directors. And I think the growing debate about just how to do preneed right is a very good thing indeed. Too few funeral-home owners have truly taken stock of their preneed operation — and at most firms nationwide, there are plenty of tweaks to consider and improvements to made. Here are 3 key questions to help shape that sort of assessment at your funeral home.

Key Question No. 1: Should funeral homes guarantee price on all - or any - contracts?

Shortfalls have been a concern among funeral directors throughout my decade-and-a-half of covering the business ... but the complaints are louder and more widespread today than ever. Many funeral-home owners report that a large share of their preneed-funded calls — often 25% to 50% of their total at-need volume nowadays — yield $250 to $500 less than what they would receive had the same services and merchandise been selected and paid for on an at-need basis. There's little mystery as to why this is happening: Funeral homes' operating and wholesale casket costs are rising faster than the overall rate of inflation — and faster than the growth rate that most insurance companies can deliver, given today's low interest rates and the need to keep preneed investment portfolios relatively conservative. Of course, when funeral-home owners talk about how much of a shortfall they've sustained on a preneed contract, they rarely factor in the insurance commission. In fairness, that front-end check has to be considered when determining how a preneed contract has *really* performed.

When Forethought first started signing up funeral homes more than 20 years ago, the former Hillenbrand Industries subsidiary famously demanded that firms guarantee price. Last year, the CEO of another leading preneed payer told me that when he attends conferences for life-insurance company executives, many of them simply can't believe most funeral homes offer families a locked-in price — especially given that preneed insurers will not back up that guarantee with assurances that a contract's ultimate payout will keep up with a provider's rising costs and prices. To be less polite about it, insurers who don't offer preneed can't believe that funeral directors are such gullible, compliant and profit-sacrificing partners in their relationships with preneed carriers. To be fair, some master trusts aren't exactly setting the world on fire with their growth rates, either ... but for most funeral homes, it's the insurance-funded part of the preneed inventory that generates the most shortfall concerns.

A growing number of funeral-home owners and business advisors advocate ending guarantees altogether. Dan Isard of the Foresight Companies, Phoenix, made that case in a recent FuneralWire column. Some advocate a case-by-case approach: Offer guarantees to older preneed customers and those spending down prior to a nursing-home stay, but not on contracts for younger folks. Those policies, after all, stand a greater chance of staying on the books for 10 years or longer, increasing the likelihood of a shortfall. Where there's no guarantee and a policy comes up short, the family either pays extra when their loved one dies or selects less expensive merchandise or services (assuming that the contract clearly allows for that). And at many firms, if there's a surplus on a non-guaranteed contract, the extra funds get refunded to the family.

But thousands of funeral-home owners steadfastly cling to guarantees. Many simply believe it's the right thing to do. Some can't imagine why any consumer would prepay for a funeral without knowing that all the services and merchandise requested will be paid for at the time of need. But I haven't found much evidence to support that fear during my 15 years in funeral-service journalism. I've interviewed dozens — maybe hundreds — of owners who've stopped offering guarantees, and I can't think of a single instance where they saw their preneed sales drop ... or had a significant number of preneed prospects tell them, "If you're not going to lock in the price, I'm not going to prepay."

Key Question No. 2: Does preneed really preserve funeral value?

This has been one of the most intriguing debates that has emerged in recent years within the profession, one that FuneralWire has covered heavily. Alan Creedy, president of Trust 100, the Raleigh, N.C.-based third-party marketer, has made a strong case that preneed delivers strong bottom-line benefits to funeral homes that will more than offset any shortfalls that might arise in the decades to come. The argument goes like this: The cremation rate is rising at about 1 percentage point nationwide each year. Moreover, younger adults are more likely than older Americans to choose cremation, as consumer surveys have consistently shown. **Upshot:** If a 70-year-old woman prepays for her funeral today and dies in 10 years, she is more likely to be remembered with a visitation, funeral and committal service than if all the decisions were left up to her adult children, to be made and paid for on an at-need basis. In other words, her sons and/or daughters will be more likely to choose cremation ... and perhaps even a direct cremation.

Reminder: Families who choose cremation continue to spend about 60% less per call than those who select burial, one of the key drivers in funeral homes' continuing profit woes. So, Creedy argues, by locking in more future calls today on a preneed basis, funeral homes can keep a larger percentage of their future case mix from shifting to cremation, thus preserving future funeral value — and profit.

Others in the profession aren't so sure. William "BT" Hathaway, VP and general manager of Hathaway Family Funeral Homes, Fall River, Mass., made that case in a recent FuneralWire column. A key issue, he contends, is that many of the preneed contracts put on the books today will be for cremation — and not only will those average significantly less revenue-per-call than burial contracts, but many of them will also sustain shortfalls as preneed policy growth rates continue to lag behind funeral homes' rising costs and prices. Essentially, you're looking at a one-two punch that Hathaway has termed the "Cre-Need Squeeze": that 60% gap between cremation and burial revenue-per-call, plus preneed shortfalls that he believes could average $1,300 per contract a decade from now.

There are others who question Creedy's notion that an elderly preneed customer will *really* choose a more expensive lineup of service and merchandise than his or her survivors would select at the time of need. Calvin Toler of Matthews International has made a strong argument for this, which I layed out in FuneralWire column last month. **Think about it:** Many elderly people are accustomed to making do on a fixed income. They're frugal in many aspects of their day-to-day life. Many mistakenly believe that if a funeral were held for them, nobody would come — so why not just opt for direct cremation? When those folks prearrange, Toler contends, they aren't thinking about the survivors' need to say goodbye. On top of that, preneed customers from the World War II generation are more modest and less self-centered than younger Americans — and therefore, more inclined to tell family members: "Don't make a big fuss over me when I die." In short, the argument goes, many adult children will select a richer mix of services and merchandise at the time of need than their humble, penny-pinching parents would ever choose on a pre-need basis.

Obviously, there's a risk here of treating preneed consumers and their families monolithically. In some cases, Creedy's probably right: The adult children are more likely to choose cremation. For other families, maybe not. I've interviewed many preneed sales managers who give strong support to Toler's opposing argument. Some of these firms require preneed consumers to bring in a spouse or adult child immediately after they've signed a contract, just to make sure a close family member knows about the prearrangement and the fine details of what has been requested and paid for. In many cases where an elderly person has selected direct cremation, the adult child protests, telling the mother or father, "I could never face my friends if we didn't hold any services for you." **Result:** At the son or daughter's behest, the preneed contract gets upgraded to include a funeral, visitation and/or memorial service — often to the tune of thousands of dollars.

One key improvement to consider: Resist the urge to make prearrangements *too* detailed. Creedy believes that many funeral directors look askance at a preneed contract if it is not at least as thorough and prescriptive as an at-need arrangment. But that's just nuts. Certainly, the preneed consumer should stipulate the form of disposition — and probably also the kind of casket and sorts of services desired. But why not leave the choice of burial clothing, music and other key decisions to the survivors, so that they can play a more active role at the time of death? Moreover, preneed contracts should allow for the addition of any services not paid for by the consumer. In most cases, the policyholder will be OK with that, reasoning: "If my kids want to do more for me and are willing to pay for it, more power to 'em."

Key Question No. 3: Will active preneed sales help your firm boost market share?

That has been one of the key selling points as insurance companies have encouraged funeral homes to shift away from a walk-in only program and toward a robust regimen of preneed marketing & sales. But as reported in a FuneralWire column last October, Curt Rostad believes that fewer than 10% of funeral homes have really built volume through preneed. Rostad is a longtime business advisor to the profession and current executive director of the Indiana Funeral Directors Association, which manages a $39 million master trust. Even so, he believes that most funeral homes that have hired sales reps and sunk money into mailings & advertising have written the bulk of their preneed business with folks that the funeral home would have served anyway. **Bottom line:** If that preneed policy delivers a shortfall, the funeral home is looking at hundreds of dollars of lost profit compared with what would have been reaped had the arrangements been made (and the bill paid) on an at-need basis.

I'm not sure I buy Rostad's 10% figure — it seems a tad low to me — but I do believe funeral homes that have meaningfully boosted market share through preneed are in the minority. Having said that, I have interviewed many owners and sales managers at firms that have seen their market share grow by leaps and bounds after many years of actively and consistently selling and marketing preneed. One Louisiana funeral-home owner reported that after 10 years of stepping up his preneed program, he grew his firm's piece of the market from one-third to two-thirds; he firmly believes that his sustained advance sales program shifted that volume away from his sole competitor. Another Tennessee funeral home crossed the 250 call/year mark just 4 years after opening its doors, in part due to an especially creative and aggressive preneed sales effort.

But in that case — and at many other firms that have sent their market share soaring — an active preneed program has been only part of the story. Generally, those funeral homes have also made plenty of other smart moves, such as building tighter relationship with local churches, senior groups and hospice providers ... investing heavily in smart (and sometimes edgy) advertising ... expanding their services through new reception centers, video tributes, concierge offerings and more ... building a facility that is more attractive, family-friendly and strategically located than competing locations ... and installing an on-premises retort and postioning the firm as the market's cremation provider of choice. In short, it's hard to sift out how much of the frims' market-share growth has been due to those sorts of efforts vs. their preneed programs.

As with the 2 previously mentioned preneed debates — and 3 more that I'll discuss with OGR members this afternoon — I think the market-share question is one that more funeral-home owners need to ask, with a focus on how to ensure preneed is doing more than just locking in families that would have used the firm anyway.

Dan Isard has long urged funeral homes to post maps of their total market area in a back room —

perhaps one for 2007, 2006 and 2005 — and place push pins on the home addresses for each loved one served in a given year. I would also mark those maps with the addresses of every preneed consumer who signs a contract during the course of a year — perhaps using white pins for at-need calls and red pins for preneed contracts. Of course, there are plenty of software options available nowadays that allow you to map those addresses with virtual pushpins on a computer screen. But I think those hard-copy maps remain a more compelling tracking tool — especially if you post them in private area that employees will pass by every day on their way to the prep room or staff lounge. With 3 years of maps on the wall, you should see clearly whether your preneed efforts are reaching into areas that are not currently yielding much at-need business — for example, recently built subdivisions in your market. If not, it might be time to focus more heavily on those neighborhoods in future marketing campaigns.

Beyond that, think about what you might need to do to serve folks who live close to your funeral home but have never used your firm. Closely track families that select competing firms and, to the extent possible, enter their names, addresses, phone numbers and dates of death into a database. Wait a suitable amount of time after the funeral — at least a year — and then, make them a focus of marketing campaigns. If you have a growing Latino population in your area, hire a Spanish-speaking funeral director or preneed sales rep to reach out to that community. Many funeral homes have had a great deal of success tapping veterans to sell preneed to community members who’ve served in the military.

While I agree with Rostad that many preneed customers would have ended up at the policy-writing funeral home anyway, it’s increasingly dangerous to assume that a family that has used your firm in the past will call on you in the future. Funeral-home loyalty continues to decline every year — and many of your neighbors will ultimately choose the first firm to make a compelling preneed pitch at a time when they’re ready to hear it. Many independent funeral homes are getting smarter and more strategic about their preneed efforts. In the decades ahead, they will be more likely to target families that have called on your firm in the past, They know that’s largely where the market-share gains will come from — the kind that help make a stronger case for an active preneed program.

That’s why the strongest funeral-home preneed programs focus on BOTH retaining previously served families and growing market share. Many smart firms have decided to devote a different sales rep to each one of those efforts. One preneed rep handles only family follow-ups and might have more of a nurturing, caregiving approach; the other works leads from advertising, direct mail and other preneed marketing campaigns — and should probably be a bit more of a go-getting prospector.

Another thought: I’ve consistently found that funeral homes are much more likely to succeed at preneed if they shun the hard sale and focus less on quotas and commissions. Instead, the empasis should be on preneed as a community service. At most leading-edge firms, sales reps are true believers in preneed as a way to offer peace of mind and help families avoid difficult choices and financial duress when a death occurs. They receive plenty of initial and follow-up training to reinforce the benefits of preneed and make every part of the sales process more consultative and consumer-friendly.

However these key debates sort out, at least one thing is certain: If the profession doesn’t work harder to make preneed more of a win-win for both consumers AND funeral homes, the problems — from shortfalls to fraud scandals — will only get worse ... consumers will become more inclined to seek alternatives to established funeral providers and payers ... and everybody will lose.

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