

IS THIS NUTS?


Curtis D. Rostad

**A 40-year
veteran funeral
director says,
“Dump
preneed!”
and focus your
efforts on
funeral service
again**

here's nothing like an economy in crisis and another year of scandals to prompt a fresh look at the financial state of our profession in general and preneed in particular.

Thirty years ago, preneed was promoted as the future of funeral service. We were told it was what the public wanted. Get on board or be left behind. Preserve your market share. If you don't sell your community, your competitor will, and you will be left with no business and no future.

But it wasn't all scare tactics. It was also the promise of a new source of revenue and future guaranteed business that hooked us. Sell a funeral today and get paid a commission while deferring all of the real work for later. It was going to be like getting paid twice. You'd be putting more money in the bank today, guaranteeing more business for tomorrow, and your future would be secure.



Insurance companies saw a brand-new market. New companies were created just to sell preneed insurance. Promises were made. Casket prices were frozen. The array of trips to be awarded, prizes to win and, most of all, commissions to be earned took all of the focus off of funerals. Given a choice between getting a license to embalm the dead or a license to sell preneed to the living, only those truly dedicated to serving grieving families saw it as a trick question. Preneed was where it was at.

And funeral service got on board. Funeral directors got insurance licenses. They signed on for marketing programs, hired sales staff and changed the focus of their advertising. And now, as evidence of how successful all this effort was, fully one-fourth of the funerals conducted in this country last year were prearranged.

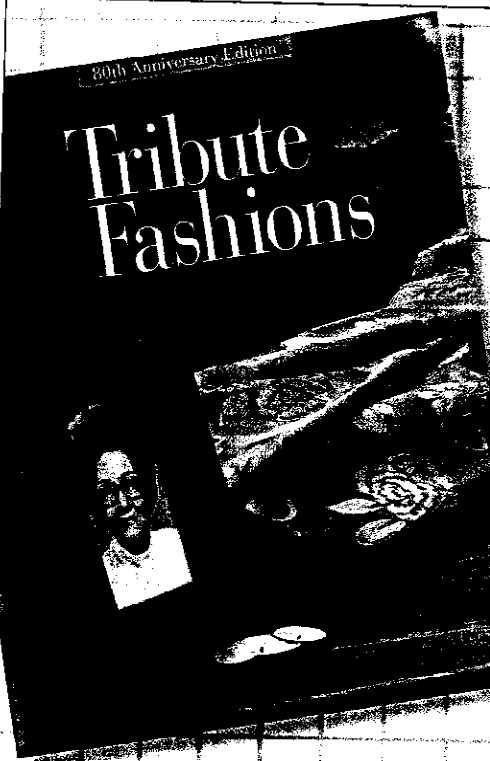
But someone must not have been doing the math right. They promised investments that would keep up with inflation. There was supposed to be enough money to cover the at-need funeral cost, with money left over to either refund to the family to build more goodwill or retain as additional profit by the funeral home.

But now it's 2009. While we have always seen some preneed contracts that have not kept up with funeral prices, the occa-

sional shortages have become larger and more numerous as the economy has soured. When only a few prearranged funerals were conducted each year, the shortages were just an aggravation. Now they are significant. When half of all services are prearranged, they could be catastrophic. And when fully 100% of the services conducted have been prearranged, who will be left to pass the shortages onto?

And what about that promised increase in market share? While there certainly have been shifts in market share, there is little proof that they are due to preneed. Maybe that's because preneed does not drive at-need. It's the other way around. A firm providing excellent funeral service might entice others to entrust them with their preneed business as well. But a firm doing a poor job of satisfying families at-need does not reverse a falling market share simply by more heavily promoting its preneed program.

Besides, people will naturally and logically prearrange with the firm they would have chosen at-need anyway. So why would we expect a huge shift in market share just because people are given the opportunity to plan now rather than later? If a family has always used firm "A" and doesn't know much about firm "B," doesn't live close to firm "B," thinks firm "B" is too high priced or simply does not like firm "B," do you really



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think they can be persuaded to prearrange with firm "B" simply because they were mailed a brochure or got a telemarketing call?

Certainly there are new people in the community and others who have no funeral home choice. A preneed contract forces them to make the choice before a death in the family does. But again, just because they were solicited by a funeral home to prearrange does not mean they will do so without the consideration of location, price and what they already know about the firms serving the community.

So we are left with this realization. First we spent thousands on advertising, marketing and promoting our preneed program. Then we paid for salespeople to write the contracts, in many cases paying them with the commissions we received. (So much for the additional income commissions were supposed to represent.) Then, when the person died, we absorbed the shortfall.

Is this nuts? Why are we doing this?

If the consumer would have waited, we would have collected full price for the funeral with no "shortfall," and we would have saved advertising, marketing and employee costs. Is it just a coincidence that the decline in funeral home profits appears to coincide with the rise in preneed? Certainly we can't blame it all on cremation.

Some preneed companies now try to convince you that shortfalls are rare if you are doing preneed right. Amazingly, some suggest it's your fault - you've been raising your prices too much. Besides, you have to factor in the commission you took in the beginning. Add that to the death benefit, they say, and you come out ahead.

But no, you don't. You had to spend the commission on the sales staff and the marketing. You're caught on a treadmill, and the only advice you're getting is to keep the wheel turning. Keep running. Keep selling.

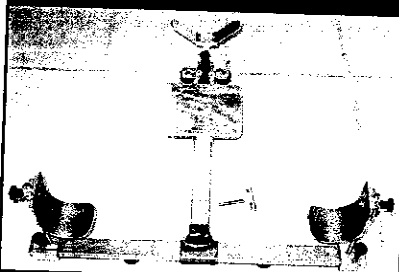
This is the advice coming from companies that take no risk and suffer no shortfalls. They have successfully shifted that to the funeral home and claim that the solution is to promote harder and sell more. But their logic falls very close to the old line, "Lose money on every deal but make up for it in volume." You simply can't come out ahead by selling more underfunded preneed contracts

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while still absorbing the costs to promote and sell it.

After years of encouraging funeral homes to guarantee their prices, now some insurance companies are suggesting that you not do that. That shifts the risk to the family. If the growth on the contract comes up short, the consumer makes up the difference, not the funeral home. Unfortunately, many consumers won't remember that part. They just remember signing a contract and believing they paid for their funeral. Trying to collect for a shortage leaves an upset family suspicious that you might have taken advantage of them. And besides, except for Medicaid spend-down, what reason would they have to prepay if nothing is guaranteed? What would lead them to believe that you are any better investor than they are?

And when an account does come up short, how do you explain to them that the investment you chose for them could not keep up with your own price increases? How does a funeral director sit in front of a family and tell them they owe more money to provide the type of

service they selected knowing full well that at least part of the shortage is due to the funeral home accepting a commission for selling the product that couldn't keep up? Besides, doesn't the very idea of a non-guaranteed preneed defeat the whole idea of preneed in the first place? Isn't the whole purpose of preneed to provide "peace of mind," knowing that everything has been taken care of? That's what the preneed companies have been teaching us to say. That's been the whole sales pitch.

Let's look at a real-life example. This funeral home has more people devoted to selling preneed than it does to serving at-need families - three full-time salespeople versus two licensed funeral directors. The owner admits that preneed shortfalls total just over \$40,000 a year. His business is growing but so is his community. So while his call volume is increasing, his market share against his lone competitor has not changed significantly. He has three people out there selling a product he will eventually lose money on, while two people are necessarily overcharging the at-need fami-

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lies to make up the difference. At the end of the year, the firm has spent more than \$200,000 to do the same number of services it would have done anyway.

If preneed is such a great concept, haven't you ever wondered why other industries have not copied it? Why doesn't your car dealer let you buy a 2015 model for the 2009 price? With a lot more car dealers in this country than funeral homes, shouldn't they be even more concerned about preserving their market share? Why can't you pay now

for your future dream vacation to lock in the price?

So what would happen if you simply did the radical but logical thing – step off the treadmill? Close the preneed department. Let your semi-retired salesmen retire for good. Allow people to preplan but accept funds only from those coming to you to spend down assets for Medicaid purposes. Deposit 100% of that money in trust. Leave it there and leave it alone. No current costs, no current income.

Preneed sales activity would drop off

overnight. But who cares? Who would get hurt? Not you. Not the consumer. Who else are you concerned about?

Then you could go back to being a full-time funeral director rather than a part-time salesman. Focus all of your efforts on funeral service again. Advertise that you are a funeral home, not a pre-need sales company. Put some money back into your building. Modernize the embalming room. Give your funeral directors a raise and send them out into the community not to sell but to serve. Make your firm an invaluable community asset. Go ahead, you've got some money now to do it. Let your competitor promote "Buy now, die later." Let's see which message the community more readily accepts.

I'm betting on you. *

Curtis Rostad, CFSP, has been in funeral service for almost 40 years and is a licensed funeral director and former funeral home owner. He presently serves as executive director of the Indiana Funeral Directors Association.

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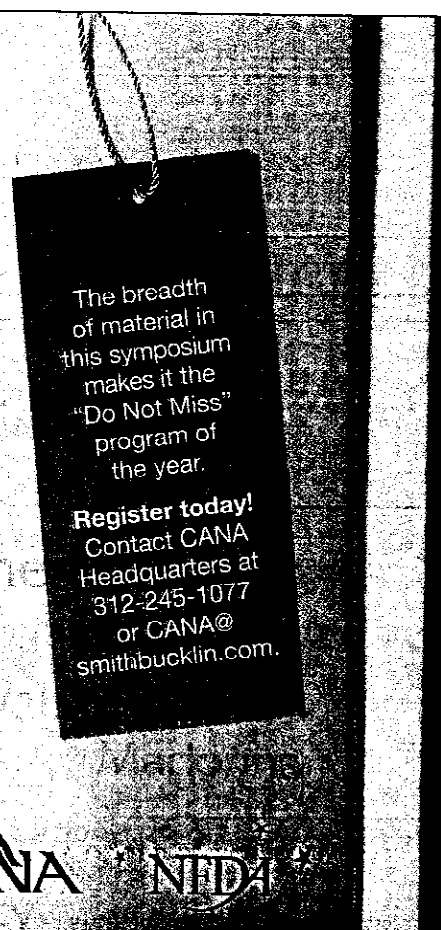
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