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## **Profit Management – A 21<sup>st</sup> Century Tool**

**By Robert L. Pierce**

The management of funeral home profits has evolved over the last twenty or so years to the point that one might say that it is no longer an art form. It is approaching being a science. You make the effort, you get the results. The tools and information that are available today are light years ahead of those that were available only a generation ago. The 21<sup>st</sup> century funeral home has the ability to increase its profits like never before in history.

A business' profit is its lifeblood. It directly impacts the funeral homes value, facilities, market share, business plan, debt pressure and the overall lifestyle of the owner. Most importantly, a funeral home that is managed for profit has the ability to improve, expand and make changes that simply are not there for its unmanaged counterpart.

This article is written to give you an understanding of the profit management process and to give you the basics of an effective profit management program so you can become a 21<sup>st</sup> Century funeral home and begin to reap the benefits from your business that you deserve.

### **The Current State of Profit Management**

Before I get into my discussion, let me tell you a little about myself. I have been a Certified Public Accountant, a Chief Financial Officer, a partner in Thomas-Pierce & Company and a profit management specialist. I have been student of funeral home profitability on a full time basis since the mid 1980's. It is my passion.

It is with this backdrop that I will relate a recent conversation. In response to a direct question, I answered that 95% to 99% of independent funeral homes do not manage their profits

effectively. While my quote caused me to lose some sleep, I have asked other providers to the funeral industry if my experience mirrored theirs. To the person, there was agreement that the industry does not manage its profits effectively and that individual funeral homes almost universally suffer as a result of their failure to manage their profits.

During my more than 30 year career in the funeral industry, I have critically analyzed thousands of funeral homes. I can only come up with a handful that managed their businesses effectively. This in itself represents an amazing opportunity for an industry that needs an amazing opportunity.

### **The Evolution of Profit Management**

During the 1980's and 1990's, there was no template for funeral home management. Both publicly owned and independently owned funeral businesses were struggling to find methods to manage their long-term profits. It is only within the last several years that effective profit management methods are being developed and put into practice but that has occurred for the most part within the public companies.

Independent funeral home owners are lagging and they are paying a big price. A funeral home that does not manage its profits effectively has only one means to increase their profit and that is to raise prices and we all know that is not the long-term answer to increased profitability for the funeral industry.

### **The Impact of Profit Management**

Let's look at my experience with today's funeral homes. To begin the process, I will explore the results of firms that have implemented profit management programs. These results are limited to clients of our Company since they are the only results to which we have access. To do this, I have calculated a rote composite revenue average of our funeral home clients as follows:

	<u>Year One</u>	<u>Today</u>	<u>Increase</u>	<u>Percent</u>
Burials:	\$6,833	\$8,566	\$1,733	25.35%
Cremations	2,473	3,479	1,006	40.69%

Our client firms tend to be larger, locally prevalent funeral homes with focused and motivated management. The firms represent a reasonable cross section of the eastern part of the US. The average results do not necessarily represent the results of the individual funeral homes in the group but the lowest increase in at-need burial average was \$943 to give you a perspective.

We occasionally get the opportunity to tour non-client independent funeral homes. It is my experience that funeral homes that only do a portion of a comprehensive profit management program get very little in the way of results. I have toured several funeral homes that have spent considerable time and money on what might appear to be excellent merchandising and pricing programs and did not get the kinds of results that they deserved for their efforts. It is not enough to brush the edges of a profit management program.

### **Profit Management Program**

The implementation of a profit management program does not require superior talent or an MBA. It only requires the ability to communicate effectively and the desire to be profitable. I will take some time to take you through the basics of a profit management program.

A written business plan is a prerequisite to becoming an objective driven Company. It is a singularly important element of business management. In order to develop a successful business plan, one must assess and understand the strengths, weaknesses and opportunities inherent in the existing business. You have to understand who you are and how you fit and then you have to decide where you ultimately want to be. This makes a strategic plan highly dependent on the goals of the owner.

The planning process has three very distinct steps. The first step is to define the vision, aspirations and objectives of the owner. The next involves building the strategic vision into a longer-term strategic business plan; more concrete, more priority sensitive, and more specific. And the final step in the planning process is to build a manageable business plan for the budget year based on incremental accomplishment of the long-term strategic plan. The current year plan is specific, immediate, and focuses on the practical incremental accomplishment of the strategic business plan. It must be specific, communicable, capable of being accomplished, and capable of being converted to a budget. It establishes the short-term objectives of the Company.

The importance of the planning process cannot be overemphasized. It is the foundation of a focused employee team. A company without a business plan in place will wander aimlessly.

### **The Budget – a Means of Holding the Company Accountable**

The budget process is a simple matter of converting the business plan into dollars and cents and then presenting the Company's monthly Profit and Loss Statement versus the Company's budget. The budget becomes the baseline by which one measures the success of the implementation of the business plan. The Company's monthly Profit and Loss Statement becomes, in effect, a scorecard by which one monitors, reinforces and modifies the business plan and its implementation. It is a primary measure by which the organization is held accountable for its results.

It is a common misunderstanding that the budget is used to reduce costs. On the contrary, the budget is often used as a tool to manage the impact of a specific budgeted increase in costs. The budget does not make an independent funeral home "more like SCI." It simply makes the funeral home more profitable.

### **Reporting**

Management by the seat of one's pants is ineffective and will, over time, cause the employer-employee relationship to erode. Management needs a scorecard to be effective. Management needs to know who is producing and who is not and, where the business plan is on track and where it is not.

An effective actionable reporting system is the cornerstone of profit management. Without it, the manager lacks the tools to be consistent and responsive to the needs of the business and its employees.

## Pricing and Merchandising

Pricing and merchandising is a critical aspect of profit management. In most circumstances, it will account for much of the additional profit that is generated by a profit management program. It requires the following to be responsive to the needs of the Company and its customer families:

**General Price List** – The General Price List has to be clear, concise and focused on both family choice and company profits. The GPL is, in effect, a road map for the over-all merchandising program.

**Showroom** – The showroom has to be equally responsive to the needs of the funeral home's client families and the revenue needs of the funeral home. It should virtually eliminate the need for the funeral planner to be a salesman.

**Reporting** - Determine and develop the reports that are needed by management to monitor the effectiveness of the pricing, merchandising and training programs. Make sure that the reports are actionable and are universally understood.

**Communication** – Hold regular meetings of funeral planners to establish and reinforce objectives, assess their continuing development, provide consistent and structured feedback, and to provide regular training.

**Service Level** - Continue to define and redefine the definition of service level and its practical delivery including post-service programs. Highly visible service is an important part of a profit management program.

## A Practical Example

People do not consider service delivery as part of a profit management program. Some of the greatest successes have come as a result of a funeral home redefining itself and its service delivery. My Example Funeral Home experienced a 64% increase in its burial average. The

increase was done with very limited price increases. And, it did this over the same period of time that it experienced a 30% increase in calls. A transformation like this is not easy. It involves just that, a transformation, but it starts with a renewed focus on the needs of the family, merchandising, the funeral planning process, and a serious focus on visible service level. A transformation like this will never happen by accident.

## **Summation**

The funeral industry suffers from the continued erosion of profits as cremations continue to increase. Profit management is a serious tool. It is a means to improve cash flow, take the pressure off of price increases, keep employees happy and focused, assure that funds are there to maintain a high level of service, and to exercise control over the direction and long-term profits of the company.

Profit management is simple and intuitive. It does not require an MBA or formal training. It is a simple common sense approach that has spectacular results. And, the clincher is that you are doing most of it now. All you lack are a plan and a few simple tools and you are off and running to a more profitable future.

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