

Why Cemeteries Need Preneed But It's Not Really Preneed

The Lone Ranger had the Clanton Gang as their nemesis and funeral

homes have cemeteries. I know the rest of the world thinks you guys are united under the umbrella proclaimed “The Deathcare Industry.” That phrase cracks me up. Anyone that thinks that funeral directors and cemeterians like each other makes me laugh as well. Preneed is one more way that the two industries are separate.

Cemeteries are not like funeral homes. Funeral homes are, by and large, willing to sit back and let advance sales come in their doors. Funeral homes work to pass laws so that they do not get revenue from preneed until the time of death. Cemeteries, for the most part, are advance selling machines and pass laws to generate as much income today as possible.

Keep in mind there are really three types of cemeteries:

1. Not for profit controlled by a benevolent operating company such as Benevolent Order of Oddfellows or some other historical society
2. A cemetery owned by a funeral home who operates it with the same business principals as a funeral home.
3. A for profit stand alone cemetery, which for tax role purposes might be non-profit but their objective is to be profitable.

Types 1 and 2 are often not profitable in a cash flow sense and do not work to enhance advance sales. The third group is profit driven.

Stewart Enterprises is a company whose DNA is cemetery. Stewart owns and manages some of the most prestigious and magnificent interment properties in North America. Stewart is also a preneed driven company. This, in my opinion, goes back to their cemetery DNA. Stewart has for a long time, owned funeral homes. During their largest growth period they bought many funeral homes that were independent of cemeteries they owned. They also bought many more cemeteries, and often the two could be coupled for a joint marketing effort. Many of their funeral homes have the same mentality as do their cemeteries with advance sales for the most part. I am not picking on

Stewart. I am asking that if you want to have a preneed mentality you use them as a Mentor in this regard.

After the fall of the public company share prices, Stewart was the first to level out, in my opinion. They leveled out because their preneed inventory was able to protect market share in their funeral homes and cemeteries. In fact, I think that one helped out the other. Many investment analysis look at retail businesses using the phrase, "Same Store Sales," or S3. S3 basically looks at companies that existed the previous year and have grown to multiple locations this year, and then compares the sales or revenue of the total stores last year to the total stores this year. During the collapse of the publicly traded death care companies share prices, analysts were suddenly using this method of evaluating these funeral homes and cemeteries. Many quickly realized that Stewart's S3 was better and quicker than any of the other peer companies. I think that the preneed initiative they put in place in the mid 1990s secured their market share for the early part of the 2000s and that was making their S3 look better than their competitors.

Why do I discuss this now? Because we don't know when the next fall of the stock market is going to be for funeral stocks. We don't know if your business is going to face new competition. We don't know what the future will bring. What we do know is, preneeds written today come to require servicing 7.5 to 10 year into the future. So, tell me when you want to have an increase in your own S3, and write preneeds in a proactive fashion 7.5 to 10 years before that point. The result is the same for funeral homes and cemeteries.

I have done consulting for some cemeteries with ownership groups in the first category but they are really focused on advance sales. These are the exception. It is beautiful to see. Their non-profit organization, whether it be a benevolent organization or a church, have more cash flow than any other superior organization of their type. That is because they are operating the cemetery to do what it can do, which is sell.

For non-cemeterians, understand what the cemetery sales objectives are:

- ◇ Interment right
- ◇ Service fee to Open and Close the Interment right
- ◇ Merchandise sold as part of the Interment

The accounting for this is a bit complex. The cemetery will recognize the income for the interment right when it is sold. They have that money at their disposal regardless of whether it is paid lump sum or via installments. The service fee and the merchandise sold are usually required under state law to be some part as current income and some part as trusted until the service is performed and/or the merchandise is delivered. From an advance sale standpoint, this gives the cemetery several points of income today from which to provide payment to a sales organization.

Cemeteries have at need sales, just as do funeral homes, but their greatest sales incentive is the advance sale scenario. Visualize this scenario where Dad dies. Mom pays for the interment right and the opening and closing and marker all at need. Mom doesn't secure the adjoining grave. She figures, "Who is going to want to be buried next to Dad?" Well, one day she goes to the grave of her husband and finds someone buried there. She is upset. That was going to be her space except, as she recalls, she never acted upon the purchase. The kids are also upset as they see the graves all around Dad are sold. There is room in the same garden but not adjacent graves to Dad.

In my experience, I know that Mom went to the office and complained about selling this grave adjacent to Dad to someone else. The office staff felt compassion but asked her if she got the four letters a year for each year since Dad died? She says she did, but that was going to be her grave. I have seen funeral homes that own a cemetery. They would usually hold that grave without payment. Cemeterians don't think that way. I have even seen funeral home owned cemeteries sell that grave to Mom for the same price Dad paid 13 years earlier! Come on, this is not any way to run a cemetery.

In most cemeteries there is a business plan for sales. It is a ratio of advance sales to at need sales. Notice I didn't say preneed sales to at need sales. I don't think that cemeteries have preneed in the same way a funeral home does. They have advance sales. Cemeteries sell interment rights and when it is sold the cemetery gets the right to the sale proceeds, whereas funeral homes do not get access to the deposit in advance. The cemetery doesn't care if you bury the intended party in that grave; you own it, just so their records are correct. Funeral homes would never think to let a family choose to transfer their preneed among family members. Nope, the preneed is for the titled party.

Cemeteries usually try to have a ratio of two advance sales for every one at need sale. Where funeral homes think that receivables are a problem (and it is); cemetery advance sales receivables are not a problem. The property is not deeded until it is paid for in full. If a cemetery family defaults on a cemetery receivable the family loses their contributions to date and the property is put back into inventory. There is no loss to the cemetery company.

A cemetery has a sales cycle which has a limited life. When first opened, sales are offered, but no one wants to be the first to buy in a new cemetery. This is the, "give it away stage." Your pricing is going to be low, and you are looking to make every bargain sale you can. You might even sell multiple graves to church groups to get property sold.

As the cemetery gets more acceptance the sales increase to a level I will refer to as the nominal normal amount. This is a time when pricing and quantity sales are increasing. The nominal normal phase will continue until the cemetery's initially developed area is at about half sold.

Once that first half is sold, now it becomes the gold rush sales, as this is a time that people think the cemetery is running out of ground and they want to buy. This is when pricing is up and quantities are at their highest.

How a cemetery approaches the story of the new development is critical for sales. This is a time when the pricing could tell the story in a subtle fashion. If an interment right in a garden that is 60 percent sold sells for \$2,000; the same interment right in a newly developed garden could be about \$1,500. This makes the developed older garden seem like a bargain.

Cemeteries must reach this 2:1 advance sales/at need sales ratio so they put a premium on all aspects of their ability to market. Finding leads is tough for a cemeterian. They will use more aggressive methods than most funeral homes are willing to employ. However, they make sales. In fact the average age of a cemetery lot purchaser is often eight to 10 years younger than a funeral service purchaser.

The Wirthlin Report, *A Study of American Attitudes of Death and Dying* is a survey that tracks the attitudes of Americans with questions dealing with issues about preneed. In one question that asks if it is wise to have cemetery arrangements about 80 percent of the respondents felt it was. When asked

the same question about funeral prearrangements only about 30 percent felt it was a wise decision. So, you can see almost 3:1 Americans are more motivated to purchase cemetery arrangements than they are from the funeral home. How they expect to get to the cemetery without a funeral home involved is beyond me, but introducing logic in an argument is not the purpose of this book.

So, cemeteries need preneed. They are soliciting the same people as the funeral home. They are selling something much more tangible than the funeral home. The cemetery selling advance matters is needing to make these sales except they are paid today for the sale and do not have to wait until death for the bulk of their payment.

The following is an excerpt from The Complete Preneed Perspective, written by Dan Isard and published and distributed by The Foresight Companies, LLC. For more information, or to purchase a copy, please contact Anita Agnerian at 800.426.0165, or Anitaa@f4sight.com. Any questions or comments for the author or requests to reproduce the contents for corporate, personal or educational use should be directed to The Foresight Companies, LLC which is located at 6520 North 7th Street, Suite 200, Phoenix, AZ 85014 or via email at DanIsard@f4sight.com.