

Why Combo's Are King

By Daniel M. Isard

In the world of death care marketing there are entities that are in a good position, some in a better position and some that are supremely positioned. Combination operators are the later. A combination or “combo” is a funeral home and cemetery business, located at one site. I have had the opportunity to witness funeral and cemetery businesses in all 50 US States and throughout North America and even Great Britain. In every market I have witnessed, the combination operator is the king of the market.

Now, not all combo's are good businesses. Some are being barely worked or they are a cemetery with no one working the funeral home effectively. When a single operator is managing at-need and preneed funeral operations as well as at-need and preneed cemetery sales, with a mentality as an operator, then the business is the king of the market.

But the question must be asked, why are combo's king? They are king because customers see the two businesses as one. This premise is amusing to anyone that has been in this business for a while. The two businesses are totally different.

Funeral		Cemetery
Service	<i>Business Mentality</i>	Sales
At need		Preneed
Care Giver	<i>At need/preneed oriented</i>	Task Completing
In most states as a professional		In most states for a sales person
Sales of services and to a lesser degree products	<i>Employees Mentality</i>	Sales of products and to a lesser degree services
A mix of personal and goodwill	<i>Licensure</i>	Almost exclusively corporate goodwill
Typically yes, up to 15% of annual sales	<i>Source of revenue</i>	Typically none
Typically less then \$0.10 to \$1 of revenue	<i>Type of Entity Goodwill</i>	Typically about \$1 to \$1 of revenue
	<i>Unsecured receivables</i>	
	<i>Revenue from Advance Sales</i>	

But in the eye of the consumer they are the same!

Consumers like finding “one stop shopping” businesses. Remember when a gas station only sold gas? Now, they are convenience stores. Grocery Stores now have banking and meals. People like the fact that you can make one stop and accomplish two related tasks. The world of death is no different. People have long seen the “grave digger” and the “undertaker” as one person.

The reality is the funeral and cemetery businesses are different businesses. They require different managerial skills. They typically require a different mentality at the helm of each. As we have learned from some of the large operators, they may have one person managing the two different divisions (funeral and cemetery), but the cemetery people don't talk to the funeral and vice versa. Look back at Loewen in the 1990's, the mentality of the operations changed when Tim Hogenkamp (funeral director) was at the operating helm, versus Larry Miller (cemeterian). It is not that one is better than the other, they are different.

The results of operations for the funeral home are going to be strong, regardless of who is at the helm (cemeterians or funeral director). The results of the cemetery are going to differ however. I have seen many funeral homes where the FD owner buys a cemetery. In most cases the property is well maintained, but there are receivables from at-need services, budgeted cost increases, and overkill on maintenance. Where cemeterians run a funeral home, the staff might be somewhat demoralized, a push for preneed will be made and the fine points of service might be overlooked. This is obviously a broad statement, but it tends to represent my experience.

Allowing that the businesses themselves are different, why does the consumer see them as one? Because they can! When a burial takes place, you go from the funeral home to the cemetery. We know the FD and the cemetery staff talk because the gates are open and the grave is dug when the hearse arrives. The FD probably called the cemetery and got their opening/closing costs and added them to the funeral contract. The family saw a seamless transaction. When a funeral home and cemetery are actually on the same grounds, the family just assumes that the two can best work hand in hand.

The customer relationship with a combo is the best of both worlds. People keep going to the cemetery as long as there is family still in the area. People keep going to funeral homes that have served them in the past. Put the two together, and you have a solid framework for long term customer service and increasing market share.

There are some markets where there is more than one combo, and in those rare markets there are 2 kings. This is like the Saturday afternoon moviefest of 40 years ago where Gorgo would battle Godzilla. In these rare situations you have two behemoths, each slugging it out, marketing their businesses aggressively and proactively. While this "G vs. G" war is relatively rare, and often in larger markets, it is fascinating to observe. The issues of personal goodwill go out the window and the corporate name is everything. No one knows who owns the large cemeteries. There are no cemeteries that bear the name of the owners. Where 95% of the funeral home (or more) bear the name of the owner or former owner.

There have been many studies done to observe consumers attitudes about preneed. In one recurring survey we know that consumers consider it more important to have a cemetery prearrangement than a funeral prearrangement by about 3:1! I don't understand this. How do people think they are getting from the point of death to the cemetery

without a funeral director; taxicab? Thought processes like this is what makes a combo king!

In preneed sales, there are 3 costs that exist in a prearrangement;

1. Cost of the lead; which is the total cost of all marketing efforts divided by the number of leads generated
2. Cost of commission; which is the payment to the sales person
3. Indirect costs of overhead; which covers the costs of phone, office and support staff for the marketing people

Based upon the above studies, consumers would rather arrange for their burial space, then their funeral services. We know that burial sales are made to people that are often 10 to 20 years younger than funeral purchases. If people want to be buried near a loved one, they need to buy the space before someone else buys it.

If you are going to sell a burial space, the odds are overwhelming the consumer is buying the funeral as well. As such, they might be predisposed to buy the funeral from you. There are some cost savings to getting a funeral and cemetery package, if you price it right. Therefore, the cost of the lead is going to be amortized against a much larger sale.

Sales people are going to be better in a cemetery or a combo for several reasons. First of all, they are going to be professional sales people. In most funeral homes, the sales people may be by law or by happenstance a licensed funeral director. FD's are not good sales people by nature. FD's are not confrontational, where as a professional sales person is willing to confront. So you have a better prepared sales person, dealing with a tangible sale, and a larger amount from which to generate a commission. There is no reason to believe they are not going to be a better sales person, and by earning more there will be less turnover!

If the consumer thinks the two businesses are one, the advance selling opportunity is stronger. Is there any way for the independent funeral home to compete? Yes.

First of all, in several states the concept of combo ownership is restricted by law. This restriction can be like building a fence around yourself to keep others out. You are also keeping yourself within the fenced area. This isolationist mentality may not be productive long term.

Secondly, FD's can use their advantage, which is service. If they can deliver a funeral "service" that is better than the experience at a cemetery/combination, then the FD will do well, and maybe even thrive.

Thirdly, offer to build a funeral home on a cemetery's land. At the right price and cost for the structure this can be a very quick solution. The public doesn't have to know who owns what, but they like not having to start their car again after making one arrangement.

Lastly, join the club! Build a cemetery, and run it like a combo. To some FD's this is anathema to their being, but this is a time of shrinking profit margins for funeral homes, and cemeteries have solid profit margins when properly managed. This will only work in markets that have a low cost of land but in the right market, it will work.

So long live the king, unless you are competing with one!

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