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Get Financially Fit in the New Year

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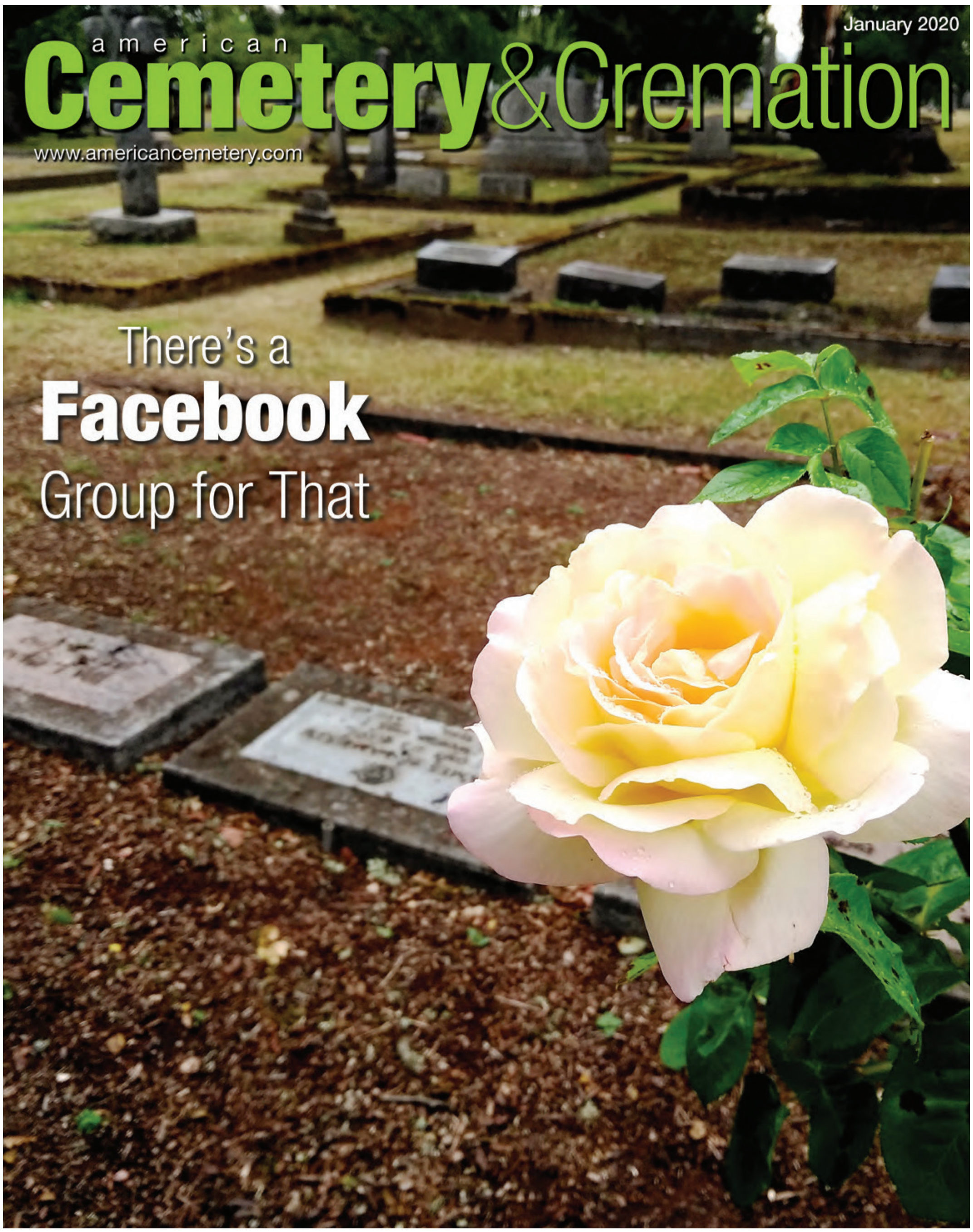

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Finance

By Todd D. Mannix

Get Financially Fit in the New Year

Do you ever wonder why all the gyms and fitness clubs run membership specials every January and February? It is because one of the most frequent New Year's resolutions is to get in good physical shape.

For those of you, not unlike myself, who have ever uttered the words, "This year, I'm really going to do it!"– you know what I'm referring to. Fitness clubs know this and "help" by offering low introductory membership rates or waive high initiation fees in order to assist you in making the commitment while you are inspired to get in shape. Most gyms and fitness clubs are subscription-based businesses and are banking on the second most frequent occurrence with New Year's resolutions: People give up on them.

If you go to the gym regularly, you will notice the gym getting busier every January and February. By March, however, you are able to have free rein over your gym schedule again as the number of people still committed to getting physically fit drops off significantly. While the failed "resolutioners" are no longer attending the gym on a regular basis, most do not cancel the membership and are paying for a gym they never enter. Why? Because they still want to follow through on that promise to themselves to get fit. Since they signed up for a special rate, if they canceled and later decided to go back, they would have to pay more to obtain re-entry. Fitness clubs depend on this, and it is the brilliance of their revenue model. Some gyms have upward of 50% or more subscription-paying members that never step foot in the gym. It's a great business model.

The beginning of the year is also a good time to explore a different type of well-being that is a little more motivating to some – your financial fitness. Hint: It's more motivating because it doesn't require you to do something as uncomfortable as going to the gym at 5 a.m. You can do this right from your desk without ever having to leave your house or even get dressed. Just be sure to put a piece of black tape over your computer's built-in camera because let's face it: If you're not going to the gym, even the hackers don't want to see that.

The new year for most (those whose fiscal year end matches the calendar year) provides a clean slate for examining our financial well-being. The tax year is over, and you can close your books for the previous year and begin anew with how you manage your finances this year. You can look at a full picture of the most recent 12 months of activity. Most financial accounting packages have a pre-built year-over-year comparison so you can see how you did the previous year vs. last year. This is a great time to take a hard look at your sales revenues as well as your expenses and see what changed from year to year over the past couple of years. You can even go back further by customizing the reports and see what the trends have been over the past several years.

Here are some things to consider while you examine your financial health:

1. Sales revenue: When considering sales revenue, there are a few key metrics to look at in order to better understand the impact on your income.

- **Year-over-year sales:** The first is how many sales you had last year and how did they compare to the previous year? Two years? Five years? You can measure this by customers, transactions, or simply by how much income was generated. If you examine all

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three, you will have a better understanding as to which is impacting your business the most. For additional insight, you could also break it down by month and see which periods of the year fared better than others.

• **Average cost per sale:** Another consideration when looking at sales revenues is the average cost per sale. In a market where there is increasing concern over the switch from full burial plots to niches and the impact that has had on your revenue, how is your cemetery doing in helping the families understand that the cemetery is not about body disposition but rather a way to celebrate the life of a loved one and help those left behind to cope with the loss by creating a comfortable resting place to be visited?

Is your cemetery helping the customer to understand the additional service and merchandise options you can offer to create a better and more meaningful experience for the family? Looking at the revenue per sale will help you understand what has happened at your cemetery, and help you identify trends to allow you to prepare for the future. You may not have all the answers right away, but knowing there is an issue (or even that things are going well) is great information to have so you can be considering these variables as you enter a fresh year of business.

• **Ancillary sales:** Still another way of looking at revenues is the ancillary or peripheral sales that you made last year and how much (as a percentage) those contributed to your overall revenue for the year. On a case-by-case basis, you may consider these to be small or insignificant.

However, if you are doing several hundred burials a year, these additional sales add up quickly. How well are you or your staff doing in helping families to understand opportunities to enhance or personalize the memorial experience at the cemetery? What was the impact on your revenue? Breaking down the number of sales for each of your items can give you an idea of how well you are doing in order to make the most of your opportunities while increasing the families' overall experience. This is especially true when you look at the gross profit margin of each item. The gross profit margin is simply the difference between what you sold something for, less what you paid for it (your profit margin), divided by what you sold it for. This will give you an idea of which items have a greater impact on your bottom line for each additional unit sold. For example, let's say that you sold annual flowers for \$25, but they only cost you \$5 to make. That equates to an 80% profit margin (\$25-\$5 = \$20 / \$25 = 80%) on flowers. By understanding your sales as they relate to your costs, you can identify the items that contribute the most to your bottom line and perhaps be creative in helping families to understand the benefits of those items so that your sales of those items increase.

2. Expenses: The next thing to examine for your new year's financial health is your costs. These can be broken down into the costs related to providing your goods and services and the costs required to run your business (like utilities, groundskeeping, commercial lease or mortgage, etc.). The latter category are things you would need to pay regardless of your sales.

• **Costs related to sales:** Most cemeteries have vendors they work with regularly. By looking at your previous year's purchases and understanding how much you buy in a year, you may be able to negotiate a better per item rate as you will be discussing the value of your business to that vendor in a greater sense than monthly or bimonthly repurchases.

Good vendors will already do this for you, but if you are not asking the questions and don't know your numbers, you need to remember they are in business to make money too, so if you don't keep them on their toes, they may be charging you more than the next person for the same product.

Knowing your annual purchases can also help you if you want to shop around for a different vendor. Explaining your purchases in an annual sense, if you make a lot of purchases, will cause a sales representative to salivate and work for your business because they understand that number and how it directly affects their commission.

• **Costs not related to sales:** Many of these costs are repeated or monthly costs and should be looked at annually to see if there is something that can be done to reduce these costs. Costs not related to sales can be the biggest drain on your profitability because you have to pay regardless of whether you made a sale. You could shop around for different utility vendors, for example. With deregulation in many states, there are often several vendors for things like electricity, propane, telephone, etc. In addition, shopping for internet vendors, website hosting companies, after hours call centers and other necessities can also help to bring your costs down.

It should be noted, however, that the low-cost provider may not always be the best choice when it comes to some of these services. Customer service levels should always be considered. For example, a surly after hours call center interaction could cost your business far more than what you could save by switching vendors, so take into account track record and references when looking to make a change. Another common way to reduce repetitive costs is to renegotiate loans or mortgages. With rates low these days, if you have not refinanced your mortgage, you could cut hundreds of dollars off your monthly expenditures.

These are just a few things to begin to look at to assess your company or personal financial health at the beginning of the year. Challenge yourself to increase the impact on some or all of these items so that when you do your year-over-year comparison next year, you are a few percentage points better than you were the year before. By following these few simple approaches to examining your financial health, maybe we will actually be able to afford that gym membership we never use. •

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