

Cooperative Funeral Fund Inc.

Financial Fitness: A New Year Provides a
Fresh Look

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Financial Fitness

[financial management for your business]



The New Year Provides a Fresh Look

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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 have free rein over your gym schedule again as the number of people still committed to getting physically fit drops off significantly. While those who failed at their resolution 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 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.

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 prebuilt year-over-year comparison so you can see how you did the previous year versus 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. You can even go back further by customizing the reports and see what the trends have been over the past several years.

Crunching the Numbers

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 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:** How is your funeral home doing in helping the families understand that the funeral is not about body disposition but rather a way to say goodbye and help those left behind to cope with the loss by creating a memorable experience? Is your funeral home helping the customers understand additional service and merchandise options you can offer to create a better and more meaningful experience?

Looking at the revenue per sale (even on your preneeds) will help you understand what has happened at your company 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 consider these variables as you start a fresh year of business.

- **Ancillary sales:** Still another way of looking at revenue 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 calls 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 funeral experience? What was the impact on your revenue?

How many times did you rent the hearse, the limo, space for viewing hours, video screens, digital photo books, prayer cards, etc.? 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 sell prayer cards for \$25 for 50 cards, but they only cost you \$5 to order. That equates to an 80% profit margin ($\$25 - \$5 = \$20 / \$25 = 80\%$) on prayer cards. By under-

standing 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, commercial lease or mortgage, etc.). The latter category is things you would need to pay regardless of your sales.

- **Costs related to sales:** Most funeral directors 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. 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, if you make a lot in an annual sense, 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 are

monthly costs) and should be looked at annually to see if there is something that can be done to reduce them. 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 costs down. It should be noted, however, that the low-cost provider may not always be the best choice. 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. Take into account track record and references when looking to make a change. Another common way to reduce repetitive costs is to renegotiate your commercial lease or to refinance your mortgage. With rates low, you could cut hundreds of dollars off your monthly expenditures.

These are just a few things to look at to assess your company or personal financial health at the beginning of the year. One or two of these could impact how well you are doing. 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. By following these few simple approaches to examining your financial health, we will actually be able to afford that gym membership we never use. •