

2010 Crematory Operations Survey

Listening to those who own and operate crematories, you would think that crematories are extremely profitable. Otherwise, why would crematory owners invest \$100,000+ in buildings and equipment?

Several years ago, we found some owners claiming 30% or even 40% profit from their crematory operations. The financial facts supported those claims, provided that you ignored the cost of personnel, facility, and automobile expenses. Many firms just absorb those essential costs in their funeral home operations. In other words, excess funeral home personnel and facilities combined to pay the sizable cost of running a crematory - co-dependent crematories.

We narrowed our focus to trade crematories which largely run as profit centers - not as a side-line.

It should be noted that trade crematories often offer removal and embalming services which add to their income. Some firms also earned revenue from minor retail operations. Considering the income from added services, we may not be comparing apples-to-apples, but they still provide the most meaningful comparison.

In the Crematory Operations Survey, we found the average cremation processing fee averaged \$313, finally breaking the \$300 fee barrier.

With all services included, the income per event totaled \$587. Cost of Sales representing associated merchandise averaged \$35 per event.

Personnel costs ran 49.1% of income

charges. Factoring in all utilities, the cost rose to \$52 per cremation.

Auto usage ran 4.6% or \$27 per event while Marketing costs averaged 3.9% or \$23 per event. Other Service Expenses included miscellaneous items at just \$8 per event. All firms in the survey filed as "cash basis" (taxed on money received, not on sales) reflecting no write-off for Bad Debts. Business Expenses averaged \$36 per event or 6.1% of income.

After considering income, cost of sales, and operating expenses, the survey firms reached an average Net Operating Profit of 9.1% or \$53 per event. However, please note the survey firms operated as Subchapter S Corporations where profit is taxed at the shareholder level.

With some minor Other Income (\$20 per event) and Other Expenses (\$302 per event related to interest payments on debt), the average net pre-tax profit for the survey firms reached 9.0% or \$53 per event. Based on our research, the 9% mark is similar to the profit generated by funeral businesses operating as S Corporations.

While a 9% profit target is a good starting point, the goal should be set higher. We found that increasing the income per event by 7.3%, resulted in a net pre-tax profit of 12.0% - certainly reachable and a 33.3% increase in profit!

In light of our findings and the rising challenge of cremation profit, the

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NCi-CREMATORY OPERATIONS SURVEY			
More Independent Crematories	2010 Average	%	Per Event
Cremations	1,265		
Total Sales	\$743,012	100.0	\$587
Cost of Sales	43,857	5.9	35
Gross Margin	699,155	94.1	553
Total Operating Exp.			
Personnel	364,594	49.1	288
Facilities	149,110	20.1	118
Auto	33,883	4.6	27
Marketing	29,256	3.9	23
Other Serv.Exp.	10,113	1.4	8
Bad Debts	0		
Business Exp.	45,142	6.1	36
TOE	632,098	85.1	500
Net Operating Profit	67,325	9.1	53
Other Income	20		
Other Expenses	302		
Net Pre-Tax Profit/Loss	\$67,043	9.0	\$53

or \$288 per event. Including owner's salaries, the average cost per employee totaled \$47,000 annually. The owner's salaries were reasonable.

Facilities were the next highest expense at 20.1% of income or \$118 per event. All survey members used natural gas for retort combustion, averaging \$40 per cremation in gas

New Accounting Service !

In addition to our consulting practice, we are pleased to offer funeral home accounting and tax planning services.



The new service is based on David Nixon's 32 years working with fu-

neral directors and his 17 years as an owner of a funeral home accounting service.

We partnered with Rob Cameron and his team of CPAs and accountants, offering several packages; from traditional funeral home accounting to web-based options based on QuickBooks®.

A CPA for 22 years, Rob is currently chairman of the Illinois CPA Society

and has been interviewed by Wallstreet Journal Radio and Crain's Chicago Business.

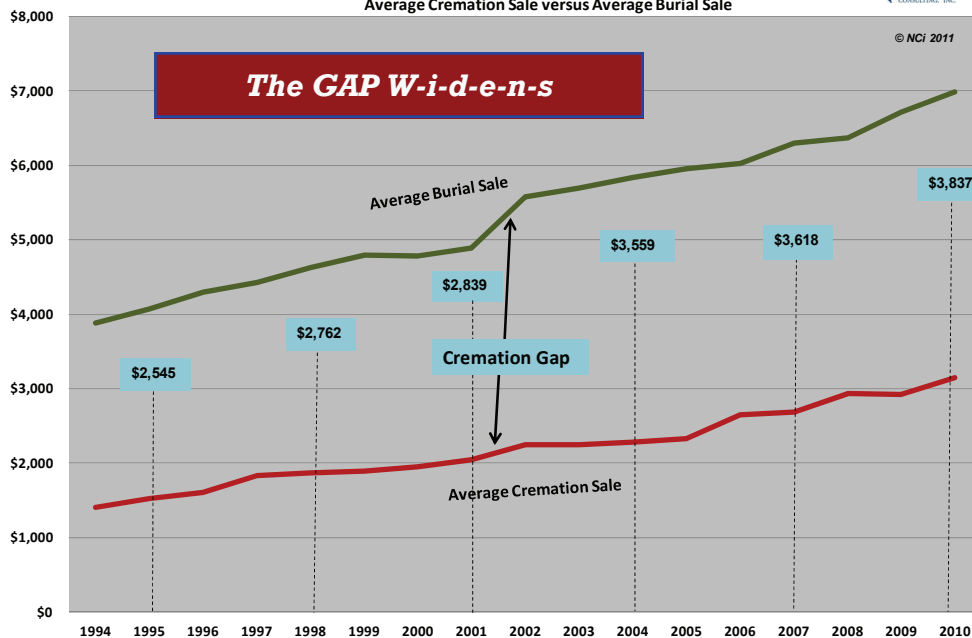
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2010 Cremation Gap

Average Cremation Sale versus Average Burial Sale



Our 17th annual *Listening to Cremation Study* revealed that members averaged \$3,144 for a cremation service and container.

The average burial sale for the group hit \$6,981. The 2010 Cremation Gap between burial and cremation revenue rose to \$3,837, the highest dollar difference in the 17 year study.

When you consider that the average cremation sale generates just 45% (\$3,144/\$6,981) of the income from a burial, it is easy to see the shortfall.

On the flip side, reaching just 45% of income really represents a 55% gap or loss of income.

Even as the death rate rises from Baby Boomers passing in greater numbers (not significantly till

2025), the increase in calls may be offset by lower per call sales due to the gap in cremation prices.

The keys to survival: well managed expenses, differentiating your cremation services from others, and pricing cremation services fairly—charging the same fees for the same services, burial or cremation.

Some might say the keys are complex but you can find simple solutions if you analyze your business and plan properly.

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question remains for crematory operators:

“Do you have the commercial courage to increase your fees to gain a more comfortable financial position?”

Beginning Crematory 101

In recent discussions with crematory owners, we heard:

- ▶ Total cost to install a retort and build a ‘garage’ style building on existing land —\$140,000-\$150,000
- ▶ Paid off debt service on crematory in three years (all gross operating income to debt, no allocation to general expenses)
- ▶ Watch zoning restrictions and beware of unhappy neighbors
- ▶ Crematory construction brings in more low-end cremation calls
- ▶ “A free-standing crematory could not make it” on its own, profit-wise

▶ **And Most Disturbing:**

Just 1% of funeral homes conduct formal crematory inspections annually

Upcoming Events

October 23-26, 2011: National Funeral Directors Association International Convention & Expo, Chicago, IL— Look for us in booth # 1453

October 2011: NFDA/CANA Convention, Chicago, IL— Co-presenter with Kevin Waterson and Tim Borden: “Economics & Advantages of Owning and Operating a Crematory”

November 3, 2011: St. Pete Beach, FL—Kates-Boytston’s Funeral Service Business Plan— Presenting the seminar: “Planning & Pricing in a Challenging Economy”

November 15, 2011: Casket & Funeral Supply Association of America, Knowledge Leaders Panel Discussion, Indianapolis, IN