

# The Life and Death Struggle for Survival in the Funeral Industry

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One would think that the funeral industry would be among the most stable. After all, people die in bad economies as well as good, and although funerals may be slightly less lavish when times are hard, it's not like there are many alternatives. It's doubtful that the internet will begin touting do-it-yourself embalming kits or that home grown cemeteries will start popping up in people's backyards. As a result, funeral homes have benefited from the deep-rooted traditions associated with their industry. Most funeral homes are family owned and have been a fixture in their communities for generations. They have also crafted a clear sense of brand, often with an ethnic or religious focus that serves to further define their role. In fact, in many communities it would be unthinkable to utilize anything other than a specific funeral home depending upon your background or beliefs. It's hard to imagine a more recession proof, predictable, and profitable business to pursue.

But surprisingly, the funeral industry is facing one of the biggest challenges of its existence, and the threat is coming from an unlikely source – their own customers. People's attitudes towards funerals have been changing and as a result, the number of traditional funerals has been declining. Beginning with Baby Boomers, there has been a marked preference for cremations over traditional burials.

Part of the shift is cost-based; a traditional funeral service, cemetery plot, and headstone cost significantly more than a simple cremation. However, although the economics are certainly different, this change alone isn't enough to account for the coming crisis. Many industries have been forced to respond to decreasing margins on declining revenues and, although the adjustments have been painful, often the survivors emerge stronger and more efficient than ever before. However, in this case, the rise in cremations threatens something much more fundamental to the core of the industry.

The primary focus of traditional funerals has always been the body. Without a body as the centerpiece of the services, the solemnity of the funeral home environment is suddenly less of a required venue. Therefore, a host of other possibilities open up including cemeteries, parks, hotels, restaurants, conference centers, and country clubs. As a result, a surprising – and potentially more devastating – threat to funeral home revenue comes from wedding and event planners. As one funeral director explained it to me, after completing a rather modest \$2,000 cremation for a customer, they later discovered that they had completely missed out on a \$35,000 “celebration of life ceremony” that had been awarded to a local wedding planner. It's hard to argue about which would be more appealing – selecting caskets in the basement of a 100 year old family funeral home, or planning a party to celebrate the life of the deceased at their favorite golf course.

This is not merely a case of increased competition – it's indicative of a paradigm shift that could drastically change the entire industry. Historically, funeral homes have made their money from tangible services such as caskets and embalming. Intangibles such as the facilitation of services have always been a minor financial consideration. Non-traditional services and cremations reverse this emphasis and turn the funeral home's economic model completely upside down.

As if this wasn't traumatic enough, the funeral industry is being assaulted from another direction by a Trojan horse of a different color: green funerals are viewed as a more socially responsible and "family-friendly" method of facilitation and are increasing in popularity. The October 28, 2007 edition of the Portland (Maine) Press Herald featured an article titled "Green Funerals" by staff writer John Richardson that provided a specific example. When Klara Tammany's mother died after a long illness, she didn't want a typical funeral. Instead, "family members and friends washed and dressed her body and put it in homemade wooden casket, which was laid across two sawhorses in the dining room of her condo in Brunswick. Then for two days, friends and family visited, brought cut flowers, wrote messages across the casket's lid and said goodbye". After the wake, the body was cremated and the ashes were buried near the family's camp. Green cemeteries have also become popular, involving wooded settings where preservative chemicals are banned along with caskets that don't easily decompose.

So what's a funeral director to do?

New funeral homes are responding to these challenges by rebranding themselves as "serenity services providers" and are either actively employing event planners or training their staff to perform similar duties. They're also rethinking the types of services they recommend for their customers. In a creative April 1, 2009 blog by Hal Stevens, owner of the Cemetery Spot series of websites, he highlights an excellent analogy between funerals and coffee. Stevens writes, "It was presumed that the coffee business was dying and that the existing younger generation would be confirmed Coke/Pepsi/Dr. Pepper, etc. drinkers. Then came the rethinking and repositioning of the coffee industry thanks to Starbucks and others, into a *neuvo-cool* drink". Stevens goes on to suggest that funerals could be turned into high quality events with status attached, including custom designed caskets, professionally developed memorial slideshows or websites, light shows, professional entertainment, and specially prepared designer clothes for the deceased. I've heard other funeral directors talk about having to learn the new skill of coordinating the release of doves or balloons into a graveside eulogy.

The marketing of funeral services has also changed drastically. The marketing director for a large funeral home in Connecticut told me that his focus has shifted away from typical preneed prospects to attending association meetings for local financial planners and accountants in order to capitalize on Medicaid planning opportunities. Strategic relationships are being developed between funeral homes, estate planners, and attorneys in an effort to take pre-need planning to an entirely new level.

The prospect of more lavish non-traditional funerals has significant implications for insurance companies. The most obvious impact is the potential for higher face amount policies in order to provide adequate funding. This could result in an increase in the desire for contracts that can accommodate periodic premium payments. Higher face amount policies can also better leverage the life insurance death benefit and shift the burden of growth from an interest rate function to a mortality payment. The increased importance of intangible versus tangible services could also provide a panacea for the inflation problems that have plagued pre-need policies recently. As investment yields have decreased, it's become increasingly difficult for the growth rate on single pay pre-need policies to keep up with the inflationary adjustments for the goods and services they are funding. It's possible that an increase in intangible services might allow for a bit more flexibility over future costs.

Although it's impossible to predict if the consumer shift away from traditional funerals will continue, it

is certainly in the insurance industry's best interest to provide assistance. Pre-need companies in particular are ideally positioned to lend their support due to their close-working relationships with funeral industry professionals. Furthermore, if the industry is successful in transitioning towards an increased reliance on intangible services, then final expense policies may be a logical supplement to the typical pre-arrangement, uniting these two similar sales once and for all. Either way, it represents an important development for most LIC member companies.

Although it's always instructive to observe how other industries respond to evolving challenges, in the case of the funeral industry it's doubly edifying due to the drastic nature of the changes and the close correlation between the funeral industry and the insurance industry. In fact, less we think that changing demographics and a shift away from tradition are problems limited to the funeral industry, one only has to look at the ACLI's research regarding trends in consumer attitudes towards life insurance. In 1980, when asked "Should most people have some form of life insurance", 79% of people answered "yes". When this same poll was repeated in 2000, the percentage had dropped to a paltry 58%. As a result, life insurance is no longer the cultural imperative that it once was.

For further confirmation that consumer attitudes towards life insurance are changing, one only has to consider the most recent industry sales reports. In LIMRA's US Individual Life Insurance Sales Trends report by Ashley Durham, first quarter 2009 sales declined 26%, the largest since 1943. This followed on the heels of a 14% decline for the fourth quarter 2008, the largest since 1951. Interestingly, these dismal numbers contrast markedly with alternative life products sold by different distribution. For example, according to a LIMRA report on US Worksite Sales by Ron Neyer, First Quarter 2009 worksite life sales experienced their biggest first quarter increase in six years.

Just as it's unlikely that do-it-yourself embalming kits and back-yard cemeteries will render morticians obsolete, it's equally doubtful that self-insurance will be viewed as a viable option for the average consumer. Therefore, although both industries have a sustainable future, shifts in consumer expectations will require successful companies to rethink the marketing and distribution of their products and services. Fortunately, most LIC companies have been through this sort of "re-tooling" before as they transitioned away from traditional home service products and distribution and developed alternative and creative methods for reaching the modest income marketplace. Although we can't predict where these trends will end up, let's just hope that the hottest new product innovation isn't something along the lines of a "release of doves" rider!