Do you know the value of a customer?

Certainly customers, no matter what the business, are the reason we open our doors each day. We work every day to be sure that ultimately we have provided them with the best experience possible with the hopes that they will return again and perhaps refer others! We've heard of those types of customers to be called raving fans. Whatever we call them, the fact remains that having customers is how we stay in business. In the funeral experience, we monitor the delivery and perfection of our services through training, customer satisfaction surveying, and the use of technology to document all of the service desires of the customer. It has been stated that funeral service is one of the most trusted professions. But what happens when that fails? What do you do when something goes wrong? Are there teaching moments? The fact is that we know it's a bad thing to have an angry customer and we know it's a good thing to have a happy one, BUT what are the financial impacts of both?! I have had the unique opportunity over the years to be involved in almost all facets of funeral service, from the desire to buy a business, value the business (business valuation), manage it, design financial measures to track performance (accounting and incentive plans), survey those customers, work with succession plans and then sell to next generation or outside party. When you tie all of these experiences together, it does provide an interesting perspective on the true value of a customer at a funeral home which I would like to share.

I would start the exercise by suggesting that a business owner should have in hand a valuation of their business. During this exercise, it will be clear to see just what the business value is and what that is on a per call basis. As a note, this is different for every funeral business, but there are some similarities. Let us assume for the moment that you have a business valuation conducted and your business is worth 5x your free cash flow (or what is often called EBITDA). There are many steps involved in determining your cash flow (EBITDA) but it starts with a budget (which is certainly another article in itself!). The important part here is that we are assuming that your business is worth 5x. This means, in this example, that if you have $200,000 in free cash, you can assume (at a high level) that the business is worth roughly $1,000,000. Now let's assume that your average sale for all calls combined is $4,500 (I know some of you have a lesser average and some are quite higher so this is just as an example). My challenge to you would be how do you track your average sale? Do you utilize software or some other method to know exactly what your average sale is per call type, all calls combined, by arranger, by location, etc…? If not, we need to talk! Let's now also assume that your variable costs associated with delivering that average sale per call are roughly 30% of the sale. Keep in mind that I am simply stating that regarding an additional call, sometimes referred to as an "incremental" call, if there is no extra labor involved, no additional facility needs, etc…(fixed costs), then you could say that one call could bring quite a bit of incremental profit (70% in this example). Now let's have some fun with this…

Scenario 1: Gaining extra volume Let's say you gain an extra call through marketing efforts or some other means and you can clearly say that your firm has just increased by one call on top of its normal average annual call volume. If this is the case and no additional staff or other costs are needed, outside of the merchandise for the service rendered, then using our example above, you could say the following: 1 extra call at $4,500 minus the associated merchandise costs of $1,350(30%) equals profit of $3,150. If this profit adds directly to the budgeted free cash of the business (EBITDA), then you could say that $3,150 x 5x value multiple would be the value of the customer in this case or $15,750. [Keeping in mind

that certainly these numbers are different for each firm…Certainly we all know that profit from a case is not typically 70%, however we can conclude that if you are at a stable operating cash flow and add one more call which requires no additional resources or expenses outside of merchandise, then the profit will most certainly be very high as it would with any other type of business out there. As a final note, have fun with this! Just how much more volume can you bring in before having to add additional costs/resources (staffing, facility, autos, etc…) using the model above, if you could add 10 more calls, you may be able to conclude that it added $157,750 in value!!! Seem unreal? It's not, it's just that we don't look at it this way until it's time to sell or transfer our business. Start thinking about it now! …Let's now move onto the most sobering impact of call value…Losing a call!

Scenario 2: Losing a call If we are to assume that, through customer surveying or some other method of discovery, we have lost a call to what was our normal annual call volume, then what is that impact? Using the above example, let's say we have lost a call and the average sale is $4,500 at our firm. If the profit would have been $3,150 as above, and our value multiple is 5x, then it's easy to once again assume that the value of the lost call was $15,750. Now that's a sobering fact especially if that loss can be pointed towards bad arranger performance or some other identifiable method. I always challenge owners by saying, if an arranger lost $15,750 of your money, what would you do?! (I can pretty much assume what you would do, whether or not it also involved the police!) My point here is that if the impact on the value of your most valuable asset is, in fact, this number, then what are you doing to secure the value? Are you surveying your customers on a regular basis? Are you doing regular training? Are you budgeting? Are you sharing these impacts with your staff? The good news is that there are tools available in the industry that can help you with these goals!

Final Thoughts

The above stated, I think it's clear not only what the value of a funeral call is, but it can also be said what the value is to protect that call! Businesses can sometimes be penny wise and pound foolish when it comes to accomplishing this goal. My point being, when you consider the value of a call (or 5 calls, or 10 calls) whether lost or gained, it seems very feasible to seek guidance and help out there to maintain, if not grow those calls. It could be as simple as implementing a very structured customer satisfaction survey program, or perhaps an incentive-based compensation plan, or budgeting, annual strategic plans….the list goes on. I will leave you with one phrase I have liked in displaying the importance in defining and measuring good results: If you can't define it, you can't measure it. If you can't measure it, you can't manage it!