**Title: Valuing Your Funeral Home – Factors to Consider**
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It's been said that first generation business owners tend to underestimate their business value because they remember the lean years and believe their business may not survive without them. There is some truth to this because many businesses do not survive the transition to the second generation. This can happen for a variety of reasons which we will cover in a future article. Second generation owners tend to overestimate value because they did not experience the lean years and they may think the prosperity they've seen will easily continue for a new owner.

Estimating the value of your funeral home can be difficult because values can vary greatly from one business to the next – even in the same industry. Why is this so? The first reason is that every business is operated and managed differently. From an operations standpoint, some businesses are managed with discipline and achieve higher profit margins. Others are managed off the cuff and achieve lower profit margins. All else being equal, higher profit margins equate to higher business values per dollar of revenue. Thus, the way a business is operated can greatly influence its value. An easy example of this in the funeral industry is a 150 call firm operating with two full time funeral directors at $50,000 per year each vs. a similar firm operating with three full time funeral directors at the same pay rate. One firm is paying an additional $50,000 in payroll for no additional revenue.

The second reason business values can vary in the same industry is that every business operates in a different market environment. Market factors will vary by location and can significantly influence business value. One business may operate with no competition and another may have five competitors in the market. Obviously, the business with no competition would be less risky and on average have a higher value per dollar of revenue than the business with five competitors.

Existing competition is just one of several market factors. Others market factors affecting the funeral industry include the threat of new competition, general market trends such as decreases

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in revenue per call associated with cremation, increases in interest rates which decrease loan amounts for borrowers, population shifts or demographic changes affecting the customer base, the availability of dependable employees to operate the business and the amount of goodwill associated with the business. A common adverse market factor seen in the funeral industry is a declining market. Population shifts are often impossible to overcome no matter how the owner changes his or her marketing strategy.

As you can see, there are many factors that must be considered when arriving at an accurate value for your funeral home. It's not just a matter of multiplying revenue by two and putting the word out that you want to sell. Guessing is not a good option either as it can be very costly. If you guess too low you may sell yourself short and leave money on the table. If you guess too high you may spend the next three years wondering why buyers keep low balling you. And by the time you've recovered from your depression and are ready to sell for the true value your buyer pool may be depleted and you may have to sell for even less! You only get one chance to sell your funeral home so it's critical that you obtain an accurate estimate of value before you plan to sell – preferably at least two years before you plan to sell.

Why do you need to know your value two years before you sell? Appraising your funeral home may identify certain areas that need adjusted to increase profitability. Remember, all else being equal, higher profits translate into higher business values. If adjustments to revenues or expenses are necessary to increase profitability, it will take some time for those adjustments to be realized on your financial statements and tax returns. Potential buyers need to see proof of your historical profitability via your financials and tax returns. Buyers and their lenders will use this historical data to determine the amount debt service the buyer can afford in the future. Thus, more profitability results in more cash flow available to pay debt service, which results in a higher sales price for you.



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