PREPARING FOR A SUCCESSFUL FUTURE

THE CRITICAL IMPORTANCE OF BUDGETING AS A FACET OF STRATEGIC PLANNING.

Businesses are not static but evolve over time. This evolution may lead to growth, but it may also cause the business to decline. A business' life cycle is usually portrayed as a bell-shaped curve, where the stages follow one another in an orderly fashion, which is erroneous since variables are never consistent. A business may succeed through its own good management or simply because it's in an industry going through a boom phase.

But a company that consistently succeeds over time – even over generations – regardless of the national or local economy or conditions within an industry, will follow solid management principles. Among the most fundamental business practices is budgeting and, by extension, making the budget part of a business plan.

Business practices such as managing cash, responding to recessions, perceptions of competitors and the manner in which resources are expended are not industry-based. Business practitioners without education or managerial training often make knee-jerk decisions and many times refer to these decisions as "no-brainers." The problem is that there are very few simple problems, and "no-brainers" often mean that the decision-maker failed to think through the challenge, deciding not to engage his or her brain but act instinctively instead.

For example, it's instinctive to reduce spending during a recession, and the easiest expense to cut is advertising, but research of business activities over the past 100 years indicates that businesses that maintain their advertising presence during a recession grow faster during and after the recession. The "no-brainer" decision is to cut advertising; the well-thought-out decision is to maintain advertising presence as part of the business' long-term strategy.

Most small-business owners/managers tend to be conservative, as the primary objective of the small-business owner is to maintain current lifestyles. Small decisions are easy to make, and the ramifications of these decisions are typically not realized in the short term. It may be years before the full impact of a series of bad decisions is felt.

For example, during the 1990s, there was a building boom in the funeral service industry as many firms followed their clientele into the suburbs with new facilities, while many others remained in changing neighborhoods. Ten, 15, maybe even 20 years later, those firms unwilling to invest in their long-term success have suffered severely declining volume as fewer and fewer families decide to "return to the old neighborhood" for funeral services.

Because deathcare businesses have a long history of good, stable profitability, the business plan for many funeral homes is to simply

by Jake Johnson


2018
2017
2016
2015

continue past practices. This plan is never written down or analyzed – it just happens. Continuing past practices is easy. Blazing new trails is hard and takes a lot of thought, intestinal fortitude and discipline.

The diametric opposite of knee-jerk decisions and no-brainers is management through planning – strategic planning. Strategy is defined as a pattern in a stream of decisions made by an organization. Applied to the funeral business, it is not a strategy to build a new facility or sell preneed. A strategy would be to establish a philosophy and incorporate that philosophy in every decision, whether major or minor.

A business strategy is not so much a plan but the implementation of a belief, concept or set of principles to which management refers whenever making decisions. Whether large or small, the business strategy represents the basis of the decision. There is a great deal of discussion in funeral service regarding brand and branding. Maintaining a brand is similar to following a strategy in that both are intangible yet real; they are understood and accepted by a company's primary decision-makers and communicated throughout the organization to customers and other stakeholders.

As an example, Delta Air Lines is based on a strategy developed by its founders not to be a technology leader but to be consistently dependable with friendly, superior service. The basis of this strategy is that technology can cost a lot of money, and customers likely will not appreciate the necessary investment. So Delta waits to implement technology when it's been refined and is available at a much lower cost. In the meantime, the airline is the first to implement service standards.

Examples of funeral business strategies would be:

- Understanding that arrangers should be well-trained with good communication skills to assist families in making better decisions. As such, a funeral business with this strategy would recruit the best talent, invest in training and be willing to pay superior salaries in order to retain their best associates.
- An environmental or "green" strategy would be based on the belief that offering a specific niche product can position a funeral business to grow volume from families willing to travel farther and pay more for services. For this strategy to succeed, the firm would need a superior website with superior search engine optimization and social media so as to reach those families outside of their immediate area with their niche message.
- Aggressive price discounts for preneed would be a strategy to lock in business for the long term, even if it means shortfalls at time of need, in which case budgeting for the shortfalls would be important.
- The consolidator strategy is based on using low-cost financing and economies of scale to dominate markets. As such, it requires managers to possess superior organizational skills and the willingness to compensate appropriately.
- If the business strategy involves superior facilities, management will likely need to set aside more funds for maintenance than competitors in the same business.

This is why budgeting is part of the annual plan and even a five-year plan – if a strategy is to succeed, it must be funded. For the funding to be available, it must be in the budget.

The financial statement has come a long way in funeral service. In the 1980s, most independent funeral directors only needed their financial statement at the end of the year for tax purposes. It really served no other purpose for most. For the most part, they ran their funeral homes by the amount of money they had in their checking account. Decision-making was reactive.

At the same time, the emerging public companies were going to the opposite extreme. They paid a lot of attention to their financial statements and, unfortunately, paid insufficient attention to family satisfaction. They thought that as long as they could increase sales and decrease costs, the rest would take care of itself. It did in the short term, but they realized it was time for adjustments in their long-term strategy when they began to lose market share.

So let's move this conversation up to today and start with the public companies and some large independent operations. What have they figured out? First of all, they do pay attention to customer satisfaction. Although they will always have some difficulty against good, strong independents, they are not losing market share at the pace they once did primarily because they use their preneed programs to drive future business. They still review financial statements, but instead of just focusing on sales and costs, they also do deep dives on customer satisfaction and seek to fix problems.

A well-thought-out strategy will result in the accomplishment of a goal or goals that may take years to accomplish. It is the hallmark of a well-run company. The annual budget is a vital piece of the strategy, no matter how large or small the firm. Don't reach out into the years ahead without a sound financial plan, a good budget and a sound strategy. Those who don't may very well fall by the wayside and wonder what happened. Those who do put together their strategy and support it by budgeting significantly improve their chances of success. ✢

As president and CEO of Johnson Consulting, Jake Johnson provides the strategic direction and marketing innovations that laid the groundwork for the company's rapid growth, gaining recognition as a premiere total solutions provider within the funeral industry. In his former position as executive vice president and general manager at Palm Mortuaries and Cemeteries, he provided key operations leadership to the Palm Cemetery Division. Johnson began his career at Keystone Group Holdings (now Dignity Memorial Network) as associate director of corporate development, where his financial analysis and forecasting expertise was foundational to that firm's growth. His educational credentials include a bachelor of science in business management degree in general management, with an emphasis in accounting and financial analysis from Xavier University in Cincinnati, Ohio. Rounding out his financial portfolio, Johnson is a licensed real estate agent and licensed investment advisor representative. He is also a member emeritus of the Funeral Service Foundation Board.