

AMERICAN Funeral Director

You've Decided to Sell Your Funeral Home — What Do You Do Next?

*Succession Planning Experts
Discuss a Variety of Choices
To Reach Your Retirement Goals*

Suppliers Set Record At CMA Meeting

June 1992

Steps to Reach Your Post-Retirement Goals

ON the following pages, many of the best-known spokesmen on the issues affecting succession planning present their views on what funeral directors should consider when contemplating retirement. Their comments address the issues largely in general terms, as we requested. Each funeral director, of course, has his own special retirement requirements that cannot be discussed in detail on these pages.

Since this series of short feature articles is designed to acquaint readers with what the authors feel are the most common problems associated with succession planning, American Funeral Director is in no position to endorse any specific plan of action or any of the companies represented in this roundup of professional opinions.

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There are many decisions that a funeral director must make in order to divest his business. (For purposes of space and clarity "he" is interchangeable with she throughout this article.)

Conversely, there are many factors that a buyer must know before he purchases your business. In order for the funeral director to better understand what a potential buyer looks for in purchasing a funeral home, we have compiled a checklist of 31 items. These items are not in the order of importance

and may not be all inclusive.

- Check Articles of Incorporation and/or Association. Up to date? Need any changes? Are they adequate?
- Check Constitution or By-laws. Are they current? Are changes needed?
- Secure complete financial statements for the last 5 years. Secure complete income tax returns for the last 3 years.
- Examine funeral home charter. Are powers implied or specified? Are the conveyed powers sufficiently broad, or need to be amended? Does the charter limit sales?
- What year was the funeral home started?
- Obtain number of funerals serviced to date? Per year?
- Obtain price lists of all products for sale? Include caskets, vaults, memorials, flowers, urns, clothes, cremation, etc.
- Obtain price lists of all services performed? How does this compare to competitor operations? Include cash advances, embalming, preparation, staff, etc.
- Secure information on all sources of income. Have all taxes been paid, including sales tax, real estate, and withholding taxes?
- Obtain listing of account receivables. Listing should be aged with receivables over 90 days delinquent discounted by 1/3.
- What are the liabilities? Undelivered but sold merchandise and services?
- Are there any other debts?
- What is the amount in the merchandise or preneed trust fund? Where

are these investments held? How are they being invested? Can they be transferred? -

- Are there any reserve funds? Retirement funds? Savings accounts?
- Secure a current inventory of all office and automotive equipment, noting the insured value, the condition of equipment, and the age.
- Itemize all fixed assets of funeral home and estimate their real value. Are these facilities sufficient or are additions or expansions urgently needed?
- Look at condition of the facilities. Have the parking lots been maintained? Check landscaping. Check condition of buildings? Does the building comply with the new American With Disabilities Act? Is the prep room OSHA approved?
- What is public opinion of the funeral home?
- Are there any special rooms, art work in the funeral home?
- Ascertain history of funeral home. Have there been unfortunate experiences in the past? Is there any current or threatened litigation or such?
- Any severe topography or heavily wooded areas adjacent to the funeral home that might create expensive future development problems?
- Are office records up to date? Has information been backed up on computer or microfilm? Is there access to a computer?
- Obtain amount of undeveloped land available for future development. Is there sufficient land to develop a cemetery?
- Is there excess undeveloped land that could be sold separately?

- Is the funeral home centrally located? Readily accessible to cemeteries? Near expressways or good traffic arteries? Is the funeral home near good subdivisions? Is the funeral home in an area where population may decline or expand?

- How many times has the funeral home changed hands?

- Are there key people employed by the funeral home who could be retained? Has compensation and fringe benefits paid by prior management been adequate?

- Is funeral home unionized? Are there any union problems?

- Who will be drawing up sales contract?

- Are there any environmental issues? Buried gas tanks, asbestos, inadequate prep room?

- What is the zoning of the funeral home and lot?

In addition to the above, the customary representations and warranties in an acquisition agreement can be subdivided into six major areas.

- Financial statements and accounting issues.

- Legal organization and capital structure.

- Condition and title of assets that will cover environmental issues, including asbestos, hazardous waste, etc.

- Contractual relationships.

- Employment and labor-related issues, including union contracts, pension plans, and health benefits.

- Lawsuits and taxes.

The funeral director must also look at whether the divestiture of his business will be a stock or asset sale. Generally, the seller prefers a stock sale and the buyer prefers an asset sale.

When a buyer acquires the stock of the corporation, it takes over the entity with whatever liability the corporation is subject to. In an asset transaction, the buyer acquires only the assets subject to the liabilities that it is willing to assume.

It is important to qualify the buyer, to make sure the buyer is ethical, honest, and has a good reputation in the funeral home business. Keep in mind that many buyers of funeral homes, today, are not in the funeral home business. Funeral homes have been increasing in liquidity in recent years due to the entrance into the market of public corporations, limited partnerships, and cemetery-mortuary combinations. Funeral homes are attractive to investors because of their relative stability. Typically, they are

not subject to wide sales fluctuations, costs are fairly predictable, and earnings are consistent.

However, for this reason, we suggest that the seller ask for a cash deal. This by far gives you the most security.

Remember, before you give out any information, have the potential buyer sign a non-disclosure agreement. This will help to keep the entire matter confidential from employees, business associates, and suppliers.

It is imperative if you are contemplating the sale of your business, that you structure your company so it can be divested in the most profitable way for you. In other words, make sure you have total control of the stock, that there is not some "little old lady" that has one share of stock that could hold up the deal. If you have any environmental problems, clean them up. If you have not instituted a preneed sales program, we would recommend that you do. This will add value to your business. Do you have a current mailing list of all your clients, etc.?

Here comes the sales pitch! Get your house in order. Hire a professional. Hire an appraiser to appraise your business. Someone who specializes in the funeral home business. Hire a broker who specializes in the funeral home business. It is far more difficult to sell your business than it is to buy a funeral home. Remember, we preach every day that the consumer should get his house in order. So do unto yourself that you do unto others.
