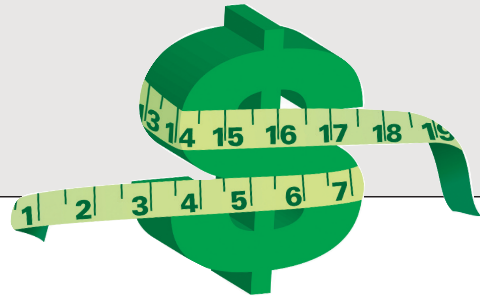

Is Your Funeral Business Financially Fit?

By Stephanie Castagnier Dunn, president SBA – Incredible Bank/River Valley Bank

The U.S. economy is quickly approaching a market correction with eventual rate increases on the horizon. Funeral home owners need to understand the various financial metrics used by financial institutions to measure financial fitness.

With the advent of equity investors, peer-to-peer lending and an increasing number of community banks, more lending options are available to small business owners making the landscape more dynamic and complex. Being financially fit arms funeral home owners with the strength needed to optimize financial solutions. The three pinnacles of financial fitness are:

- Cash flow fitness.
- Personal credit fitness.
- Financial documentation fitness.

Cash Flow Metrics – Understand and Track Metrics

Cash flow is the key to a funeral home's financial strength. To monitor cash flow as well as business financial strength, gather together monthly revenues, cost of goods, expenses, assets and liabilities and compare that data with the metric benchmarks of similar sized peer firms. This comparison can help anticipate future needed repositioning strategies. It can also

alert to indications on where one might implement different sales tactics, marketing campaigns, employee trainings, or cost control changes.

Implement to track and monitor the financial fitness of your business:

• **Track and monitor trends.** A funeral home needs adequate systems for identifying the amounts of profit or loss generated by its different products and services. This information is essential if the business comes upon a situation that might require repositioning. It is important to track the trends in your call mix income, cost of goods, and operating margins compared to peer groups of the same size.

It is also important to know the costs of different areas of administration, so that overhead does not devour the profits made from gross margins. You may need to have a properly designed management information system, which can give you essential facts quickly and accurately to keep track of where profits and costs are coming from.

• **Track frequency.** Annual tracking, by itself, may not be ideal for a reposition. The metrics behind monthly profit and loss may provide opportunities for different marketing, cost control, sales, and training. Most businesses would find it empowering to produce monthly operating statements, or at minimum, quarterly statements. There are even some businesses where financial information is available in real time.

• **Accounting software tools.** There are many accounting software packages, which can provide regular information. Many will extend beyond management accounts to analysis of debtors and can provide regular Key Performance Indicators. This software enables the business to keep accurate and up-to-date accounting records.

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Personal Credit Fitness – What Is it and How Can You Improve It?

Credit reports are compiled by the three major credit agencies – Experian, Equifax and Transunion. They all use the same information to compile a credit report – detail of an individual's credit accounts such as bank and credit cards as well as other credit histories such as utility accounts and any court judgements for nonpayment of debts as well as bankruptcies. Other information found in these reports are a name, date of birth, current and previous addresses and employers for the individual.

• **How do I check my credit report?** The three agencies mentioned above are required to provide individuals with one free credit report annually online, if requested. A business can purchase credit reports through the credit reference agency, also. There are multiple private online credit monitoring sites that you can access for a what is called a "soft" credit pull. This type of report helps avoid negatively affecting your score.

• **How can I improve a poor credit store?** Credit scores reflect the financial footprint of individuals and businesses. A frequent cause of a poor credit score is if an individual has made several applications for credit. So, a period of time not applying for credit will help improve your score. In addition, returning unused credit cards or consolidating debt on fewer cards will help.

Having large debts will make finance providers reluctant to lend further amounts, particularly if the minimum repayments required on those loans represent a large share of your income. Similarly, missed payments of debts (such as a mortgage) or other forms of credit such as utility bills can cause potential lenders to refuse further financing.

With the advent of equity investors, peer-to-peer lending and an increasing number of community banks, more lending options are available to small business owners making the landscape more dynamic and complex.

A period of paying bills on time without further requests for credit will help improve your score. Stability also counts with credit assessments, so staying at the same address and getting on the electoral register demonstrates a settled individual. Individuals may be in a relationship with another person who may have a poor credit score – whether it's a spouse, partner or just someone living at the same address. This can affect their credit score.

Financial Documentation Fitness – Why Do I Need to Know What I Am Asking the Bank for?

Most loan denials are the result of the applicant not being financially prepared with the necessary documentation during application. Banks are not able to make credit decisions without certain documents. Have all your business and personal documentation up to date, organized and available.

Before approaching a bank, have a complete package of your last three years business and personal tax returns along with your completed application. The key is knowing what you are looking to accomplish with this bank:

• How much am I looking to borrow?

• How long is the money needed for?

• Why is the money required – debt refinance, acquisition, partnership buyout, expansion?

• How will the business repay the loan based on your historical cash flow?

• What collateral is available?

• What does your personal financial presentation look like, personal credit, personal financial statement and ability to run this business?

You Deserve the Best from Your Bank

The relationship should be reciprocal as with any business relationship:

• Banks require certain information requested with their application. Ask for their complete checklist in your first conversation.

• Greater transparency leads to a better relationship. Increased information should make it easier for the bank to understand your business goals. Banks don't like surprises, so be forthright with all the data. •

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