

# SYMPATHY FAQS FOR THE CPA

Funeral-director “kickbacks,” profitable partnerships — get insight on these and other sympathy business issues.

**S**YMPATHY BUSINESS IS TOP OF MIND AMONG FLORISTS, JUDGING from the questions I received in the last few months. In this article, I’ll address some common inquiries and help you determine if you’re running your funeral business in the most profitable and effective way.

**Q:** IN THE FUNERAL DIRECTOR-FLORIST RELATIONSHIP, WHAT ARE “KICKBACKS”?

**A:** I don’t like this term. A better term is “referral,” a type of sales commission for specific services a funeral director provides. A grieving family naturally starts the funeral planning process with the funeral director and often expects “one-stop shopping.” For their convenience and support, funeral directors often offer many services, including flowers (and some sell flowers — but that’s a different set of challenges that we’re not addressing here). While the funeral director isn’t in the floral business, he will act as a salesperson and sell flowers to the grieving family on behalf of the florist he works with. Any commission the florist pays the funeral director for this service is earned.

**Q:** ARE THEY ETHICAL?

**A:** In my opinion, they are. The funeral director is providing a service (convenience) for a grieving family. They trust him and value his recommendation. Compensating him for a referral, or more extensive services, is certainly ethical.

Many shops have a formal relationship with a funeral home, in which they pay commissions to the director. The nature of a flower shop’s relationship with local funeral homes varies depending on the shop. There are three levels of services that these relationships entail. Let’s look at a case study of each one.

#### CASE # 1:

The funeral home recommends a “preferred” florist. By saying, “We recommend Margo’s Flowers,” to the family, they effectively generate several hundreds, if not thousands of dollars worth of sales for Margo. The funeral home may offer the family a selection guide. The key here is that the family contacts the florist directly, and all financial arrangements go through the florist, not the funeral

home. In my opinion, this referral is worth a 5 to 10 percent commission rate. Of course, a florist needs to determine the nature of the referral, but, generally, a relationship with the funeral director would generate many sales. Since the florist handles the financial details directly, this relationship is based on trust. The funeral director assumes Margo has the integrity to pay the commission. Margo's staff must learn to ask the caller politely where the referral originated. Due to the significant income the florist generates from referrals, she should proactively determine if she should provide a commission to the funeral home.

#### CASE #2:

The funeral home sells the flowers to the families. They have a selection guide from the partnering florist and help the family make an order, which is placed through the funeral home. However, the family pays the florist directly for the flowers. The funeral home doesn't collect any money and doesn't guarantee payment. I recommend a 15 percent commission for this referral.

#### CASE #3:

The funeral director handles the entire floral transaction. The florist's name may or may not be mentioned. The director collects payment. The funeral home takes a financial risk by guaranteeing payment to the florist. The funeral director can pay the florist a percentage of the total, after withholding his commission, or the florist can pay the commission, usually 20 percent, separately. In most cases, the funeral director will withhold their commission up front, and remit the net amount, probably on a monthly statement basis. A detailed statement is usually sent to the florist, listing purchases for each funeral and detailing the commission rate on the statement. This is the most common florist-funeral home relationship. Funeral homes like it because they control the money and are sure they will get paid.

#### HOW DO I EVALUATE IF A DEAL IS FINANCIALLY SOUND?

**A:** There are purchases that happen related to a funeral that a funeral home doesn't get credit for. Friends wanting to send flowers may contact the family, who refer them to the florist the funeral home recommended. Most funeral homes make the majority of their commission money through family orders. Offshoot sales could come into the florist, for which no commission is due.

If you aren't paying more than 20 percent commission, paying a commission to a funeral home is less expensive than a wire-in order (which runs 27 percent for every incoming dollar). Some florists actually pay up to a 27 percent fee to the funeral homes for their referral. Again, the 27 percent wire-in


commission is the standard. If you cap your commission with a funeral home at 20 percent, then it's profitable. In my experience, each dollar of business that comes through the funeral home generates at least \$1 in offshoot sales, for which commission isn't due. Taking this into consideration, you could be paying 10 percent commission to the funeral home.

I recommend periodically evaluating the amount of business actually generated from the funeral home that isn't commission-based. You would not necessarily need to track every call, but if it becomes obvious that an order was as a result of a referral from the funeral home, then count that sale. Your staff may casually ask, "Did you hear about us from the funeral home?" I think you'll find that for every \$1 you pay in commission, you generate \$3 in "non-commissioned" sales referred by the funeral home (possibly closer to 2 to 1). As long as you don't pay much more than 20 percent in commission, it's definitely profitable.

Another factor to consider is the size of most funeral arrangements compared to the typical wire-in arrangement. For many florists, the average funeral order is more than \$100 due to the number of large pieces. The bigger the pieces, the more efficient the profit earned on them. The average wire-in order is about \$50, for which you're paying 27 percent commission. The larger funeral order proportionally takes less time for the money invested.

Remember, sometimes you can use flowers in a funeral piece that you can't use elsewhere because of the flowers' lifespan. While a standard arrangement may be expected to last seven to 10 days, many funeral arrangements only require a few days. However, be careful to put only top quality flowers in your sympathy arrangements. It's a great opportunity to show up the competition.

Finally, delivery expenses are reduced with funeral orders, as a large number of arrangements are delivered to the same place.

Because of the potential use of more perishable product, the more effective use of labor on larger arrangements, delivery savings and substantial sales potential related to funerals, it makes sound financial sense to aggressively court sympathy sales and agree to a mutually profitable relationship with funeral homes. 

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### Info To Go



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