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Exploring the Business Model of Funeral Industry in Taiwan

Wen-Hong Chiu, Hong-Wei Yan, Hui-Ru Chi and Chien-Ho Liu

Department of Business Administration, Asia University, Taiwan

E-mails: andychiu@asia.edu.tw; kkk0938566209@gmail.com; kitty101@asia.edu.tw; h20619@yahoo.com.tw

Abstract: Taiwan's funeral industry has gradually gained recognition from consumers in recent years, thanks to the amendment of relevant laws and regulations. The funeral market has grown from NT\$50 billion to NT\$125 billion a year as the aged population now far exceeds the World Health Organization's (WHO) standard of 7% for an aging society. The National Development Council pointed out that Taiwan's population at ages 65 and above will reach 14.65% in 2018, and will reach 20.63% in 2026, making Taiwan a hyper-aged society. This shows the urgency for Taiwan's funeral industry to adopt innovative business models. Past studies, however, mainly focused on the funeral industry's trends, funeral facilities, consumer behavior, consumer satisfaction, and pre-need funeral contracts, and rarely discussed business model innovation. This study adopts the framework of business model proposed by Johnson (2010), which includes four dimensions, namely customer value proposition, key resource, key process, and profit formula, for examining business model innovation in the funeral industry. The case presented in this study is Lungyen Life Service Corporation. Sources of data include secondary data, participatory observation, and in-depth interviews. Research findings are as follows. The case emphasizes customer value of safety and trust. In the aspect of key resource, the case has the advantages of brand, finances, channels, services and international cooperation. Moreover, the case addresses the key processes as professional funeral director certification, combination with contemporary art, esteemed experiential service process, pre-need funeral agreement and Four Lines of Defense. Finally, the case mainly benefits from tangible products sold by professional service.

Keywords: Business Model, Innovation, Funeral Industry, Lungyen

I. INTRODUCTION

This study aims to explore business model innovation in Taiwan's funeral industry, changes in social structure, and popularization of education about life and death. New business models not only dominate the funeral market, but also create unique competitive advantages. What was once viewed as a taboo topic, discussions on "death" are gradually being accepted by the public. People are no longer mind talking about their own

funeral arrangements, and have begun to take the lead in such arrangements. At present, studies on the funeral industry have rarely examined issues of business model innovation, and it is the motivation for the present study. The purpose of this study is to understand business model innovation in the funeral industry, and does so by observing business models and analyzing value activities and market demand. Business model innovation events of Lungyen Life Service Corporation over the years are the unit of analysis. This study adopts the framework proposed by Mark Johnson (2010) for business model innovation, which includes four dimensions, namely customer value proposition, key resource, key process, and profit formula, for examining business model innovation in the funeral industry. The case presented in this study is Lungyen Life Service Corporation, and sources of data include secondary data (internet, periodicals, magazines, and books), participatory observation, and expert interviews. The unit of analysis is major innovation events of Lungyen over the years.

II. BUSINESS MODELS

This study examines the business model innovation of Lungyen Life Service Corporation. Hence, this chapter first discusses business model innovation in the funeral industry to establish the theoretical foundation for analysis. This study applies the definition of business model in literature to the funeral service industry, and adopts the framework proposed by Mark Johnson (2010) for business models (see Figure 1), including: 1. Customer value proposition: Companies provide products, services, or a combination of the two to help customers complete jobs to be done or resolve important issues; 2. Key resource: Unique resources provided to customers required for the value proposition, e.g. personnel, technology, products, capital, and brand; 3. Key process: Key activities and processes that must be executed to support the company in fulfilling its value proposition; 4. Profit Formula: Describes the company's revenue model, cost structure, and speed of resources.

III. RESEARCH METHODOLOGY

This study learns how to facilitate business model innovation by analyzing practices of Lungyen's business model and its course of development. Practices of business model innovation are embedded in the routine operations of an organization, and displayed in the repeated behavior of organization members. It is hard to directly observe. Hence, the organizing process must be analyzed to observe the course of business model innovation, which requires more in-depth and first-hand understanding of how members work and operation mechanisms. It is also necessary to observe and analyze practices of innovators in the company to analyze the course of innovation. Hence, this study uses interpretation methods to analyze work practices (Orlikowski, 2000), understand the correlation between workers and business model innovation, and interpret the meaning given by workers to business model innovation (Walsham, 1995). Data is mainly collected through interviews and secondary data. The case presented is Lungyen Life Service Corporation. This study completed 5 interviews that lasted on average 75 minutes over the course of roughly six months. We interviewed important members of the company including the general manager, product design supervisor, and designers. Secondary data that were collected include materials of Lungyen (company promotional materials, reports and documents, website, news reports, and books) and data of the design industry (official websites, news reports, and research reports). On the basis of the four dimensions of business model innovation proposed by Mark Johnson (2010), this study defines four opportunities for business model innovation: 1. Customer value proposition: Products and services provided to satisfy customers' demands.

2. Key resource: Unique resources required for main activities and services of the funeral industry to fulfill value propositions. 3. Key process: Key activities and processes that need to be carried out to fulfill the customer value propositions. 4. Profit formula: Innovative business models created under the customer value propositions for the company to create new profit formulas.

IV. RESULTS AND DISCUSSION

This study analyzes major innovation events of Lungyen over the years based on the business model innovation framework proposed by Johnson (2010). Analysis results are explained below and organized in the business model framework.

(A) Customer Value Propositions

This study found that values delivered by Lungyen to potential customers mainly include life education as well as love and responsibility, in which the value of life education is established through its brand image, causing potential customers to ponder on the value of life and make plans in advance in the form of pre-need funeral contracts; this is Lungyen's interpretation of love and responsibility for customer's decedents, e.g. Lungyen's commercial with Wu Nien-Chen. For pre-need customers, Lungyen delivers the values of safety and trust as well as functional. Based on the principle of running legitimate operations and to fulfill its corporate social responsibility, 75% of every advance payment received for a pre-need funeral contract is put into trust, which currently draws near a total balance of NT\$8 billion, while columbarium have dual warrants for customers to truly feel at ease. With regard to functional value, considering the trends of aging population, low birth rates, and urbanization, planning complete funeral services in advance shows customers' love for their dearest family members, hoping that family members can return to their normal lives within the shortest time possible. For the deceased, Lungyen provides an innovative experience, e.g. body cleansing and one-day funeral director, for customers to redefine the meaning of their existence, and allows customers to acknowledge the benefits of service innovation to elevating funeral culture. Finally, for family members, value delivered by Lungyen includes helping to create meaning and change attitude. In the process of providing funeral services, Lungyen helps customers create meaning for filial piety and initiates early discussions of life; the innovative services comfort grieving family members and recall past deeds of the deceased, so that family members can face the unchangeable fact that their loved ones have passed away, further transforming their grief into strength and a positive attitude of thankfulness. It also helps family members understand the meaning of filial piety and legacy, e.g. video of the deceased's life, follow-up and reminders on the 100th day and 1-year death anniversary.

(B) Key Resource

Competitive advantages of Lungyen are as follows: 1. Superior brand: After over two decades of strenuous effort, Lungyen has become a leading brand in Taiwan's funeral industry, and is widely recognized by customers for its sincere and high quality services. It is the first funeral company to be listed in the top 500 service companies in Taiwan. 2. Superior finances: In addition to putting advance payments into trust in accordance with government regulations, Lungyen owns all of the land and buildings of its operations, and implements strict management of all contracts to ensure performance; management fees collected for its columbarium and cemeteries are put into a dedicated account to achieve sustainable management. Its

market value reached NT\$40 billion after it offered over-the-counter stocks in 2011. 3. Superior distribution channels: Lungyen employees 200 professional funeral directors and established service locations around Taiwan to provide better service quality and protect consumer rights. It is the only funeral company to have a complete sales department with 2,500 registered salespersons at 49 offices around Taiwan. 4. Superior services: Funeral directors are strictly selected and receive complete training, which is enhanced through computer and ERP systems; SOPs are in place for funeral services and customer satisfaction surveys are conducted, as well as a 080 service hotline and customer grievance platform. 5. International cooperation: Urn design in cooperation with Japan's Okura art china, and cemetery built in cooperation with internationally renowned architect Tadao Ando, expanding into China's market through Zhejiang Wenzhou.

(C) Key process

Professional funeral director certification: The level of expertise required for doing the work of funeral director is gradually being recognized, and the government has begun requiring certification from passing a "national examination" to practice, which is the same as lawyers, accountants, and physicians. Lungyen requires funeral directors to acquire the "professional certification for funeral directors." **Combination with contemporary art:** "Tadao Ando Palace of Light" is the world's first ecological cemetery costing NT\$10 billion. It is a beautiful encounter between a renowned architect and the funeral industry, and puts Taiwan's funeral industry on a global stage, using the combination of architecture and art to enrich the cultural content of the funeral industry. **Esteemed experiential service process:** The innovative service "body cleansing SPA" extends the traditional cleansing method of wiping the deceased's body into a new experience for both the deceased and family members, so that they can let go and allow the deceased to set off into the other world. The professional cleanser treats the deceased as a living person, so that family members can show their gratitude and emotions through the SPA, transforming life and death into memories. **Pre-need funeral agreement:** "Pre-need funeral agreements" allow clients to make arrangements for when they pass away, and in an aging society with low birth rates, urbanization, and specialization, Lungyen can plan complete funeral services based on the client's religion and beliefs, lifestyle, and preferences. This spares the client's family from feeling helpless and allows their dearest family members to return to their normal lives in the shortest time possible. **Four lines of defense:** The first line of defense is monitoring service quality throughout the entire process; the second line of defense is random inspections carried out in secret to actively resolve issues; the third line of defense is examination of the entire funeral ceremony and rapidly reporting issues; the fourth line of defense is handling customer complaints at all times and then calling customers after a case is closed to survey their satisfaction.

(D) Profit formula

The case sales different products or services according to different target customers. For potential customers and pre-need customers, the case benefits from pre-need funeral agreement, columbarium sales, and exquisite urn presales. For deceased, the profit is mainly from tangible products, such as mountain of flowers, coffin, urn and columbarium. Moreover, the case benefits from intangible services, such as body cleansing, sutra recitation etc. For the family members, pre-need funeral agreement, columbarium sales, and exquisite urn presales are also contributory to profit. Especially, the case emphasizes continuous purchase. In sum, we find that Lungyen mainly benefits from tangible products sold by professional service.

V. CONCLUSION

This study summarizes the results in Table 1. First, with regard to customer value proposition, this study found that Lungyen abides by the law and puts 75% of every advance payment received for a pre-need funeral contract into trust, which currently draws near a total balance of NT\$8 billion and is higher than others in the industry. Lungyen also delivers the value of filial piety to gain consumers' recognition. Second, with regard to key resource, this study found that Lungyen had superior brand, distribution channel, and finances compared with others in the industry. Lungyen also built the world's first ecological cemetery costing NT\$10 billion in cooperation with Tadao Ando. It puts Taiwan's funeral industry on a global stage, and uses the combination of architecture and art to enrich the cultural content of the funeral industry. Third, with regard to key process, the level of expertise required for doing the work of funeral directors is gradually being recognized, and Lungyen requires its funeral directors to acquire "professional certification for funeral directors"; Lungyen has the most professional certifications among companies in the industry. It is also the only funeral company with a complete sales department, which works together with the etiquette department in providing services, thereby achieving higher customer satisfaction and higher brand awareness through word-of-mouth. Fourth, with regard to profit model, there are four types of customers in the funeral industry, namely potential customers, pre-need customers, the deceased and family members. Products include pre-need funeral agreements, columbarium sales, exquisite urn pre-sales and purchase, mountain of flowers, coffins, urns, columbarium, body cleansing SPA, and sutra recitation. Fifth, this study found that Lungyen was different from other funeral companies in that its sales staff participated in services (the deceased/family members) and achieved higher customer satisfaction in the process. This allowed Lungyen to gain greater recognition, higher brand value, and trust from customers, turning the customers into pre-need customers with pre-need funeral agreements. The brand image created through this business model also allows potential customers to understand the value of life education, love and responsibility, and increases the possibility that they will become pre-need customers.

Table 1
Business Model of Funeral Industry

<i>Four Dimensions of Business Models</i>		<i>The case: Lungyen</i>	
Customer Value Propositions	Potential customers	Life education Love and responsibility	Commercial with Wu Nien-Chen as the spokesperson
	Pre-need customers	Safety and trust Functional	<ol style="list-style-type: none"> 1. 75% of every advance payment received for a pre-need funeral contract is put into trust, which currently draws near a total balance of NT\$8 billion 2. Columbarium has dual warrants for customers to truly feel at ease 3. Planning complete funeral services in advance shows customers' love for their dearest family members, hoping that family members can return to their normal lives within the shortest time possible

	<i>Four Dimensions of Business Models</i>		<i>The case: Lungyen</i>
Key Resource	The deceased	Experience meaning	Showing gratitude through the body cleansing SPA service, and changing grief over the deceased into memories
	Family members	Create meaning Chang attitude	In the process of providing funeral services, Lungyen helps customers create meaning for filial piety and initiates early discussions of life, e.g. video of the deceased's life, follow-up and reminders on the 100th day and 1 year death anniversary
		Superior brand	The first funeral company to be listed in the top 500 service companies in Taiwan
		Superior finances	Lungyen owns all of the land and buildings of its operations and has a market value reaching NT\$40 billion
		Superior distribution channels	Lungyen employees 200 professional funeral directors and established service locations around Taiwan to provide better service quality and protect consumer rights. It is the only funeral company to have a complete sales department with 2,500 registered salespersons at 49 offices around Taiwan.
		Superior services	Funeral directors provide better services using computer and ERP systems; SOPs are in place for funeral services and customer satisfaction surveys are conducted, a 080 service hotline is also offered
Key process		International cooperation	Urn design and cemetery built in cooperation with Japan's Okura art china and internationally renowned architect Tadao Ando, expanding into China's market through Wenzhou.
		Professional funeral director certification	The level of expertise required for doing the work of funeral director is gradually being recognized, and Lungyen requires funeral directors to acquire the "professional certification for funeral directors."
		Combination with contemporary art	"Tadao Ando Palace of Light" is an international cemetery costing NT\$10 billion, and puts Taiwan's funeral industry on a global stage, using the combination of architecture and art to enrich the cultural content of the funeral industry.

	Esteemed experiential service process	“Body cleansing SPA” shows gratitude and transforms grief into memories of the deceased
	Pre-need funeral agreement	“Pre-need funeral agreements” allow clients to make arrangements that will allow their dearest family members to return to their normal lives in the shortest time possible
	Four lines of defense	Four lines of defense in etiquette, auditing, sales, and customer service departments are implemented for the customer satisfaction survey
Profit formula	Potential customers	Pre-need funeral agreement, columbarium sales, exquisite urn presales
	Pre-need customers	Pre-need funeral agreement, columbarium sales, exquisite urn presales
	The deceased	Tangible products: Mountain of flowers, coffin, urn, and columbarium Intangible products: body cleansing and sutra recitation
	Family members	Pre-need funeral agreement, columbarium sales, exquisite urn presales and purchase

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