



## **Fight to the death: Florida is a major battleground for two corporate giants struggling to dominate the nation's funeral business. (Service Corporation International; Loewen Group Inc.)**



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Susan

### **Magazines**

Not much has changed at the Mizell-Faville-Zern Southdale Chapel in West Palm Beach since it was founded in 1924. Personnel have come and gone, but the name has remained the same and company namesake Bill Zern still serves the bereaved.

But while the chapel - and many similar Florida funeral homes - still look like local businesses, their ownership, price structure and profit margins are no longer mom-and-pop. The reason? Mizell-Faville-Zern is owned by Service Corp. International (SCI), the largest funeral and cemetery company in the world, which bought the home in 1974. In recent years, SCI and another corporate giant, the Loewen Group, have accelerated their purchases in Florida; today, their logos are behind more than a quarter of the 848 funeral homes in the state, according to Jack Hagin, a consultant who sells software and computers to the funeral industry and compiles funeral data.

The two firms' domination of the state's multimillion dollar "death care" industry has had important implications for consumers, who are paying more for funeral services. SCI's withdrawal of its \$4.3 billion takeover bid for Loewen last month isn't likely to change the pace of funeral home acquisitions in the state much, analysts say. But the two companies will continue to compete vigorously, and some believe an eventual takeover of Loewen by SCI is still possible. Meanwhile, Florida will remain firmly established as a leader in the consolidation of the funeral industry; for Floridians, death is increasingly likely to be a corporate matter.

### **Dominance**

SCI and Loewen are major players nationally as well as in Florida. As of September, Houston-based SCI owned 2,864 funeral homes and 335 cemeteries worldwide. At the start of 1997, Loewen, of Vancouver, B.C., owned or operated 956 funeral homes and 299 cemeteries across the U.S. and Canada.

With its large elderly population, Florida has been a major target of the companies' acquisition strategies. While Hagin's figures show them owning slightly more than a quarter of the state's

funeral homes, percentages don't tell the whole story: He says the two corporations don't intend to buy every funeral home, but rather to strategically purchase those calculated to give them the lion's share of the state's biggest funeral markets.

Consider the following statistics for 1995 that Hagin compiled: In Leon County, Loewen and SCI own less than a third of the funeral homes but did more than half of the burials. In Broward, the corporations did more than two-thirds of the business while owning about half of the funeral homes; in Hillsborough, they did about 40% of the business while owning less than a third of the homes.

### No discounts

Unlike big retailers, which must gain market share by offering discounts, the funeral giants get market share through acquisitions. Because consumers don't decide which funeral home to use primarily on the basis of price, the big operators have little incentive to discount. Usually, SCI and Loewen keep most of a funeral home's previous management on staff to maintain the home's "brand-name" identity, then "re-merchandise" the home's services and raise prices.

The chains use internal economies of scale to boost profits even more. Keith Kronish, a former SCI employee who is now the general manager of Gutterman-Warheit Memorial Chapel, an independent Jewish funeral home in Boca Raton, says that SCI and Loewen "cluster" many services - sharing staff and centralizing embalming and cremation, for example - but don't pass the economies of scale on to consumers.

Whereas a typical funeral home makes a profit of between 18% and 25%, SCI expects profits of between 25% and 33% from the funeral homes it owns, Kronish says. "The consumer isn't in this picture. The stockholder is in this picture. Dividends and stock profits are in this picture."

Funeral director Julian Almeida, who worked for SCI for 13 years, says the company asked him to raise prices every year to meet its annual objectives and Wall Street's expectations. "If the funeral home was not achieving that goal, the prices were raised again," he says.

This summer, Almeida left the corporation to start his own independent funeral home in Royal Palm Beach - in part because he believed the company was charging too much.

"I couldn't deal with having a family sitting in front of me and demanding such high prices," says Almeida, who is now part owner of the Palms West Funeral Home.

Ironically, some independent owners say that the chains' influence on the market is so strong that independents can raise their fees substantially and still compete on price with the chains. "If SCI

doesn't decrease its prices, I don't have to either," Kronish says.

Industry insiders agree that the costs of services and merchandise at the corporately owned funeral homes are generally higher than at independently owned funeral [TABULAR DATA OMITTED] homes, but not everyone sees a problem.

"I think consumers are aware of the fact that they should shop around," says Jim Wylie, the executive director of the Florida Funeral Directors Association. "If price is important to them there is ample information."

Defenders of the chains say the evolution of the business simply parallels many others in which "mom and pop" operators have sold out to national concerns. A third-generation funeral home owner may be having problems finding capital to update a home or finding someone in the family to assume control of the business. A sale to a chain may simply provide a comfortable retirement, or instant wealth to an operator who may not have been able to achieve those goals as quickly or easily.

Gregory Cappelli, an analyst who follows the business as vice president of ABN AMRO Chicago Corp., says the consumer may benefit from a wider range of service options and updated facilities at a home that a chain has purchased.

And many independents express little fear that the chains will drive them out of business. While the industry is consolidating, about 80% of funerals nationwide are still conducted by independently owned funeral homes, analysts say.

"The big corporations cannot offer same individualized services," says David Farley, president of Farley Funeral Home in Venice.

But some independent funeral home owners worry that consolidation in the industry is giving consumers fewer choices. According to Kronish, for example, there is no longer an independently owned Jewish funeral home in Dade or Broward counties, where Loewen and SCI-owned funeral homes now compete against each other for the Jewish funeral business.

"That's it - servicing the entire south Florida market, one of the largest Jewish communities in the country," Kronish says.

Takeover?

Though bitter rivals, Loewen and SCI have competed relatively quietly in Florida - until September, when SCI mounted a hostile takeover bid for Loewen. SCI initially offered \$43 a share

for Loewen, then upped the bid to \$45. Loewen's board of directors rejected both offers from SCI.

Loewen also took some strong defensive measures: It made the takeover more expensive by giving more than 70 executives generous compensation packages that would kick in if they were fired or moved after a takeover. And it accelerated the pace of its acquisitions, paying generously - some say exorbitantly - for a cemetery company in California. Since SCI first announced its bid for Loewen, Loewen reportedly spent a total of more than \$325 million on acquisitions.

Raymond L. Loewen, chairman and CEO of Loewen Group, says that his firm's acquisitions and "structured transactions" totaled more than \$1.4 billion through the end of 1996. "We achieved the largest volume of any funeral and cemetery company and expect to maintain this aggressive acquisition pace next year."

In early January, SCI dropped its takeover bid.

SCI declined to discuss the proposed merger or any specifics of its business practices. Loewen provided a sheaf of press releases relating to the company, but did not respond to specific questions about its activities in Florida or its pricing.

Jennifer Childe of Rodman and Renshaw in New York says SCI's takeover bid could resurface if investors don't like Loewen's defense tactics and the company's stock price drops. Others disagree, with Cappelli saying a new run at Loewen by SCI was "possible, but not likely."

As for Florida's future, the analysts don't believe the failure of the takeover attempt will set off a bidding war between the two companies for the remaining prime funeral homes in the state. But within the limits of what the Federal Trade Commission will permit in a local market and the companies' strategic goals, they say the trend toward corporate domination of Americans' way of death will continue.

## Death-care Giants

Two national firms - Service Corporation International of Houston and Loewen Group Inc. of Vancouver, Canada - dominate the funeral business in Florida.

## Services Corp. International

Headquarters: Houston, Texas CEO/Chairman: R.L. Waltrip Ticker Symbol: SRV Recent trading range: 27 2-week hi-lo: 31 3/4 and 19 7/16

Third quarter 1996 vs. third quarter 1995: Revenues: \$544.5 million, up 35% Net income: 57.4

million, up 47% Earnings: \$.24 per share, up 20%

Operations: The company operates 2,864 funeral homes, in millions 335 cemeteries and 146 crematoria and other funeral and cemetery-related businesses, including financial services, throughout North America, Europe and the Pacific Rim.

Source: Bloomberg

Loewen Group Inc.

Headquarters: Vancouver, Canada CEO/Chairman: Raymond L. Loewen Ticker Symbol: LWN  
Recent trading range: 38 52-week hi-lo: 43 and 16 3/8

Third quarter 1996 vs. third quarter 1995: Revenues:\$231 million, up 51% Net Income:\$47.3 million, up 67%

Operations: The company owns and operates 956 funeral homes and 313 cemeteries throughout Canada and the U.S. The company also operates an ambulance service and a few small insurance companies.

Source: Bloomberg

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