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Independents

Joining Forces to Compete

by Lawrence C. Anspach

In this era of mergers and acquisitions, how can an independent cemetery compete? Examining how large corporations work offers some insight into ways independents can form business coalitions to reduce costs and boost profits.



Larry Anspach

As president of a company specializing in cemetery and funeral home mergers and acquisitions, I am in a unique position to see the advantages and disadvantages of the so-called "feeding frenzy" in this industry and to help independent cemeteries understand how to compete with the conglomerates.

Many groups and individuals wish to divest their properties, and others need to divest their properties for a variety of reasons. What is left is the group I call "the last of the independents." This group seems to be shrinking by the day, and even by the hour.

Who would have thought a few short months ago that the Neel family's Woodlawn Cemetery and the Brammer's Gibraltar Mausoleum Corporation would be sold to Service Corporation International? Or that Shipper Management, Osiris Holding Corporation and MHI Group would be sold to The Loewen Group? Or that Brian Marlowe's cemeteries and Robin Luce's Pinecrest Cemeteries and Funeral Home would be sold to Stewart Enterprises?

Our industry is moving in the same direction as the airline, ambulance service, messenger service and garbage disposal industries. It can be compared in many ways to the recent mega-mergers of Time-Warner and Turner Broadcasting, Disney and Capital Cities/ABC, and Westinghouse and CBS.

But what if you do not want to divest your cemetery or funeral home? What can you do to compete with the conglomerates?

The Corporate Advantage

Let's take a look at what the conglomerates can do that you think you cannot do. At the same time, we'll explore some of the improve-

ments these corporations have brought to the memorialization industry. If you are to compete with the conglomerates, you first must understand how they operate and the ways in which they have brought professionalism to our industry and indirectly helped independent owners.

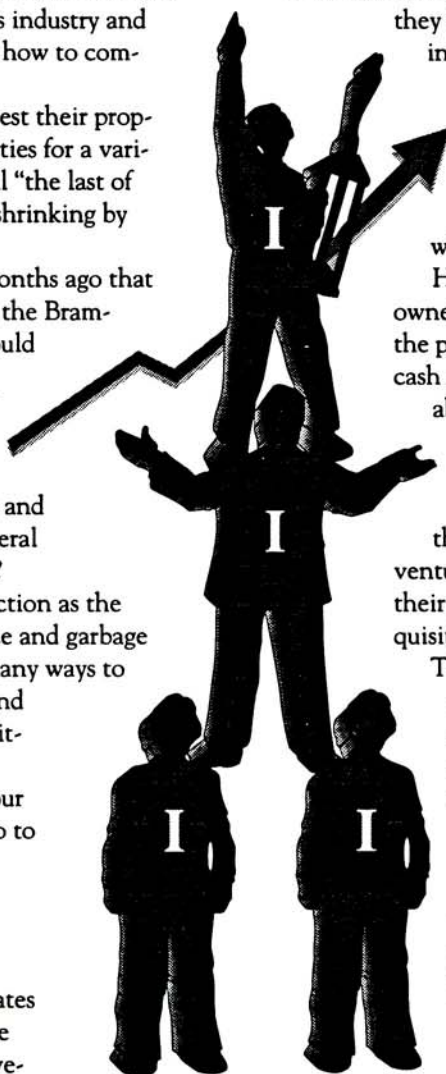
If you wanted to sell your cemetery or funeral business just 10 years ago, who would have been interested in buying it? Like it or not, the conglomerates—both public and private—have created liquidity in this industry where virtually none existed before.

How often have you heard stories about a new owner who destroyed his property by not maintaining the previous owner's high quality standards, depleting cash reserves and trust funds, or creating unfunded liabilities? The existing public companies and the large private companies that are interested in going public will not and cannot do anything unethical. These companies have to answer to their shareholders, the public, Wall Street, and venture capital companies. They can't afford to ruin their properties; how could they continue making acquisitions with a bad reputation of performance?

These corporations bring what we sell every day—peace of mind. They allow cemetery and funeral directors to rest assured that they will continue to maintain and improve their operations, and thus the entire industry.

These conglomerates can provide employee benefits or improve existing benefits in ways most family-run businesses cannot afford. This includes 401k plans and other pension benefits, lucrative stock options, better health benefits including dental insurance, and so on.

Large corporations also have an advantage when it comes to government monitoring and



compliance. Many independents cannot afford to comply with or are not aware of all the federal and state health, environmental, employment, trade and tax regulations that apply to them. The conglomerates have the staff and resources to deal with these issues. This has proved indirectly beneficial to independents, as conglomerates have helped pass favorable laws and fight anti-competitive laws in the state and federal legislatures.

Conglomerates have the capital to expand and improve their businesses, whether by building a funeral home on an existing cemetery or purchasing the equipment needed to improve operations. Despite the current low interest rates, it can be very difficult in today's environment to obtain financing from traditional sources such as banks.

The conglomerates are growing extremely quickly. SCI now services about one in nine people in the United States. The conglomerates need to hire, train and retain top-quality managers to continue to expand. Most family-run businesses pass the succession from one generation to the next with little opportunity to advance. The conglomerates offer opportunities for career advancement that cannot be found in independent cemeteries.

Finally, conglomerates have access to apparently unlimited capital, allowing them tremendous buying power that you as an independent owner do not have. They can negotiate large contracts with industry suppliers, purchasing everything from caskets, vaults, urns and memorials to various types of insurance at much lower prices.

The Independent's Answer

Now that we have discussed the way conglomerates operate and the opportunities and benefits they have brought to our industry, let's explore what independents can do to compete.

One of the first things you as an independent can do is become a member of your state and national cemetery/funeral home association. These associations can be helpful in a variety of ways. Cemetery and funeral associations currently are changing their own business practices to compete with conglomerates. Many are changing their bylaws to allow allied industry members to become members, in hopes that this will compensate for lost membership due to acquisitions by the conglomerates.

The Illinois Cemetery Association (ICA) several years ago created a master trust program, operated by Access Financial Group, Inc., of Chicago, Illinois, for cemeteries throughout the state. The program allows independents to join together and ob-

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tain the benefit of a professional investment advisor for their trust funds that perhaps they could not have afforded individually. It has proved very successful and now has about \$30 million in trust funds. Not only are the cemeteries involved obtaining better yields on their monies, but the ICA has received more than \$150,000 in fees for operating the program. These fees have enabled the association to retain a full-time lobbyist and lawyer to help fight unwanted legislation and draft improved legislation. Thus, Illinois cemeteries have realized two very important benefits—obtaining better yields on individual trust funds and generating money for legislative purposes.

Cemetery associations in Pennsylvania and Missouri also use Access Financial Group to operate master trust programs, and the American Cemetery Association currently is working to develop its own master trust program to bring these types of benefits to cemeteries across the nation.

Because of its success with the master trust, ICA has duplicated the concept with workers' compensation insurance. By joining together, member cemeteries not only have saved money on insurance premiums, but they have received dividends from the excess cash. This method is an effective way to compete with the conglomerates, which often self-insure. It should be noted that the conglomerates at times have participated in these programs and helped make them successful.

Many cemeteries and funeral homes have labor contracts with their employees. I know of many properties across the country that have joined together to have one collective bargaining agreement covering many independent properties. This

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saves money in legal fees during contract negotiation and creates a sense of security for owners, who know they will not be left alone to manage their property in case of a strike or other labor dispute.

Increased buying power is one of the most obvious advantages corporations have, but independents can increase their buying power, as well. I know of cemeteries and funeral homes

that share equipment and personnel. Whether it is a limousine, a hearse, a back hoe, paving equipment or a tree chipster, you can share equipment that you do not use every day or all day with competitors. This saves money and creates harmony among your colleagues. I believe we eventually will see the creation of centralized embalming facilities. This will save money, ensure quality service and improve safe operating conditions and compliance with EPA and OSHA regulations.

Many funeral homes have taken advantage of the opportuni-

ICCA: Working Together as Part of a Vibrant Industry

Cemetery and funeral coalitions take on a variety of forms. Some are highly specialized, while others encompass a large cross-section of the industry.

The Independent Cemetery Counselors Association, a group of sales counselors from independently owned cemeteries in the Midwest, was formed several years ago to provide training and networking opportunities for members.

Glen "Smoky" Stover, sales director at Wyuka Cemetery in Lincoln, Nebraska, started ICCA with five founding cemeteries in July 1992. The group has since grown to 23 cemeteries in Kansas, Missouri, Nebraska and Oklahoma. In addition, the association now has four active supplier members.

Each February, ICCA members attend a one-day sales counselors' school designed to teach the basics of selling and give everyone from the most experienced counselor to the novice an opportunity to learn what others in the industry are doing. The school consists of about eight 45-minute sessions conducted by sales managers and sometimes the counselors themselves.

Supplier members—Matthews International Corporation, Williamsburg Bronze, Gorham Bronze and Watertown Monument Works—offer financial and educational support to the school, which concludes with an annual awards banquet honoring top producers.

Another benefit of membership, which costs \$50 for cemeteries with one or two sales counselors and \$75 for cemeteries with three or more counselors, is a bimonthly newsletter geared specifically toward sales counselors. Edited by Allen Harrison, president of Resthaven Memorial Park in Shawnee, Oklahoma, the newsletter features sales and motivational articles, book reviews, news briefs from member cemeteries and related product information.

According to 1996 Sales School Program Chairman Bill Wright, vice president and general manager of Fairlawn Burial Park in Hutchinson, Kansas, the association's greatest service is showing members that their individual jobs and cemeteries are part of a larger industry.

"One of the most difficult things for most independent properties is in the hiring of quality people," Wright said. "And once you hire these people, how do you keep them excited? How do you get them to understand they're involved with something larger than themselves? We're probably going to have over 100 people at this year's school, and if you can get them together so they know there is somebody else out there doing the same thing they're doing, it begins to get them to understand that it's not just their property they're working for. They're actually working for a viable, vibrant industry."

Wright, a member of the ACA Board of Directors, believes member-

ship in ICCA should be accompanied by membership in other regional and national associations. He says active participation in these organizations can dispel the sense of loneliness cemeterymen often feel.

"If you go to a Rotary Club or another civic organization," he explained, "you are probably going to be the only cemeteryman in the group. There may be 150 doctors, 50 or 60 attorneys, and 20 or 30 insurance agents, but you're the only cemeteryman. You have to deal with people's non-understanding of the business, and you have to deal with the jokes: 'I guess people are just dying to get in there.' I mean, how many times have we heard that?"

"So on a local level, it becomes a rather lonely world, and I think the forefathers of our industry understood that. From the very beginning, this has been a sharing industry."

Wright stresses that, although ICCA is open only to independent cemeteries, it does not take an "us vs. them" attitude toward public companies. The group simply works hard to build their own properties and share in each other's successes.

For more information on ICCA, contact Bill Wright, Fairlawn Burial Park, P.O. Box 2706, Hutchinson, KS 67504; (316) 662-3431.

—Linda Acorn

ties purchasing coalitions have to offer. For example, a group of 11 independent funeral homes in the Louisville, Kentucky, area has formed a co-op to purchase advertising space in area newspapers and share livery service. Another group in Indianapolis, Indiana, is pursuing the option of starting a casket purchasing co-op. And a group of 18 independent funeral homes in the St. Louis, Missouri, area has joined together to pool advertising resources. The group spends about \$40,000 per year in advertising, or about \$40-\$650 per month per firm, depending on volume.

A group of 12 firms in the Baltimore, Maryland, area claims to save up to 30 percent on items such as caskets, flowers, advertising and office supplies by buying jointly. This group says it has saved \$120,000 over a three-year period. An Abilene, Texas, casket co-op has been in business for nine years and boasts 50 members. Some members have saved as much as \$8,000 per year.

One opportunity I feel independents should consider for the near future is communication and technology. Wouldn't it be great if cemeteries shared a computer network system? Conglomerates use a centralized computer system in all of their cemeteries. Think of the savings cemeteries and funeral homes could obtain by sharing a network system. By joining together, independents could hire legal counsel to draft proper retail installment contracts and price lists and disclosures. They could

then share printing expenses by banding together to print 10,000 contracts instead of 500. The same applies to sales materials and other printed matter.

How many of you use telemarketing to obtain leads? What happens when you receive a lead that is not productive for you to use? Why not work out an arrangement with your competitor to share these leads and help pay for the cost of the telemarketing?

Ironically, by joining forces, you may be laying the groundwork to further enhance the profitability and marketability of your company and the others in your group. You may one day find that your coalition has become an acquisition target by the conglomerates. By joining forces to compete with them, you may end up creating a situation that will make your company more appealing to the conglomerates.

Historically, conglomerates have paid a premium for larger acquisitions. A group of several profitable, well-run companies is more attractive to them than a single cemetery or funeral home. The fact that your group is most likely located in one geographic area also increases its value because conglomerates like to acquire properties in clusters.

By joining forces, you can get your house in order. For example, you can improve your business' compliance with federal

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and state regulations and perhaps offer better quality products and services than you could alone. All of these things enhance the value of your property and may in the future help you obtain a higher value for your business.

Interestingly, by joining forces, you may keep out or prolong having the conglomerates acquire any single cemetery or funeral home in your area. If you have a group that is working together to save money and improve operations, it may be harder for conglomerates to penetrate the market and acquire one of your group. Why sell if everyone is happy?

It may seem ironic that I specialize in mergers and acquisitions yet am trying to help independent business owners compete with the conglomerates so they will not be forced to sell.

But I feel there is room for everyone in our industry. There are approximately 22,000 funeral homes and 10,000 cemeteries in the United States, and only about 3,000 funeral homes and 600 cemeteries are owned by the conglomerates. However, the conglomerates' total market share is approximately 22 percent.

Despite the rapid consolidation pace, it is my opinion there will be some recycling. The garbage disposal industry offers an example of this concept. A small garbage truck company sells to the industry's largest conglomerate, Waste Management. Af-

ter several years, he becomes bored and decides to reenter the business, so he goes out and buys a truck and contracts with a new suburb being built. Soon he has several more trucks and is large enough to be a target to be bought again by Waste Management.

This scenario already is happening in our industry. After an owners' non-compete agreement has expired, the owner decides to go back in the memorialization business and soon becomes another acquisition target.

Remember, the conglomerate has brought liquidity to your business and helped improve the overall quality of our industry. If you can't compete, it's certain defeat! Learn from the conglomerates and apply their operating practices to your business. Your business will be better off, and so will our industry.

Lawrence C. Anspach is president of American Cemetery/Mortuary Consultants, Inc., a 35-year-old firm in Chicago, Illinois, that has performed more than 1,000 cemetery and funeral home appraisals and brokered over \$300 million in cemetery/funeral home acquisitions.



Frank L. Karnes, Jr.
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