

The Southern Funeral Director

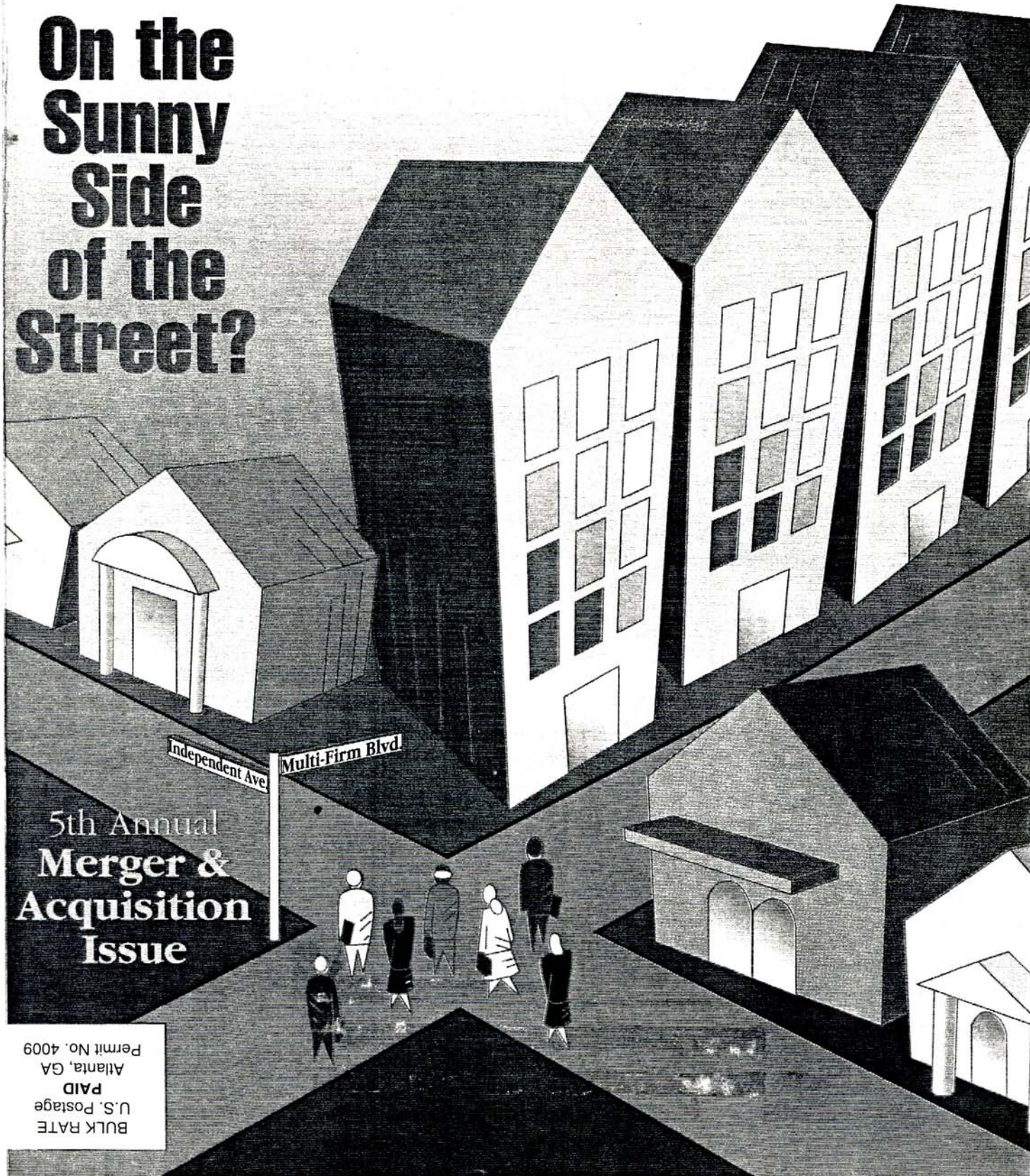
❖ The National Funeral Service Journal With a Southern Accent Since 1919 ❖

MAY 1993

On the Sunny Side of the Street?

5th Annual
**Merger &
Acquisition
Issue**

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going to affect independents. Those that are meeting these challenges will survive and prosper, those that aren't will have a hard time. Cremation will also play a larger and larger part in the future. I hope that the industry will decide to provide more service to those who choose cremation - this is because funeral directors and cemeteries have not viewed cremation as an opportunity but as something to be avoided. People opt for cremation not as much for financial reasons but for other reasons, sometimes environmental, others fear of burial. If presented with options detailing services, a family is more likely to choose a more traditional service. I hope we see a different kind of cremation development in the future. I think that our company will continue to play a strong role in this now and probably a stronger role in the future. I think that our growth will continue at a nice orderly pace and that we will continue to be a strong company."

SERVICE CORPORATION INTERNATIONAL

Service Corporation International is widely credited with inventing the concept of corporate funeral service, and while some would debate this, the fact is that they are the best there is at assembling a company simply because they have assembled more of them than anyone else. "We don't try to camouflage it — acquisitions is the term," John W. Morrow Jr., SCI's executive vice president for corporate development says.

"We are on target for 1993. SCI is continuing to decentralize. Our acquisition plan for 1993 was to push down to the six regional presidents the responsibility of making acquisitions that are considered 'add ons' to present operational clusters. We've learned, maybe the hard way, that sometimes ownership of funeral homes and cemeteries doesn't seem to be as successful in a smaller community. For 1993, we are concentrating on areas of greater population density."

"Our whole company is built on the service center concept and the idea of clustering funeral homes for better service to families, and in the rural

homes you can't really do that." With SCI moving acquisitions activity from Houston out to its six regional presidents, prospects can expect more one to one dealings with persons who are more familiar with local funerals and ways of doing business. Adds Mr. Morrow, "Our responsibility corporately was to identify new cluster opportunities, and to move SCI into new markets. The regional presidents are also adding on to present groups, in a dual acquisition effort for 1993. And yes, we are on target with this."

Mr. Morrow emphasizes that SCI has had more experience than anyone in melding a new firms' employees into the corporate fold. "The proof is in the pudding. You can go back and look at firms we've had for an extended period of time and judge by

them. We've had some good times and some bad times, and I think we've learned from them. My own family firm became part of SCI in 1970, and I am real pleased with the way we've preserved the heritage and service tradition there.

"We know that to have the continuity and the growth trend after an acquisition, the key issue is people. We've got to have a positively motivated staff, and if you do the things we're accused of doing, cut salaries, pass out pink slips, cut benefits, you will find that out the hard way. We're not in the business of trying to deteriorate the value of what we've just paid dearly for. We protect our investment."

SCI typically offers contracts to both

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When Consolidation Occurs, Jobs Are Usually Not Lost

By Lawrence C. Anspach

We see continuing a further industry consolidation. Many people believe that all the available "good" funeral homes or cemeteries have already been purchased. In fact, the combined holdings of Service Corporation International, The Loewen Group, and Stewart Enterprises is only 5.4% (1,177 out of 22,000) of the funeral home market and 2.8% (267 out of 9,600) of the cemetery market. This leaves 20,823 funeral homes and 9,333 cemeteries yet to be purchased. The degree of consolidation in the funeral home business is about twice that of the cemetery business. It should also be noted that the above companies have an estimated 13.6% of the total funeral home market share compared to their 5.4% holdings (from an industry company report by The Chicago Corporation).

A January 18, 1993 article in the *Chicago Tribune* reported that there were only 208 mergers and acquisitions of businesses in the Chicago area in 1992. This was down from 255 transactions reported in 1991 or an 18% decline in mergers and acquisitions, and was the lowest number of deals reported since 180 in 1980.

According to this article, in many cases valuation has declined from 7 to 8 times cash flow in the 1980's to 4 to 6 times currently. While there is ample equity capital available in corporate treasuries and personal holdings, commercial banks are still skittish in making acquisition loans in leveraged situations.

How the Clinton administration deals with the economy and the strength of the economic recovery could have a bearing on funeral and cemetery mergers and acquisitions in 1993. Although, unlike other industries, when consolidation occurs, jobs are usually not lost.

We also see private companies owning and operating multi funeral homes and cemeteries going public in the near future. Even some allied industry companies will also go public.

Increased government regulations and the tightening of the money supply (being unable to borrow money for improvements, expansion, etc.) is a major factor in why sellers are selling their businesses. The American Disabilities Act

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When Consolidation Occurs

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(ADA), the Occupational Safety and Health Act (OSHA), the Environmental Protection Agency (EPA), the Underground Storage Tank law (UST), the Federal Trade Commission (FTC), collective bargaining (unions), proposed higher taxes and restrictive state laws are all reasons why many sellers are saying it is easier to sell my business and work for someone else than it is to own and operate my business.

Florida's funeral and burial law is undergoing sunset review.* The outcome of this new law could increase or decrease the value of your business. This is why it is important to participate in the legislative process. The more restrictive and anti-competitive the laws are, the probability is that you will receive a lower price for your property.

Here's the sales pitch: "Whether you use our company or another company, it is our recommendation that an intermediary be used when you sell your business."

Despite the current economy, we feel that the outlook is favorable if you are selling your business or looking to buy a funeral home or cemetery. In our opinion, the difference between the 1980's and the 1990's is that the deals are still getting done, but they are taking longer to do. This is because buyers are being more thorough in their investigation of the business.

*As of the week of April 4, the new law states that all funeral homes and cemeteries must trust merchandise at 110% wholesale. The new law combines regulation of funeral homes, cemeteries and crematories into one law.

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