MORTUARY MERGERS AND THE INTERNATIONALIZATION OF INTERMENT

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ABSTRACT

"Mortuary Mergers and the Internationalization of Interment" is a study of the death services industry's response to a changing market. Throughout the industry and across national borders, independent mortuaries and cemeteries are merging or consolidating. International death services firms are structured much as the automobile, oil, and communications multinationals are. Monopolistic competition is increasingly replaced by national and international oligopoly that may well translate into monopoly in isolated markets and lead to antitrust action and regulation. The study develops the historical roots of the death services industry but concentrates on the revolution underway. The prospects for the industry in the twenty-first century conclude the paper.

When Jessica Mitford's *American Way of Death* appeared in U.S. bookstalls in 1963, the traditional funeral it lampooned was the nationally accepted ceremony for the dead. Americans embraced the mandates of mortuary directors at great personal expense and often extensive debt. Funeral homes were monopolistically competitive and independent. Cemeteries were separately owned and operated in their particular monopolistically competitive markets.

By the time Mitford's *American Way of Death Revisited* tempted book buyers, the author herself was dead, and the target of her wit was in the throes of a social and institutional revolution, one promoted by Mitford thirty-five years earlier. The institutional framework of the traditional funeral is crumbling as discount coffin shops bite into morticians' profits, and the increasing popularity of cremation eliminates many established mortuary services and abates the profits of cemetery operators.

"Mortuary Mergers and the Internationalization of Interment" is a study of the death services industry's response to a changing market. In the struggle to survive, independent funeral homes are offering new services: some mortuaries have built facilities adjacent to burial grounds to expand into the cemetery business; others are merging with competitors to spread fixed costs over a larger market share; a few keep their accounts in the black with such novelties as video presentations of the life of the deceased. Throughout the industry and across national borders, independent mortuaries and cemeteries are merging or consolidating. International death services firms are structured much as the automobile, oil, and communications multinationals are. Monopolistic competition is increasingly replaced by national and international oligopoly that may well translate into monopoly in isolated markets and lead to antitrust
action and regulation. The study develops the historical roots of the death services industry but concentrates on the revolution underway. The prospects for the industry in the twenty-first century conclude the paper.

The growth of markets is the most important development in the economies of the world in the centuries since Adam Smith wrote The Wealth of Nations. Not only have economies grown, but the proportion of those economies ruled by markets has become so large that today's citizens in Western industrialized nations forget that supply and demand do not rule every economic decision. Americans entering the nineteenth century recognized markets as the means for directing international trade and for selling surplus products not needed at home or buying items not produced at home. Life went on when markets broke down during the Jeffersonian embargo and the economic collapse of 1837-1841 because most economic activities did not pass through buyers and sellers. Americans built their homes with the help of neighbors, grew their crops, raised livestock, and produced whatever clothing they needed and could not readily secure from peddlers or local shopkeepers. Commercially made shoes, shirts, jackets, furniture, foodstuffs, and other articles of everyday life were as exceptional to nineteenth-century Americans as those same items produced by hand or at home are to citizens of the twenty-first century. Markets did not appear full blown but developed and matured, quickly for some products and services, more slowly for others.

The death services industry is a late-bloomer in the world of markets. Although Americans, British, and other peoples living in developing industrial nations embraced markets for shoes, fabric and ready-made clothing, appliances, and food products, they had little notion of markets for death services. Churches and towns maintained cemeteries in which space was sold for a pittance or was provided without extra charge to members or citizens. Graves were dug by the sexton or town gravedigger. A local physician might affirm death, but families were usually able to determine death without professional advice. Corpses were washed and dressed by family members at home and lay in caskets built by family or local carpenters or cabinetmakers. Before burial, the deceased might lie in a parlor in the home or at the church or in a rented space in a local business. Small-square-doors-coffin doors cut into an outside wall of a residence eased the entry and removal of a coffin. Burial was in family or local cemeteries in the presence of relatives, friends, and often a clergyman. The market transactions associated with care for the dead ranged from none to a few dollars for a grave, the gravedigger, a coffin, and perhaps a rented room.

In 1880, when John D. Rockefeller was building the vertically integrated Standard Oil Company and James Buchanan “Buck” Duke was launching the American Tobacco trust, there were 5,100 funeral establishments in the United States to manage the 993,000 deaths that year. Had the funerals been spread equally over the mortuaries each would have conducted perhaps four burials a week. Most generated far fewer interments, for the market had not evenly displaced frontier burial customs across the nation. Urban dwellers were increasingly forced to seek market help with the dead just as they found it necessary to buy food and clothing from local businesses. Removed
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from the land, they owned no property suitable as burial grounds, and health standards limited private funerary practices. Moreover, as urban populations grew, local governments increasingly prescribed what residents could do on their property. Restrictions included bans on farm animals and preparation of the dead for burial. Just as cities built and maintained cemeteries, some towns encouraged the establishment of local mortuaries with subsidies of land, buildings, and money. Death services evolved along with urbanization.

Unlike death services in Great Britain and Europe, where Western culture originated, the ornate funeral became an integral part of American society. Nevertheless, the U.S. mortuary business remained fragmented until the 1960s, when Mitford's exposé, combined with other authors' sensational magazine articles and novels, subjected the dark industry to public scrutiny and regulation. Although Mitford emphasized the ostentatious surroundings and equipage—the expensive coffins, special clothing, embalming, and cosmetizing—what caught the American eye was not the pomp and ceremony survivors were buying but how the exorbitant prices were assessed. Small enclaves of revisionists capitalized on the negative publicity accorded the traditional funeral to market their reforms, especially the use of simple cremation instead of ceremonial preparation and interment; but Americans in general were not put off by the ceremony of a funeral and did not espouse a simple, inexpensive burial or cremation, and the funeral industry has not assumed the form envisioned by Mitford and others. The cremation rate continues along the slow growth path it has traveled for a hundred years, and the ornate funeral dominates the American way of death at the beginning of the twenty-first century.

What impact did the reform movement have on the funeral industry? The Federal Trade Commission (FTC) ordered mortuaries to surrender bundling, the sale of funeral services in packages that force buyers to purchase goods and services they may not want in order to get those they do, and to desist from deceiving customers about the preservative powers of embalming, caskets, and vaults. Morticians were also warned against misleading clients about state laws with the intent to sell goods and services otherwise rejected.9

The early 1970s found the FTC posturing toward enforcement of the new rules, but actual citations were few and the fines meager. As the 1970s turned into the 1980s, FTC action ebbed; by the middle of the 1990s, the death services industry and their lobbyists had effectively gutted the FTC rules, and the industry had replaced bundling with a nondeclinable fee that guarantees mortuaries a minimum profit. Funeral prices are higher than ever.10

Regulation did not throttle the death services industry; instead, morticians lobbying through a multiplicity of trade associations successfully emasculated FTC control. Moreover, most Americans do not oppose the ornate funeral but view it as a status symbol, a measure of success.11 The industry has been reshaped by a declining market and increasing competition. The slow but positive increase in the cremation rate, the leveling off of the death rate, and entrants seeking a share of industry profits combined to change the character of the burial business.12
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When Congress passed the Sherman Antitrust Act in 1890, for the express purpose of reining in giant firms with extraordinary market power, death services were in the early stages of development. A century after Rockefeller and Duke turned to the trust as a refuge from destructive competition, three large publicly traded companies have emerged to dominate the mortuary and cemetery industry: Service Corporation International (SCI, the largest, was established in 1984 in Houston, Texas), the Loewen Group (based in Burnaby, British Columbia, Canada), and Stewart Enterprises (based in Metairie, Louisiana). These three firms, which own 15 percent of the 23,000 U.S. funeral homes and collect 25 percent of the nation's funeral revenue, are more comparable to firms in the meat packing industry during the Gilded Age than to firms in the oil refining or tobacco industries. Standard Oil and American Tobacco were broken up under the Sherman Act, but the packers survived prosecution despite the spirited attack led against them by President Theodore Roosevelt and reinforced by Upton Sinclair's 1906 exposé The Jungle.13

Interstate meat packers set prices much as latter-day morticians do: neither packers nor morticians concern themselves with how high prices go: the sky is the limit; whatever the market will bear. Both groups created floor prices to eliminate price competition. Packers established common costs so that compatible figures on margins of profit could be computed for all participants. The purchase cost of the animal plus a kill cost minus allowances for hides, fat, and other non-meat products equaled the carcass cost, which was divided by the number of pounds of meat produced by the animal (an established percentage of original weight) to derive the test cost. An agreed-upon margin of profit was added to the test cost. Meat was sold at various prices, but if the test cost and margin arrangements were properly applied, each company earned the same margin of profit.14

The packers first attacked their competitive problems with a series of pools (each would founder on internal cheating or a new market entrant) that predated passage of the Sherman Act but ended in 1905, when the Justice Department secured a permanent injunction against pooling in the meat-packing industry. Undeterred in their drive to replace competition with cooperation, the packers began merging the major interstate competitors. The attempt failed but left as a byproduct the National Packing Company, a firm comprising the many smaller establishments the packers had purchased in anticipation of the great merger. Each of the major packers owned shares of National, and their representatives met weekly to monitor operations at National, setting in the process prices and supply schedules to principal regional markets. This gimmick persisted for almost a decade before the Justice Department moved against the conspirators, and once again the regulators missed their prey: National was sold off before the Justice Department could order the sale but not until the packers had established a system of market maintenance and competitive control that could function without the representatives' weekly meetings.

Like the meat packers, mortuaries conspire to set floor prices. Competing funeral directors establish what they consider a fair return on their investment and time and
add it to a generally agreed upon overhead figure. Each facility estimates its annual costs along with expected return then divides the figure by the estimated number of funerals it oversees in a year to calculate its average overhead. These averages are combined to produce a market figure that each competitor uses as a guide to pricing funeral services. Peer pressure is the enforcer of minimum prices; pride, daring, and luck set the upper limit. Funeral directors must evaluate each buyer and determine how much can be asked without driving the customer to seek a competitive option.\textsuperscript{15}

The floor price for a funeral, probably above what economists call a break-even price (all costs, explicit and implicit, are covered and a normal profit is earned), and the sky's-the-limit high-end price encourage mortuaries to hold costs down to make the cheapest funeral profitable and, whenever possible, to set maximum prices to unheard of levels. SCI, the Loewen Group, and Stewart Enterprises have harnessed economies of scale and the age-old cloaking exploited so effectively by nineteenth-century trusts. These multinationals buy up mortuaries, crematories, and cemeteries clustered close enough within a metropolitan area to be operated centrally. Consolidation eliminates duplication of embalming rooms, technicians, vehicles, and equipment, so that a half-dozen or more funeral homes sharing apparatus and staff enjoy costs far below those attainable by independent operations. The low costs are not passed on to consumers. Because the cluster represents the bulk of the market area's funeral establishments, SCI, Loewen, and Stewart can operate and charge monopoly prices. When the giants move in, prices and profits move up.

As erratic and clouded by stress or grief as their exposure to the industry is, consumers have little opportunity to penetrate the clustering strategy. Moreover, clustering lends the appearance of competition: unit firms maintain their independent front, and often the original owners, now in the employ of SCI, present themselves to the public as owner-operators. Should a wary customer call several mortuaries in the market area for estimates, the bids from apparent competitors are identical or at least very close. The caller has no idea that only one organization is being tapped for information. The secrecy surrounding trusts in the nineteenth century fueled the drive for antitrust legislation,\textsuperscript{16} but the mortuary owners avoid state antitrust statutes by restricting their activities to sections of cities, not even attempting to monopolize the death services industry statewide. Interstate prosecution under the Sherman Act or associated acts is unlikely, for the giants control but a small part of the national funeral market. SCI, for example, controls less than 10 percent of the national death services business.\textsuperscript{17} Moreover, the price of funerary services offered by independent firms within the same metropolitan area as a cluster is in line with what the clustered firms charge. Because few consumers use price as a guide to purchasing mortuary services and advertising prices is usually out of the question, independent mortuaries increase their prices to compete with the local cluster and bargain with buyers who display an interest in assessed charges.

The market strategy used by mortuaries was pioneered by the meat packers in the nineteenth and twentieth centuries. When Swift, Armour, Morris, Hammond, or
another giant interstate packer purchased or bought into an established metropolitan butcher shop, that shop's reputation and clientele were used to launch dressed beef in the local market. A local voice was often necessary to overcome the resistance to beef killed a thousand miles away and shipped into the community by rail. The packers were able to sidestep the federal antitrust statutes by controlling a small portion of the total market for dressed beef while at once dominating the interstate trade and the local trade in strategic metropolitan markets.

Economies of scale allow the consolidated funeral companies to employ the latest in marketing tactics to press buyers to select high-end products with the best profit margins. The cost of marketing teams and training sessions for funeral home staff can be spread over hundreds of death services units, making each unit highly efficient at getting the most from every customer. The process, known in the trade as McDonaldization and Disneyfication, often forces independent funeral homes into the sphere of one of the giants since no single mortuary can afford the peripheral services brought to bear by the interstate and international firms.

"The buccaneering tactics introduced by the consolidators have paid off in enviable profit margins. The Loewen Group in a recent filing with the Securities and Exchange Commission (SEC) reported a stunning gross profit margin of 41 percent from its funeral operations. SCI's profit margin for funerals for the same period was a still robust 25.3 percent." Like Singer Sewing Machine Company, Standard Oil, and American Tobacco in the nineteenth century and Japanese automobile manufacturers in the twentieth century, the giant death services firms enter international markets in search of the sales necessary to harvest economies of scale. In 1994 SCI revenues topped a billion dollars as the corporation capitalized on the 9 percent of the funeral businesses it controls in the United States, the 15 percent in the United Kingdom, and the 25 percent in Australia. Aggressive marketing has recruited otherwise disinterested citizens abroad to the American way of death.

Although the multinational mortuary moguls have successfully dodged the FTC, they have run afoul of the Monopolies and Mergers Commission (MMC) in the United Kingdom. The FTC ignores local and regional markets to focus on national market power. The clustering strategy precludes charges of national monopoly and assures the consolidated firms a distinct advantage in local and regional markets outside the interstate domain of the FTC. State regulatory agencies fall easy prey to politics and the weak campaign finance laws. Aides of Texas Governor George W. Bush, the heir-apparent in the Republican presidential primary in the year 2000 elections, are charged with helping Texas-based SCI avoid prosecution for violations of funeral laws after they allegedly pressured state regulators who show too much enthusiasm for bringing cases against a campaign contributor. The United Kingdom's MMC, however, recognizes the potential for local control within an ostensibly competitive national market. Its approach to market operations is different than the FTC's, and the MMC brought charges against SCI for local monopolization. In late 1996 the MMC accepted a plan from SCI to implement changes necessary to neutralize the secrecy of operation that gave SCI mortuaries their special market power.
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Late nineteenth and early twentieth century trusts were vulnerable to market entrants. Because the successful control of a market and the monopoly prices it permitted generated large profits, competitors devised ways to share the largess. The American Sugar Trust, for example, was frequently held hostage by an interloper who would shave the monopoly price and take as much of the market as facilities permitted. American Sugar could reduce its own prices until the outsider closed down, but that tactic did not produce a permanent solution, for the outsider could return to competition once the monopoly resumed its profitable rate structure. American Sugar, and other trusts engaged in similar contests, found it necessary to buy out the interloper. It was not unusual for the bought-out enterpriser to return to the fray with yet another facility. After American Sugar president Henry Havemeyer died, accountants discovered the monopolist’s secret: he too owned peripheral sugar refineries that brought him large returns by shaving the trust’s price. As head of the trust, Havemeyer was able to ignore these competitors as unworthy of the trusts’ attention and reap a handsome personal profit in the process.21

The high prices charged for death services in markets where the multinationals operate have attracted competition similar to that endured by the sugar trust a century ago. Coffin shops offer alluring prices on burial boxes and cut-rate funeral homes advertise low prices to bring in those buyers who are willing to ignore social convention and bury on the cheap. The traditional mortuaries refused to bury a body in a coffin sold by someone else. The courts ruled that ploy illegal, so the mortuaries either find ways to raise prices to recoup sales lost by using a bargain box, or after persuading survivors that the coffin they bought from a discount dealer is shoddy, sell them a second, more expensive coffin for the burial. Many traditional mortuaries have opened their own discount coffin shops under names that disguise the shops’ relationship with the mortuaries. The advantage to a mortuary of running a discount coffin shop is the access to customers who might well be in need of a firm to do the actual burial. Traditional mortuaries also operate cloaked discount facilities. If the buyers at the discount house cannot be persuaded to buy a standard high-end funeral, at least the discount mortuary owned by a traditional home can access embalming facilities and other equipment at marginal cost.

Burial societies are perhaps the most meaningful threat to the dominance of traditional mortuaries. The societies serve citizens less concerned with the costs of burial than with the obliteration of the rituals of body disposal. These nonprofit organizations make simple, inexpensive cremation and burial available to members and others who place the dignity of the dead above the profits of the undertakers. In some cities the societies operate their own burial and cremation facilities; in others, they negotiate with mortuaries for package deals sans pressure on buyers to follow the orgy of burial promoted so vigorously in America. While a genuine threat to the multinationals and a serious one in that the participants are not swayed by advertising gimmicks or pressure from the mortuaries, the burial societies are not likely to change social mores or significantly reduce monopoly profits.
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Less a threat to the multinationals is another market strategy used against the nineteenth-century trusts. After the U.S. Supreme Court divided American Tobacco to create several oligopolistic competitors in place of a near monopoly, the independents that had survived Buck Duke's capture of the bulk of the American market merged into yet another oligopolistic firm. Survival against several giants would, they expected, be more tenuous than survival against a near monopolist that could easily ignore the tiny market share lost to a handful of independents. In death services, funeral home owners who resist being bought out, but fear the multinational in the local market may destroy them, frequently form alliances with other homes to share the cost advantages of clustering while still presenting themselves to the public as traditional owner-operated funeral homes. They too, of course, charge what the market will bear.

Like the local markets' response to the entry of multinational death services firms, the multinationals' own response to competition between themselves and to antitrust action against their market gathering is rooted in the past. Vertical integration served the early trusts well and continues to serve modern multinationals as oil companies, communications conglomerates, and computer firms protect their markets and profits by buying and rationalizing facilities from the basic raw materials to the final consumer. The oil companies integrate from petroleum supplies to gas stations, and multinational death services corporations buy cemeteries, mortuaries, crematories, and casket manufacturers. With the exception of the creation of burial societies, none of the reactions to market gathering and monopoly profits in industry in general and death services in particular serves the best interest of the consumer.

The future of death services is likely to parallel the development of the trusts in other markets just as its past has mirrored the growth of oligopolies in automobiles, oil, communications, minerals, chemicals, and other major industries. The death services competitors have caught up rapidly with their manufacturing and retailing predecessors. The merger movement of the late twentieth century found SCI launching a hostile takeover of Loewen. Early in 1997, SCI surrendered its bid for Loewen, and stock analysts began tracking the damage Loewen sustained from its poison pill. Loewen, for its part, embarked on what industry observers considered a questionable acquisition program. By mid-1999 SCI stock was falling, and Loewen was in bankruptcy court.

Death services will continue in the tradition of meat packing and other industries that range into international markets to spread costs over expanding sales. Independent enterprises will continue to operate in local markets, and as the giants make demand for funeral services ever more inelastic and prices rise accordingly, competition from independents will increase. Veblenesque funerals will glitter around the world as developing market economies are mentored, for better or for worse, by American businessmen.

The challenge to the death services industry in the twenty-first century is the public's gradual but steady acceptance of cremation over interment. Morticians are already turning that challenge to their advantage by relaxing their own defenses against
cremation. Aggressive marketing can persuade the public that cremation is not only superior to interment but socially responsible. Once interment is replaced by cremation as the principle means of disposing of the dead, morticians have only to adjust the price structure to their advantage. By 2050 cremation is likely to be by far the more expensive funeral package. Solemn men and women in dark suits will persuade distressed survivors that preparation of the dearly departed in a highly sophisticated human remains reduction facility must certainly cost more than being laid out in a box in the ground.²⁵

Notes

2. A monopolistically competitive firm enjoys monopoly-like power over whatever distinguishes its product (or service) from those of the competition and makes profits to the extent that it can differentiate its product from the competition's and create a strong demand for it. The firm cannot prevent others from vying for the market.

Mortuaries operate in the fuzzy zone that separates monopolistic competition from oligopoly. Establishments with strong market positions (strongly differentiated product) demand a higher price; hence, funeral prices may vary widely within a market. A mortuary may, for example, be recognized as the one from which the elite of the community are buried; only those willing and able to pay the higher price for the privilege of associating with the "best" local mortuary will seek their services. So mortuaries are monopolistically competitive they charge according to the strength of product differentiation whereas firms that produce, for example, automobiles, gasoline, or steel are oligopolistically competitive they charge prices that are the same or very close. The mortuaries' observance of a common floor price is oligopolistic; but the ease of entry and the disparity between the profits of the top and bottom competitors, despite the sale of very similar services, make the death services industry more like the monopolistically competitive firms that produce cosmetics and over-the-counter drugs (aspirin, for example) than like the oligopolistically competitive firms that produce automobiles or steel.

Most monopolistically competitive businesses make only normal profits no more than could be made with comparable investment elsewhere because ease of entry means profit-seeking firms will enter the industry whenever there are profits. Nevertheless, some companies, those with particularly strong brand-differentiated products, continue to make profits that attract new competitors. New establishments rarely take sales from the leaders' impenetrable market share, struggling instead with break-even companies for a share of the market not belonging to the profit-making leaders, and the result of their entry is the demise of either their organization or another marginal competitor. Consider aspirin. Bayer enjoys profits, but how much of Bayer's market is a new entry likely to take? David O. Whitten, "A Flat-Kinked Demand Function for Oligopolistic Sellers of Homogeneous Products," *Review of Industrial Organization* 1, no. 3 (Fall 1984): 206-15.
10. Ibid.
11. An ornate funeral is a Veblen good. Named for the American economist Thorstein Veblen (1857-1929), a Veblen good is characterized by a positively sloped demand curve; that is, consumers buy more of a good or service at a higher price, whereas they buy less of a normal, or economic, good at a higher price. Why
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would anyone buy more of a product or service as its price rose? Because the higher price limits the clientele for the good or service to a smaller and smaller number with the resources to purchase. A purchase at a high price sets the buyer apart from the greater market. Veblen added conspicuous consumption to the English lexicon.


Sinclair and the meat packers parallel Mitford and the morticians. Both muckrakers enjoyed vigorous acceptance of their books. Both industries came under federal inspection and regulation, but neither was substantially changed by the muckraking, public opinion, or regulation. Americans believe federal and state inspection more inclusive than it is, and are appalled when an outbreak of disease is traced to poor sanitation in a food preparation facility. In the year 2000, the U.S. Congress is, to save money, reducing the staff available for plant inspections.

17. Mitford, American Way of Death Revisited, 190-93.
18. Ibid., 194.

