

teering his jet-black Cadillac CTS sedan along the streets of West Palm Beach, Fla., Brad Zahn offers a tour of the area's cemeteries, one more tropically lush than the next. Zahn, owner of the Tillman Funeral Home & Crematory, embalms and buries people for a living. He employs his wife, Maribel, and one of their adult sons. Another son attends mortuary school. "My succession plan is in place," Zahn says. He speaks evenly and wears muted business attire. One hand on the wheel, he seems the very picture of a confident entrepreneur. His demeanor turns anxious,

however, when I ask about the funeral chain Service Corporation International (SCI). "How can you not be nervous," he responds, "when the 1,000-pound gorilla gets even bigger?"

In the death-care industry, as practitioners call it, SCI casts a long shadow. Based in Houston and publicly traded on the New York Stock Exchange, it operates more than 1,800 funeral homes and cemeteries in the U.S. and Canada. It has 20,000 employees and a market capitalization of \$4 billion. For 40 years, SCI has gobbled competitors as the pioneer consolidator of a fragmented industry. Although it has overreached at times, suffering a corporate near-death experience after a late-1990s debt binge, SCI is hungry once again. "This summer they bought the Quattlebaums," Zahn says, referring to an established family-owned funeral home catering to the Palm Beach elite. With that acquisition, SCI controls 8 of the 14 businesses Zahn considers rivals. "Then," he adds, "there's the Stewart deal."

Already No. 1 in death care in North America, SCI expects by early 2014 to ingest the next-largest chain, Stewart Enterprises, based in New Orleans. In one gulp, SCI will grow to 2,168 locations. If the \$1.4 billion transaction gets antitrust clearance from the Federal Trade Commission, the combined company would control some 15 percent of the U.S. industry, with much larger shares of prime markets in Florida, Texas, and California. In West Palm, a mecca for retirement (and therefore death), the Stewart merger would add a ninth business to the SCI stable, translating to more than 60 percent of the local market.

Explaining SCI's business model, Zahn brakes the Cadillac in front of a large mustard-colored building that serves as the company's regional embalming center. "Every body from every SCI home from North Palm Beach to Boca Raton comes here for embalming, and then it's shipped back [to the funeral home] for the service," Zahn says. "The families don't know, but SCI saves a ton on overhead." For cremations, SCI has a central oven facility in Fort Lauderdale. The chain's locations share limos, hearses, and personnel. They enjoy volume discounts on caskets, flowers, and embalming fluid. "You feel like you're competing against a factory," Zahn says.

As uneasy as he is about SCI, Zahn and other small operators do cling to one competitive advantage: The chain charges cus-

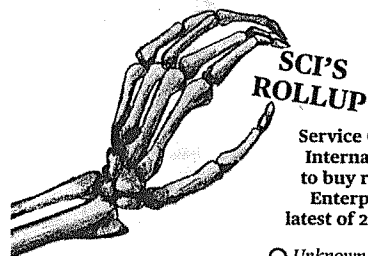
tomers more than independently owned rivals. Whatever cost savings SCI achieves, it keeps or passes along to its shareholders. Zahn recently cut his price for a no-frills cremation to \$1,000. Nearby SCI-owned competitors using the central Fort Lauderdale facility charge \$1,450 and higher. Nationally, SCI charges \$3,396 on average for a cremation with memorial service—30 percent more than independently owned rivals, according to data compiled by Everest Funeral Package, a Houston-based "concierge" funeral planning service. For traditional funerals, SCI charges \$6,256 on average (excluding casket and cemetery plot), 42 percent more than independents. "The SCI-Stewart deal may make sense at the corporate and Wall Street level," says Mark Duffey, Everest's chief executive officer, "but it's not necessarily good news for consumers."

SCI is already too big for its own—or its customers'—good, argues Josh Slocum, executive director of the Funeral Consumers Alliance, a nonprofit in South Burlington, Vt. The chain, he adds, generates "more consumer complaints than any other company we hear about." SCI has also faced accusations over the years of shoddy cemetery practices that show disrespect for the departed. In a class action scheduled to go to trial in Los Angeles in November, plaintiffs allege that out of eagerness to jam too many coffins into a crowded memorial park, SCI employees damaged and desecrated existing graves.

The company denies any wrongdoing in the Los Angeles case and contests Slocum's criticism. Pointing to overwhelmingly positive responses on customer surveys, SCI says it provides top value at a variety of funeral price points. Still, the consternation provoked by SCI's expansion illustrates that the mass marketing of death care stirs an inherent fear that growth and profitability will come at the expense of families at their most vulnerable. With so much of American life being put through one or another corporate mill, the rise of SCI poses the question of whether it's a good idea to corporatize death as well.

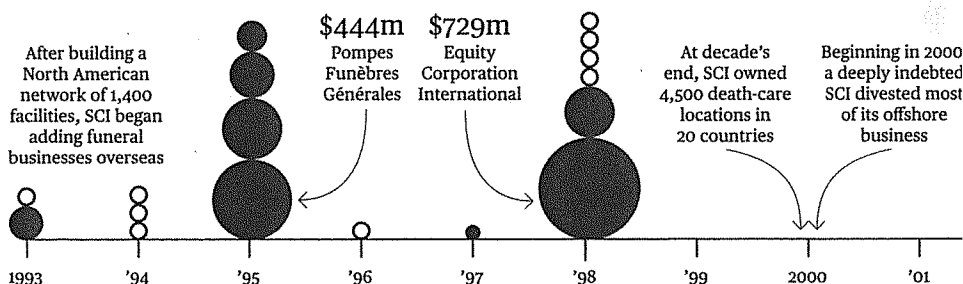
The \$16 billion-a-year U.S. funeral industry comprises roughly 25,000 mostly small, family-owned businesses, but it's consolidating with the spread of chains such as SCI and Stewart. Average profit margins are growing, according to research company IBISWorld, from 5.8 percent in 2008 to 6.5 percent in 2013.

Talk to licensed funeral directors, and they'll tell you with varying degrees of persuasiveness that they're "caregivers," akin to doctors. Like a for-profit hospital chain, though, a large death-care business inevitably risks crassness when it openly focuses on its finances. "We are really a cash cow," Aaron Foley, SCI's assistant treasurer, told attendees at an investment conference in August in Chicago. Based on its current inventory of "pre-need" contracts—under which consumers put down money for eventual funerals, locking in the current prices—SCI has "a backlog of future revenue of \$7.5 billion," he boasted. That figure would jump to \$9.2 billion with the Stewart merger. "We are going to be poised to benefit from the aging of America, the baby boomers," Foley said. Deaths in the U.S. are forecast to increase at an average annual rate of 1.1 percent over the next five years. At SCI, earnings per share rose 26 percent in the first half of 2013. "This growth," Foley said, "was driven in large part



Service Corporation International's bid to buy rival Stewart Enterprises is the latest of 23 acquisitions

○ Unknown purchase price
● Known purchase price, scaled by amount paid



IT'S YOUR FUNERAL

Average prices for services in a traditional funeral (not including casket or plot)

	Independently owned funeral homes	Service Corporation International
Basic staff services	\$1,840	\$2,763
Embalming	\$662	\$952
Dressing and casketing	\$217	\$296
Facility for visitation	\$431	\$447
Facility for services	\$491	\$592
Transfer vehicle	\$289	\$542
Hearse	\$298	\$374
Utility/flower vehicle	\$128	\$231
Lead car	\$49	\$59
Total average service	\$4,405	\$6,256

Overall average percentage difference:
42 percent

Caskets offered by
SCI affiliates



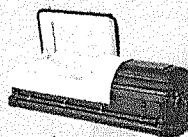
\$2,495
Autumn Oak



\$5,495
Tapestry Rose



\$9,995
Classic Gold



\$25,295
700 Masterpiece



\$40,295
The Promethean



\$175,000
Pharaoh Sarcophagus

company selling a service and making a profit," Hankins tells me. "I don't like dishonesty." He made other arrangements. SCI's Marshall declines to comment on his account.

In fairness, SCI doesn't have a monopoly on encouraging customers to buy more rather than less. Zahn, the independent funeral home owner in West Palm Beach, prides himself on serving families of modest means. Nevertheless, Everest's statistics show that for some services he charges roughly the same as SCI. And Zahn concedes that he routinely tries to up-sell families who come to him after a death. "They might come in for the \$1,000 cremation, and I would never force anyone to buy more," he says. "I will point out that they might like a package that would allow them to say goodbye in a more dignified way. We can bathe and dress the body, set the features, provide a viewing in a casket, with the family having one hour in the room." The extras boost the cost 90 percent, to \$1,900. He estimates that 4 out of 10 families say yes to his pitch.

Questions about pricing and sales practices are one thing. SCI's serious screw-ups are truly memorable. That stands to reason: Mishandle a corpse, and you're going to hear about it.

In 2001 the company settled a scandal that some in the Texas media dubbed "Formaldegate." A director of the Texas Funeral Service Commission claimed she had been fired in 1999 while investigating SCI for allegedly illegal embalming. She sued the company and the state, contending that founder Waltrip's friendship with then-Governor George W. Bush helped explain her ouster. Early in Bush's presidency, it appeared he might be forced to testify in the suit, but a Texas judge quashed the subpoena. Without admitting any wrongdoing, the state and SCI jointly settled for about \$200,000.

In 2003 an SCI funeral home in Massachusetts accidentally cremated the body of a stillborn infant. The tiny body was mistakenly left on a gurney headed for the crematory. The parents sued, and SCI apologized. The case went to trial because the company contended that the parents' grief stemmed from the death of their child, not SCI's subsequent negligence. A state court jury imposed a \$325,000 verdict against SCI.

The same year as the Massachusetts case, SCI agreed to pay up to \$14 million to the state of Florida and an additional \$100 million to hundreds of families who complained in a

we can devote more of our attention and resources to serving our client families and on achieving our strategic objectives."

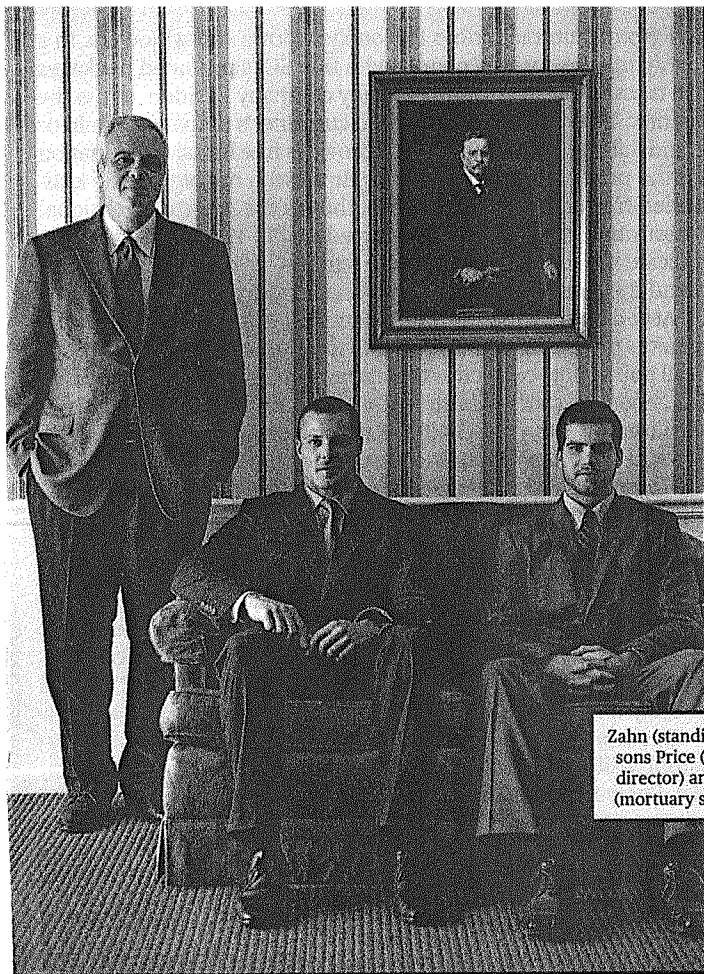
While SCI did not admit any wrongdoing in the Menorah Gardens case, the company "learned important lessons," according to Marshall. And yet a similar controversy has erupted at the company's Eden Memorial Park in Mission Hills, Calif. In 2009 a fresh class action was filed in state court in Los Angeles alleging that for more than a dozen years, SCI groundskeepers damaged graves to squeeze in additional burials. In May 2012 the court approved the class, and after extensive depositions and investigation, the case is scheduled to go to trial in November.

Michael Avenatti, the lead plaintiffs' lawyer in Los Angeles, says in an interview that he'll use the testimony of former Eden employees to prove that SCI showed disrespect to clients' remains, covered up wrongdoing, and, once the suit was filed, destroyed evidence. "It's a bet-the-company case, especially when we get in front of a jury," Avenatti says with a trial attorney's bravado. "This could bankrupt SCI."

SCI denies any misconduct at Eden Memorial and suggests that the plaintiffs' witnesses are truth-challenged, disgruntled ex-employees. In a July 2012 investor conference call, CEO Ryan said that SCI itself discovered problems affecting a handful of burials at Eden, and those findings sparked the class action. "This wouldn't even be a case if we didn't come forward," he said. "This was a situation where we uncovered through inquiries some potential burial issues on three or four folks. We brought this forward. We contacted families, did all the right things." He added: "We don't believe that the allegations in the suit are valid, and we're going to defend them vehemently."

With undisguised self-interest, Avenatti suggests that Stewart's board of directors keep an eye on the Los Angeles trial before agreeing to close the merger with SCI. "Rather than shopping for acquisitions," he says, "this is a company that needs to clean house."

From his vantage point in West Palm, Zahn observed up close the Menorah Gardens imbroglio. He took no pleasure in that scandal and likewise cringes over the current controversy in Southern California. "No one wants to see that kind of thing," he says. "It gives the whole industry a bad name." SCI, he adds, employs plenty of dedicated people trying to make an honest living. "I have to wonder, though, whether a Wall Street-traded corporation has its eye on the consumer the way I do." **B**



Zahn (standing) with sons Price (funeral director) and Evan (mortuary student)

due to the strong flu season"—i.e., a lot of old people got sick and died last winter.

Marketing death care means a constant flow of bad puns. "Baked into these numbers is the cremation trend that is occurring within America," Foley explained at the Chicago conference. SCI, he meant, is cashing in on the increasing popularity of cremation by buying crematories. Wall Street evidently approves: The company's stock has risen almost 40 percent this year, to more than \$19.

"People who don't buy our stock just don't like money," SCI's founder and chairman, Robert Waltrip, once said, according to *Texas Monthly*. While strictly speaking that hasn't always been true, one can't fault Waltrip for lack of enthusiasm. He grew up in the 1940s in a second-floor apartment above his father's modest funeral home on Heights Boulevard in Houston. In the '60s, young Waltrip began acquiring rivals, combining their operations. He called the technique "clustering" and compared it to that of McDonald's. By 1970 he'd given his company its singularly vague name and made Service Corporation International the first publicly traded funeral chain.

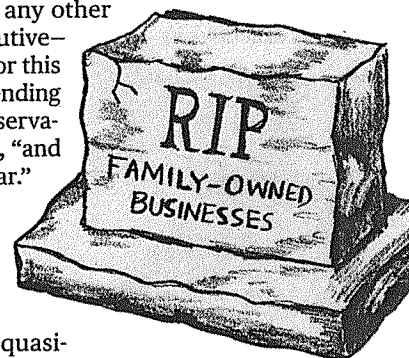
The buying frenzy eventually encompassed businesses in 15 countries, from Britain to Argentina to Australia. In the '90s

other financiers took notice, and a funeral home bidding war broke out. Acquisition prices soared. SCI accumulated \$4 billion in debt. Depleted by interest payments, it notched consecutive losses from 1999 through 2002. The stock price fell from \$45 in mid-1998 to \$1.75 in late 2000. To survive, SCI had to reverse course, selling most of its foreign holdings and a number of American ones. Oddly, it was during this dire period of contraction when SCI saw itself satirized on the HBO series *Six Feet Under* as Kroehner Service Corp., a soulless conglomerate seeking to acquire the dysfunctional Fisher family's funeral home.

In the real world, SCI did a 180-degree turn in 2006 and began bulking up again. Over five years it bought three smaller chains, including Neptune Society, the country's largest cremation company. The FTC ultimately approved all of the acquisitions, requiring SCI to divest selected properties—a likely model for how the agency will respond to the Stewart deal. (An FTC spokesman declined to comment.)

Through all the ups and downs, Waltrip became very wealthy. A barrel-chested man who speaks with a Houston drawl, he owns large ranches in Texas and Colorado and raises prizewinning cutting horses and cattle. The two former Presidents Bush, fellow Texans, are Waltrip friends and financial beneficiaries. When the time comes, SCI will almost certainly have a hand in burying the Bushes. The company has played a role in every presidential funeral since Eisenhower's. Pre-cleared by the U.S. Secret Service, a flying squad of SCI specialists is ready to swoop in for the next one, says Lisa Marshall, the managing director for corporate communications.

Waltrip, 83, gave up day-to-day management duties eight years ago. Most days, though, he still comes to SCI corporate headquarters, an ordinary-looking office tower in downtown Houston. "He just loves to stop and chat with employees in the elevator," Marshall says. The company awarded Waltrip total compensation of \$5.5 million last year. Thomas Ryan, an accountant by training who became SCI's chief executive in 2005, received \$9.1 million in 2012. Neither man—nor any other senior SCI corporate executive—would sit for an interview for this article. Marshall cites the pending Stewart deal. "This is a conservative company," she explains, "and we like to fly under the radar."



That's not to say that SCI is shy about showing off its flagship properties. At Geo. H. Lewis & Sons in Houston, a steward in quasi-military uniform holds open the front door and another serves cold drinks on a sterling silver tray. The place resembles a luxury hotel that happens to have a 400-seat chapel decorated with azure-green stained glass and a Steinway grand piano. The spacious foyer has sumptuous leather couches, imported Indian carpets, and antique side tables laden with petit fours on bone china.

Founded in 1936, Lewis retained its original owners' name when SCI acquired it 43 years ago. "That's how

