

Report – Analysis of Funeral Home Industry

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Project Background & Objectives

The research effort focused on the present and projected future state of the funeral home industry. The industry currently consists of thousands of companies that generate approximately \$15 billion in annual revenues from the operation of more than 22,000 funeral homes (earning approximately \$11 billion in annual revenues) and around 7,000 crematoriums and cemeteries (earning approximately \$4 billion in annual revenues).

It focused specifically on the current and projected sales of caskets, competition from traditional and emerging casket manufacturers and distributors, and the choice of burial alternatives (cremation), as well as any related trends.

The following research objectives were addressed:

- What is the current and projected demand for burial services?
 - ✓ What are the drivers of the demand (changing demographics, aging U.S. population, etc.)?
 - ✓ Are there significant differences in demand between U.S. regions or particular states?
 - ✓ What consumer interests and needs are affecting the demand for specific burial products?
- How many caskets are purchased annually by funeral homes?
- What criteria drive casket purchasing decisions by funeral homes (pricing, relationships with vendors, etc.)?
- What federal, state and/or local regulations may impact the manufacture, distribution and sales of caskets in the future?
- How are cremation services currently impacting casket sales, and how will they impact them in the future?
 - ✓ What is the current and projected demand for cremation services, compared to the demand for burial services?
 - ✓ What are the regional, religious or other factors affecting the choice of cremation services vs. burial services?
 - ✓ What are the funeral home costs and margins for cremation vs. burial services? What future changes are anticipated?
- What is the current competitive landscape for casket manufacturers and distributors?
 - ✓ Who are the major players and what is their market share? How many additional (smaller, independent) companies comprise the remainder of industry?
 - ✓ What are the casket sales of the major players (number of units, revenues, margins, etc.)? What are the average sales for the smaller, independent companies?
 - ✓ What additional competitors and potential substitutes are emerging?

- What other industry trends may impact the manufacture and distribution of caskets in the future?

Detailed Findings

Demand for Burial Services

Demographics

Demand for burial services is primarily driven by the number of older Americans:

- There are currently around 2.5 million deaths recorded each year in the U.S.
 - ✓ This number is expected to increase as the Baby Boomer generation continues to age
- In 2006, 35.5 million people were 65 years of age or older – more than 12% of the U.S. population.
 - ✓ This represents an increase of 500,000 people who were 65 years or older in 2000
 - ✓ This represents an increase of more than 4 million people who were 65 years or older in 1990
- During most of the 20th century, the growth of the older population outpaced that of the total U.S. population and the population under age 65. According to projections, a substantial increase in the number of older people will occur between 2010 and 2030, after the first baby boomers turn 65 in 2011.
 - ✓ The older population in 2030 is projected to be twice as large as in 2000 – growing from 35 million to 72 million and representing 20% of the total U.S. population at that point in time
- In 2000, nine states had more than one million people who were 65 or older: California, Florida, New York, Texas, Pennsylvania, Ohio, Illinois, Michigan and New Jersey.
 - ✓ Florida (17.6%), Pennsylvania (15.6%) and West Virginia (15.3%) were the states with the highest proportion of persons 65 and older
- U.S. consumers are forecast to increase their spending by 2.8% (compounded annually) for funeral and burial expenses between 2007 and 2012.
- Revenues for funeral services in 2002 totaled approximately \$4,500 per recorded death.
 - ✓ The average consumer price for caskets is in the range of \$1,500-\$2,000
- Spending for cremation and cemetery services was approximately \$1,400 per recorded death in 2002.

Trends Affecting Consumer Demand

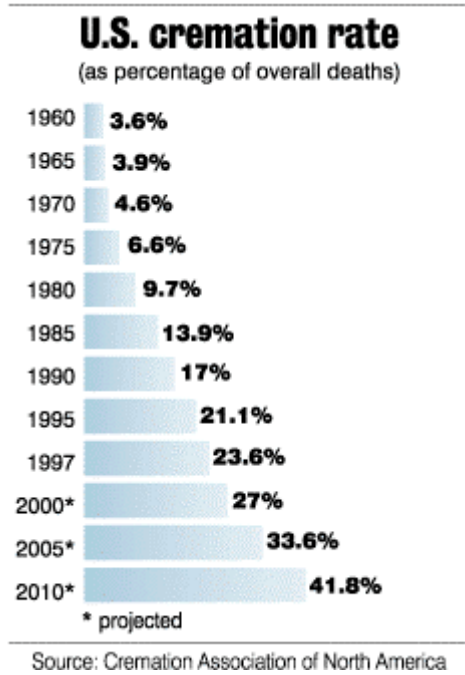
- One of the major trends in consumer demand is the growth of “green burials.” Currently, there are green burial providers in only nine states: California, Illinois, Indiana, Iowa, Michigan, New Mexico, New York, South Carolina and Wisconsin.

- ✓ In 1950, more than one-half of all caskets sold were cloth-covered caskets. Hardwood caskets represented about 18% of the industry's unit volume and metal caskets comprised the remainder of the adult market. Children's caskets represented about 6% of the total market.
- ✓ By the mid-1950's, metal caskets represented more than one-third of industry production and, by 1960, one-half of the industry's unit volume. By the mid-1970's, metal caskets comprised two-thirds of the industry's volume.
- Casket sales are projected at ~4% to 5% growth (CAGR) from 2007 to 2009.
- Funeral homes spend more than \$1 billion annually on caskets.
- The average funeral home pre-tax margin has declined by 60% during the past quarter century – from 13.7% in 1980 to 5.5% in 2005.
- Cremations produce lower revenues for funeral homes, but have higher gross margins.

Challenges for Funeral Home Operators

Growth in Demand for Cremation Services

- Currently, more than 25% of families choose cremation as an alternative to burial.
 - ✓ This figure is expected to increase to 40% by 2010
 - ✓ This figure is expected to increase by 51% by 2025
- In an attempt to save costs, some U.S. counties are no longer offering the burial service option for its deceased indigent citizens – instead leaning toward cremation. Hillsborough County, Florida expects to save about \$100,000 annually under this new policy.
 - ✓ In 2001, Pinellas County, Florida began doing cremations only because the county was running out of space for graves.
- The leading U.S. state by percentage of cremations is Hawaii – 58.6% in 1998 (projected to increase to 65% in 2010).
 - ✓ Nevada, Washington, Alaska and Arizona are the other top states – projected to increase to more than 65% in 2010



Alternatives for Cost-Conscious Consumers

- Another obstacle challenging the funeral home operator is the appearance of the retail casket store – accommodated by a 1990s FTC ruling preventing funeral homes from charging special handling fees to consumers for providing their own caskets.
 - ✓ About 150 non-funeral-home casket vendors sell directly to the public, typically offering discounts of 50% to 75% – their share of the market amounts to only about 5% but is on the rise.
 - ✓ They offer caskets in showrooms and catalogs, and some even offer their caskets on the Internet
 - ✓ Examples include warehouse club Costco and websites Caskets & More, CasketSite and Funeral Depot
 - ✓ *Costco Wholesale Corp.*
<http://www.costco.com/Common/Category.aspx?cat=20595&eCat=BC|20595&lang=en-US&whse=BC&topnav=>
Revenues = “moderate sales – in the thousands, not the tens of thousands – it’s more of a service to our members than a big money maker”
Employees = 127,000
 - Costco Wholesale Corp. began selling caskets through kiosks in approximately 10% of its 500 stores and online in 2004, and then started selling urns five months later
 - Customers save up to 50% compared with the cost of caskets and urns at funeral parlors because the company follows its guideline of not marking up a product by more than 14%
 - Costco said it sells "thousands" of caskets and urns annually, and most are sold in the West – observers say kiosk locations are available primarily in and around retirement communities
 - Costco caskets – available in six styles and color schemes – are contracted through a vendor (Universal Casket Company), and they retail from \$925 for the "In God's Care casket" to the \$3,000 cherry model

- The best-selling Costco casket, a pink model with roses inside, sells for \$925; it typically retails for \$1,445
- Most funeral homes will not store caskets purchased elsewhere and few consumers are willing to store one in their homes, therefore, going to a funeral home and then going to Costco to pick out a casket may not make a lot of sense
- In 2006, one Costco store manager indicated the store sells only a few caskets each week, but “he can foresee selling 10 times that amount in the future”

✓ Casketsite

www.casketsite.com

Revenues = N/A

Employees = N/A

- Controlled by The Robin Hood Council, a consumer advocacy organization in the funeral industry
- Claims to be the “largest online casket wholesaler”
- All caskets offered are from “name brand casket companies, recognized by funeral homes nationwide” – they include burial and cremation caskets, over-size caskets, metal and wood caskets, and vaults
- Strives to be the lowest cost provider of caskets offered direct to the public at wholesale prices
- Offers a lowest price guarantee – all prices include free next-day shipping

✓ Caskets & More (Bloomington, MN)

www.casketsandmore.com

Revenues = N/A

Employees = N/A

- Offers funeral merchandise online and in stores located across the U.S.
- Caskets range from \$790 to \$2,950, though higher-priced models are available at the customer's request
- Claims to offer average savings of 40-60%
- "We mark up 75% and add the (shipping) freight"

✓ Funeral Depot, Inc. (Davie, FL)

www.funeraldepot.com

Revenues = <\$1 million

Employees = <20

- Funeral Depot wants to be the Wal-Mart of funerals
- The company offers discounted funeral service and cremation supplies through its web site and toll-free number
- It partners with cremation and funeral service providers nationwide and even offers pre-need planning
- Name-brand products include caskets, markers, urns, and vaults from Batesville, Trappist Caskets, Wilbert, and Aurora
- The company guarantees a 24-hour delivery of caskets and other funeral products directly to funeral homes

- President and CEO Dean Magliocca sold urns and tombstones in Florida before founding Funeral Depot in 2000
- Consumers can save up to 40% by joining the Funeral Consumers Alliance, a group that negotiates discounts with funeral homes across the country.
- Cooperatives – such as the 100,000-member People's Memorial Association – promise below-market prices and substantial savings on funerals and cremations. At the co-op in Seattle, the cost of a cremation starts at \$649 and a full mortuary service with a metal casket costs \$2,599. While there are few co-ops currently in the U.S. (in Washington, Wisconsin and Oklahoma), it is anticipated they will increase in number as consumers seek more cost-effective alternatives to traditional funeral services.

Regulations Affecting Casket Manufacturing, Distribution & Sales

- Eleven states have regulations in place that allow only licensed funeral homes to sell caskets – while other states allow unlicensed retailers, such as Costco, to compete with funeral homes in the sale of caskets.
 - ✓ The states with such regulations include Alabama, Delaware, Georgia, Idaho, Louisiana, Maine, Minnesota, Mississippi, Oklahoma, Vermont and Virginia
 - ✓ Regulations in the States of South Carolina and Tennessee were recently struck down through litigation. The regulations in Louisiana were upheld during litigation, but are currently being reviewed by the U.S. Supreme Court

Competition Among Traditional Casket Manufacturers

History of Casket Manufacturing

- By the early 1950's, it is estimated that there were more than 700 casket manufacturers with more than 20,000 employees in the U.S.
- By 1967, the Census of Manufacturers reported that there were 523 entities in the industry with 16,800 employees
- By 1992, the number of casket manufacturing entities reported by the Census of Manufactures had shrunk to 211 producers with employment of 7,800 persons
- In 2003, there were around only 160 casket manufacturers in the U.S.
 - ✓ Revenues are current valued at around \$1 billion
 - ✓ These companies employed more than 6,000 people

U.S. BURIAL CASKET MANUFACTURERS (NAICS: 339995) - BY LOCATION

STATE	# OF MANUF	AVG ANNUAL EMPLOYMENT
<i>Total U.S.</i>	<i>163</i>	<i>6,703</i>
Alabama	N/A	N/A
Alaska	–	–
Arizona	N/A	N/A
Arkansas	N/A	N/A
California	8	46
Colorado	–	–

Connecticut	–	–
Delaware	–	–
D.C.	–	–
Florida	N/A	N/A
Georgia	8	80
Hawaii	–	–
Idaho	–	–
Illinois	7	149
Indiana	13	2,161
Iowa	N/A	N/A
Kansas	3	8
Kentucky	5	58
Louisiana	N/A	N/A
Maine	N/A	N/A
Maryland	N/A	N/A
Massachusetts	3	164
Michigan	6	67
Minnesota	N/A	N/A
Mississippi	N/A	N/A
Missouri	N/A	N/A
Montana	–	–
Nebraska	N/A	N/A
Nevada	–	–
New Hampshire	N/A	N/A
New Jersey	5	88
New Mexico	–	–
New York	8	394
North Carolina	7	226
North Dakota	–	–
Ohio	7	215
Oklahoma	N/A	N/A
Oregon	N/A	N/A
Pennsylvania	9	786
Rhode Island	N/A	N/A
South Carolina	N/A	N/A
South Dakota	–	–
Tennessee	8	771
Texas	11	149
Utah	N/A	N/A
Vermont	–	–
Virginia	N/A	N/A
Washington	N/A	N/A
West Virginia	N/A	N/A
Wisconsin	N/A	N/A
Wyoming	N/A	N/A
Puerto Rico	4	88

Virgin Islands

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The Competitive Environment

- It is estimated that three companies produce more than 70% of all caskets sold nationally:
 - ✓ *Batesville Casket Company* (Batesville, IN)
www.batesville.com
Revenues = ~\$660 million
Employees = ~3,000
 - ✓ *The York Group* (Pittsburgh, PA)
www.yorkgrp.com
Revenues = ~\$100 million
Employees = ~1,600
 - Matthews International recently consolidated its York and Milso operations at its metal casket manufacturing facility in Richmond, IN
 - With the acquisition of Milso Industries Corporation in July 2005, York expanded its internal casket distribution capabilities – it now markets its casket products in the United States through a combination of internal and independent casket distribution facilities, operating over 40 distribution centers in the U.S.
 - Increased sales and gross profits in 2006 resulted “principally from the acquisition of Milso Industries Corporation” (and higher sales in York’s Cremation, Marking Products and Bronze segments)
 - ✓ *Aurora Casket Company, Inc.* (Aurora, IN)
www.auroracasket.com
Revenues = ~\$100 million
Employees = ~1,000
- Of the more than 30 companies that assemble metal caskets, 90% are produced by around a dozen companies.
 - ✓ Hardwood casket manufacturing is believed to be limited to another dozen companies, with the manufacturing of both metal and hardwood caskets being limited to a very small number of companies as well.
- Following are other prominent casket manufacturers and distributors:
 - ✓ *Reynoldsville Casket Company* (Reynoldsville, PA)
www.reynoldsvillecasket.com
Revenues = DND
Employees = 78
 - Founded in 1908
 - Completed a third expansion, adding 23,000sf of warehousing space, in 2004 – previously completed construction of 36,000sf production facility in two different building projects and new warehouse in Pittsburgh
 - Carries a standard line of 200 units

- Has “made itself known in customization” – its conveyor-driven production line has been designed to introduce personalized casket orders without interfering with daily planned products
- Stocks 40 shell styles, almost 300 hardware styles, and 60 different fabric choices
- 200 different embroidered panels and two new computerized embroidery machines make custom combinations “endless”
- Has warehouses in Pittsburgh, Allentown, Youngstown, Buffalo, West Virginia and Syracuse
- Majority of caskets are produced and shipped direct to funeral homes, with significant portion now being sold to distributors as well

Thacker Caskets, Inc. (Clinton, MD)

Revenues = >DND

Employees = 23

www.thackercaskets.com

- ✓ Established in 1939
 - ✓ Family owned
 - ✓ Claims to be fourth largest casket maker in U.S.
 - ✓ “America’s fastest growing casket company”
 - ✓ Serves 25 states from 12 customer service centers
 - ✓ Strength: Committed to keeping its manufacturing facilities in the U.S.
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- ✓ *Astral Industries* (Lynn, IN)
www.astralindustries.com
Revenues = \$21 million
Employees = 175
 - Founded in 1965
 - Independently owned and operated
 - Purchases raw coils of steel and produces finished powder coated products within a single facility
 - Also subcontracts its manufacturing capabilities to produce a wide range of metal parts for other industries
 - Astral's sister company, Astral Carrier, is a full service contract carrier in 48 states
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- ✓ *Schuylkill Haven Casket Company* (*Schuylkill Haven, PA*)
www.havenline.com
Revenues = DND
Employees = 80
 - Founded in 1919
 - Manufactures 50 different casket designs using 8 species of wood – walnut, mahogany, cherry, maple, pine, oak, poplar and aromatic red cedar
 - Purchases most of its "green" lumber from local mills
 - Distributes units directly to the funeral homes in the Northeast U.S. through its warehouses – only directly to licensed funeral directors and funeral homes

- Also sells its line of woods to a network of distributors – through distributors its woods are available to funeral homes in 35 states

- ✓ *Providence Casket Company* (Lincoln, RI)
www.providencescasket.com
Revenues = \$9 million
Employees = 20
 - Founded in 1929
 - Third-generation casket manufacturer
 - Occupies a 40,000sf manufacturing plant

- ✓ *Orleans Casket Co.* (Mandeville, LA)
www.orleanscasket.com
Revenues = ~\$5 million
Employees = <50
 - The Orleans Casket Company is a regional casket manufacturing company supplying metal, hardwood, and cloth covered caskets to funeral homes in the South Central U.S.
 - Established in 1886, Orleans has been independently owned and operated.
 - In 1991 Orleans Casket Co. became family owned and operated by the Serpas family.
 - John V. Serpas, III and his father, John V. Serpas Jr., have over 80 years of combined experience in the casket manufacturing business.

- ✓ *Pettigrew & Sons Casket Co.* (Sacramento, CA)
www.pettigrewcaskets.com
Revenues = ~\$2.5 million
Employees = <25
 - Pettigrew & Sons Casket Co. was founded in 1960

- ✓ *Casket Royale* (Hampton Falls, NH)
www.casketroyale.com
Revenues = <\$1 million
Employees = <50
 - Claims to be “the world's largest provider of caskets to third party marketers of funeral merchandise”
 - Services independently owned casket retail centers, cemeteries, and monument companies, as well as direct sales to public in most of the 50 states
 - Caskets are priced 40-75% below that of most funeral homes
 - Staff specialists available seven days a week, ensuring overnight delivery to most of the U.S.

- ✓ *Abbey Caskets* (St. Meinrad, IN)
www.abbeycaskets.com
Revenues = <\$1 million
Employees = <20
 - Since 1999, the Benedictine monks of Saint Meinrad Archabbey have been selling simple, beautiful wooden caskets and cremation urns directly to the public.

- Its handcrafted caskets and cremation urns are made of hardwood such as poplar, oak, walnut and cherry.
- ✓ *Goliath Casket Inc.* (Lynn, IN)
www.oversizecasket.com
Revenues = N/A
Employees = N/A
 - Family-owned for more than 20 years
 - Specializes in oversize caskets that are affordable
 - Provides technical assistant and instruction
 - Available only through licensed funeral homes

Competition from Non-Traditional Casket Manufacturers

- 22,280 Chinese-made caskets were sold in the U.S. in 2006 – an increase of 71% from the roughly 13,000 sold in 2005
 - ✓ This figure represents 1.5% of all caskets sold domestically in 2006
- Reportedly, wholesale prices of Chinese-made caskets are generally 50% less than comparable American models
- It is expected that Chinese-made units may represent 50% (“at a minimum”) of all units sold in the U.S. by the year 2016

Other Industry Trends

- Experts are speculating that further consolidation among the casket manufacturers will occur within the next three years
 - The most prevalent theory is that Aurora Casket or Batesville Casket will acquire York Group/Milso from Matthews International
- We noticed this comment in a couple of places, but the best explanation and context was provided through an article on FuneralWire.com (May 2007). There may be some additional, helpful information for you there. Here is the link:
<http://www.funeralwire.com/article.php?id=20563>

List of Sources

- U.S. Census Bureau – Economic Census & various Population reports (www.census.gov)
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- Cremation Association of North America – Statistics (www.cremationassociation.org)
- Casket Stores – Caskets & Death Report (www.casketstores.org)
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- International Cemetery & Funeral Association (www.icfa.org)
- National Funeral Directors Association – Trends & Statistics (www.nfda.org)
- Funeral Consumers Alliance (www.funerals.org)
- Federal Trade Commission (www.ftc.gov)
- Bureau of Labor Statistics (www.bls.gov)
- First Research – Funeral Operations Industry Profile
- Dun & Bradstreet – Company profiles

- Hoovers Online – Company profiles
- Market Guide – Company profiles
- IAC Company Intelligence – Company profiles
- Gale Group Company Briefs
- SEC filings – Hillenbrand Industries/Batesville & Matthews International/York Group
- Numerous and various press releases
- Numerous and various news articles
- Company web sites
- Miscellaneous other web sites