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#FuneralHomes were once dominated by local, family owned businesses. Today, your local funeral home is likely owned by #ServiceCorporationInternational, who bought hundreds of funeral homes (keeping the proprietor's name over the door), hiking prices and reaping vast profits. 1/ <https://t.co/lowR9K6k1A>



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<https://pluralistic.net/2022/12/16/schumpeterian-terrorism/#deliberately-broken> 2/

Funeral homes are now one of America's most predatory, vicious industries, and SCI uses the profits it gouges out of bereaved, reeling families to fuel more acquisitions - 121 more in 2021. 3/

SCI gets some economies of scale out of this consolidation, but that's passed onto shareholders, not consumers. SCI charges 42% more than independent funeral homes.

<https://pluralistic.net/2022/09/09/high-cost-of-dying/#memento-mori> 4/

SCI boasts about its pricing power to its investors, how it exploits people's unwillingness to venture far from home to buy funeral services. If you buy all the funeral homes in a neighborhood, you have near-total control over the market. 5/

Despite these obvious problems, none of SCI's acquisitions face any merger scrutiny, thanks to loopholes in antitrust law. 6/

These loopholes let the entire US productive economy undergo #MassConsolidation under the regulators' radar: "hospital beds, magic mushrooms, youth addiction treatment centers, mobile home parks, nursing homes, physicians' practices, local newspapers, or e-commerce sellers." 7/

But it's worst when it comes to services associated with trauma, where you don't shop around. 8/

Think of how **#Envision**, a healthcare rollup, used the capital reserves of **#KKR**, its **#PrivateEquity** owner, to buy **#EmergencyRooms** and **#ambulance** services, elevating **#SurpriseBilling** to a grotesque art form.

<https://pluralistic.net/2022/03/14/unhealthy-finances/#steins-law> 9/

Their depravity knows no bounds: an unconscious, intubated woman with covid was needlessly flown 20 miles to another hospital, generating a \$52k bill. 10/

This is "the health equivalent of a carjacking," and rollups spread surprise billing beyond emergency rooms to anesthesiologists, radiologists, family practice, dermatology and others. In the late 80s, 70% of MDs owned their practices. 11/

Today, 70% of docs work for a hospital or corporation.

How the actual *fuck* did this happen? Rollups take place in "**#antitrust**'s Twilight Zone." 12/

A perfect storm of regulatory blindspots, demographic factors, **#macroeconomics**, and remorseless cheating by the ultra-wealthy has laid waste to the American economy, torching much of the US's productive capacity in an orgy of predatory, extractive, **#enshittifying** mergers. 13/

The processes that underpin this transformation aren't actually very complicated, but they are closely interwoven and can be hard to wrap your head around. 14/

"The Roll-Up Economy: The Business of Consolidating Industries with Serial Acquisitions," a new paper from **@econliberties** by **@denisehearn_**, **@KristaKBrown**, Taylor Sekhon and **@ErikPeinert** does a *superb* job of breaking it down:

<http://www.economicliberties.us/wp-content/uploads/2022/12/Serial-Acquisitions-Working-Paper-R4-2.pdf> 15/

The most obvious problem here is with the **#MergerScrutiny** process, which is when competition regulators must be notified of proposed mergers and must give their approval before they can proceed. 16/

Under the **#HartScottRodinoAct** (**#HSR**) merger scrutiny kicks in for mergers when the purchase price is \$101m or more. A company that builds up a monopoly by acquiring hundreds of small businesses need *never* face merger scrutiny. 17/

The high merger scrutiny threshold means that only a very few mergers are regulated: in 2021, out of 21,994 mergers, only 4,130 (<20%) were reported to the **@FTC**. 2020 saw 16,723 mergers, with only 1,637 (>10%) being reported to the FTC. 18/

Serial acquirers claim that the massive profits they extract by buying up and merging hundreds of businesses are the result of "efficiency" but a closer look at their marketplace conduct shows that most of those profits come from **#MarketPower**. 19/

Where efficiencies are realized, they benefit shareholders, and are not shared with customers, who face higher prices as competition dwindles. 20/

The serial acquisition bonanza is bad news for supply chains, wages, the small business ecosystem, inequality, and competition itself. 21/

Wherever we find concentrated industries, we find these under-the-radar rollups: out of 616 Big Tech acquisitions from 2010 to 2019, 94 (15%) of them came in for merger scrutiny. 22/

The report's authors quote FTC Commissioner Rebecca Slaughter: "I think of serial acquisitions as a Pac-Man strategy. Each individual merger viewed independently may not seem to have significant impact. 23/

"But the collective impact of hundreds of smaller acquisitions, can lead to a monopolistic behavior."

It's not just the FTC that recognizes the risks from rollups. 24/

#JonathanKanter, **@TheJusticeDept**'s top antitrust enforcer has raised alarms about private equity strategies that are "designed to hollow out or roll-up an industry and essentially cash out. 25/

"That business model is often very much at odds with the law and very much at odds with the competition we're trying to protect."

The DoJ's interest is important. As with so many antitrust failures, the problem isn't in the law, but in its enforcement. 26/
Section 7 of the **#ClaytonAct** prohibits serial acquisitions under its "**#IncipientMonopolization**" standard. 27/
Acquisitions are banned "where the effect of such acquisition may be to substantially lessen competition between the corporation whose stock is so acquired and the corporation making the acquisition." 28/
This incipency standard was strengthened by the 1950 **#CellerKefauverAmendment**.

The lawmakers who passed both acts were clear about their legislative intention - to block this kind of stealth monopoly formation. For decades, that's how the law was enforced. 29/

For example, in 1966, the DoJ blocked Von's from acquiring another grocer because the resulting merger would give Von's 7.5% of the regional market. 30/

While Von's is cited by pro-monopoly extremists as an example of how the old antitrust system was broken and petty, the DoJ's logic was impeccable and sorely missed today: they were trying to prevent a rollup of the sort that plagues our modern economy. 31/

As the Supremes wrote in 1963: "A fundamental purpose of [stronger incipency standards was] to arrest the trend toward concentration, the tendency of monopoly, before the consumer's alternatives disappeared through merger... 32/

"...and that purpose would be ill-served if the law stayed its hand until 10, or 20, or 30 [more firms were absorbed]." 33/

But even though the incipency standard remains on the books, its enforcement dwindled away to nothing, starting in the **#Reagan** era, thanks to the **#ChicagoSchool**'s influence. 34/

The neoliberal economists of Chicago, led by the Nixonite criminal **#RobertBork**, counseled that most monopolies were "efficient" and the inefficient ones would self-correct when new businesses challenged them, and demanded a halt to antitrust enforcement. 35/

In 1982, the DoJ's merger guidelines were gutted, made toothless through the addition of a "safe harbor" rule. So long as a merger stayed below a certain threshold of market concentration, the DoJ promised not to look into it. 36/

In 2000, Clinton signed an amendment to the HSR Act that exempted transactions below \$50m. In 2010, Obama's DoJ expanded the safe harbor to exclude "[mergers that] are unlikely to have adverse competitive effects and ordinarily require no further analysis." 37/

These constitute a "blank check" for serial acquirers. Any investor who found a profitable strategy for serial acquisition could now operate with impunity, free from government interference, no matter how devastating these acquisitions were to the real economy. 38/

Unfortunately for us, serial acquisitions **are** profitable. As an EY study put it: "the more acquisitive the company... the greater the value created...there is a strong pattern of shareholder value growth, correlating with frequent acquisitions." 39/

Where does this value come from? "Efficiencies" are part of the story, but it's a sideshow. The real action is in the power that consolidation gives over workers, suppliers and customers, as well as vast, irresistible gains from financial engineering. 40/

In all, the authors identify five ways that rollups enrich investors:

I. low-risk **#expansion**;

II. **#EfficienciesOfScale**;

III. pricing power;

IV. buyer power;

V. **#ValuationArbitrage**. 41/

The efficiency gains that rolled up firms enjoy often come at the expense of workers - these companies shed jobs and depress wages. 42/

Those savings aren't passed on to customers, but rather returned to the business, which reinvests it in gobbling up more companies, firing more workers, and slashing survivors' wages. Anything left over is passed on to the investors. 43/
Consolidated sectors are hotbeds of fraud: take Heartland, which has rolled up small dental practices across America. 44/

Heartland promised dentists that it would free them from the drudgery of billing and administration but instead embarked on a campaign of phony Medicare billing, wage theft, and forcing unnecessary, painful procedures on children. 45/

Heartland is no anomaly: dental rollups have killed children by subjecting them to multiple, unnecessary root-canals. These predators rely on Medicare to pay for these procedures, meaning that it's only the poorest children who face these abuses:

<https://pluralistic.net/2022/11/17/the-doctor-will-fleece-you-now/#pe-in-full-effect> 46/

A consolidated sector has lots of ways to rip off the public: they can "directly raise prices, bundle different products or services together, or attach new fees to existing products." The epidemic of **#JunkFees** can be traced to consolidation. 47/

Consolidators aren't shy about this, either. The pitch-decks they send to investors and board members openly brag about "pricing power, gained through acquisitions and high switching costs, as a key strategy." 48/

Unsurprisingly, investors love consolidators. Not only can they gouge customers and cheat workers, but they also enjoy an incredible, obscure benefit in the form of "valuation arbitrage." 49/

When a business goes up for sale, its valuation (price) is calculated by multiplying its annual cashflow. For small businesses, the usual multiplier is 3-5x. For large businesses, it's 10-20x or more. 50/

That means that the mere act of merging a small business with a large business can increase its valuation sevenfold or more! 51/

Let's break that down. A dental practice that grosses \$1m/year is generally sold for \$3-5m. But if Heartland buys the practice and merges it with its chain of baby-torturing, Medicare-defrauding dental practices, the chain's valuation goes up by \$10-20m. 52/

That higher valuation means that Heartland can borrow more money at more favorable rates, and it means that when it flips the husks of these dental practices, it expects a 700% return. 53/

This is why your local veterinarian has been enshittified. "A typical vet practice sells for 5-8x cashflow...American Veterinary Group [is] valued at as much as 21x cashflow... 54/

"When a large consolidator buys a \$1M cashflow clinic, it may cost them as little as \$5M, while increasing the value of the consolidator by \$21M. This has created a goldrush for veterinary consolidators." 55/

This free money for large consolidators means that even when there are better buyers - investors who want to maintain the quality and service the business offers - they can't outbid the consolidators. 56/

The consolidators, expecting a 700% profit triggered by the mere act of changing the business's ownership papers, can always afford to pay more than someone who merely wants to provide a good business at a fair price to their community. 57/

To make this worse, an unprecedented number of small businesses are all up for sale at once. Half of US businesses are owned by Boomers who are ready to retire and exhausted by two major financial crises within a decade. 58/

60% of Boomer-owned businesses - 2.9m businesses of 11 or so employees each, employing 32m people in all - are expected to sell in the coming decade.

If nothing changes, these businesses are likely to end up in the hands of consolidators. 59/

Since the **#GreatFinancialCrisis** of 2008, private equity firms and other looters have been awash in free money, courtesy of the Federal Reserve and Congress, who chose to bail out irresponsible and deceptive lenders, not the borrowers they preyed upon. 60/

A decade of **#ZeroInterestRatePolicy** (**#ZIRP**) helped PE grow to "staggering" size. Over that period, America's 2,000 private equity firms raised buyout warchests totaling *\$2t.* Today, private equity owned companies outnumber publicly traded firms by more than two to one. 61/

Private equity is patient zero in the serial acquisition epidemic. The list of private equity rollup plays includes "comedy clubs, ad agencies, water bottles, local newspapers, and healthcare providers like hospitals, ERs, and nursing homes." 62/

Meanwhile, ZIRP left the nation's pension funds desperate for returns on their investments, and these funds handed \$480b to the private equity sector. 63/

If you have a pension, your retirement is being funded by investments that are destroying your industry, raising your rent, and turning the nursing home you're doomed to into a charnel house. 64/

The good news is that enforcers like Kanter have called time on the longstanding, bipartisan failure to use antitrust laws to block consolidation. 65/

Kanter told the NY Bar Association: We have an obligation to enforce the antitrust laws as written by Congress, and we will challenge any merger where the effect 'may be substantially to lessen competition, or to tend to create a monopoly.' 66/

The FTC and the DOJ already have many tools they can use to end this epidemic. 67/

* They can revive the incipency standard from Sec 7 of the Clayton Act, which bans mergers where "the effect of such acquisition may be substantially to lessen competition, or to tend to create a monopoly." 68/

* This allows regulators to "consider a broad range of price and non-price effects... including the long-term ... strategy of the acquirer, the current trend or prevalence of concentration or acquisitions in the industry, and the investment structure of the transactions"; 69/

* The FTC and DOJ can strengthen this by revising their merger guidelines to "incorporate a new section for industries or markets where there is a trend towards concentration." They can get rid of Reagan's 1982 safe harbor, and tear up the blank check for merger approval; 70/

* The FTC could institute a policy of immediately publishing merger filings, "the moment they are filed." 71/

Beyond this, the authors identify some key areas for legislative reform:

* Exempt the FTC from the **#PaperworkReductionAct** (PRA) of 1995, which currently blocks the FTC from requesting documents from "10 or more people" when it investigates a merger; 72/

* Subject any company "making more than 6 acquisitions per year valued at \$70 million total or more" to "extra scrutiny under revised merger guidelines, regardless of the total size of the firm or the individual acquisitions"; 73/

* Treat all the companies owned by a PE fund as having the same owner, rather than allowing the fiction that a holding company is the owner of a business; 74/

* Force businesses seeking merger approval to provide "any investment materials, such as Private Placement Memorandums, Management or Lender Presentations, or any documents prepared for the purposes of soliciting investment. 75/

"Such documents often plainly describe the anticompetitive roll-up or consolidation strategy of the acquiring firm"; 76/

* Also force them to provide "loan documentation to understand the acquisition plans of a company and its financing strategy;" 77/

* When companies are found to have violated antitrust, ban them from acquiring any other company for 3-5 years, and/or force them to get FTC pre-approval for all future acquisitions; 78/

* Reinvigorate enforcement of rules requiring that some categories of business (especially healthcare) be owned by licensed professionals;

* Lower the threshold for notification of mergers;

* Add a new notification requirement based on the number of transactions; 79/

* Fed agencies should automatically share merger documents with state attorneys general;

* Extend civil and criminal antitrust penalties to "investment bankers, attorneys, consultants who usher through anticompetitive mergers." 80/