

# Funerals market study

Interim report and consultation

29 November 2018

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Summary .....	6
1. Introduction .....	10
Concerns identified about the funerals sector .....	10
Scope of this market study .....	11
Burial plots and cemeteries .....	11
Pre-paid plans .....	12
Other issues .....	13
Work undertaken to date .....	14
2. Industry background .....	16
What organising a funeral entails .....	16
Key market statistics and trends .....	17
Growth in demand for cremations .....	17
Growth in funeral prices .....	19
Funeral poverty .....	20
Structure of the industry .....	22
Overview .....	22
Funeral directors .....	24
Crematoria .....	26
Direct cremation providers .....	26
The role of comparison websites and online directories .....	26
Regulation .....	27
Funeral directors .....	27
Crematoria .....	29
3. How people choose a funeral .....	31
Context .....	31
The process of choosing a funeral director and a funeral .....	32
Use of the internet to find a funeral director .....	33
Factors driving the choice of funeral director .....	34
Factors driving the initial choice of funeral director .....	34
Factors confirming the choice of funeral director .....	35
Choosing the elements of the funeral package .....	37
Choosing a crematorium .....	38
Interim conclusions on customer behaviour .....	39
4. Competition between funeral directors .....	41
Services provided by funeral directors .....	41
Underlying characteristics of the funeral director services market .....	42
Lack of customer engagement .....	42
Lack of transparency and sales practices .....	45
Summary of underlying characteristics of the funeral director services market .....	47
Assessment of competition between funeral directors .....	48
Dimensions of competition .....	48
Local concentration .....	51
Impact and response to new entry .....	51
Summary of the assessment of competition between funeral directors .....	53
The evolving pricing strategies of the large funeral directors .....	53
Recent developments .....	53
The constraint of simple funerals on standard funerals .....	56
The constraint from direct cremations .....	58
Summary of pricing strategies of the large funeral directors .....	60
Constraints from online competition (including comparison websites) .....	60

The role of the trade associations and impact on competition .....	60
Interim conclusions on competition between funeral directors .....	62
5. Competition between crematoria .....	65
Crematoria services and charges .....	65
Crematoria services.....	65
Crematoria charges .....	66
Underlying characteristics of the crematoria services market .....	68
Fixed overall demand .....	68
Demand relatively unresponsive to price and quality measures .....	68
Few existing and potential suppliers.....	70
Summary of underlying characteristics of the crematoria services market ....	72
Assessment of competition between crematoria .....	73
Competition over price.....	73
Competition over quality .....	77
Entry and competition.....	80
Summary of the assessment of competition between crematoria.....	81
Interim conclusions on competition between crematoria.....	81
6. Outcomes .....	83
Potential impact of lack of effective competition on pricing .....	84
Funerals and funeral director services.....	84
Crematoria.....	95
Summary of impact of lack of effective competition on pricing .....	100
Potential impact of lack of effective competition on quality .....	101
Funeral directors.....	101
Consumer complaints.....	101
Crematoria services.....	102
Summary of impact of lack of effective competition on quality.....	102
Profit margin analysis.....	103
Comparison with international benchmarks .....	103
Dignity's performance .....	104
Co-op's performance .....	106
Funeral Partners performance.....	106
Summary of profit margin analysis .....	106
Interim conclusions on outcomes.....	107
7. Market study: interim conclusions .....	108
8. The case for a market investigation reference .....	112
The legal framework .....	113
The reference test.....	114
The markets.....	114
The features in those markets .....	117
Provisional conclusion on the 'reference test' .....	118
Views on the appropriateness of a reference.....	119
First criterion: scale of the suspected problem .....	119
Second criterion: availability of appropriate remedies through an MIR.....	123
Third criterion: the availability of undertakings in lieu of a reference .....	129
Fourth criterion: alternative powers available to the CMA or to sectoral regulators.....	129
Provisional conclusion on the appropriateness of a reference.....	130
Provisional Conclusion.....	130
9. Consultation .....	131

## Appendices

### A: Regulation

- B: Barriers to good decision-making
- C: The role of entry in crematorium competition
- D: Analysis of funeral directors' revenue
- E: Analysis of crematorium fees
- F: Draft terms of reference

## Summary

1. The death of a loved one is probably the most difficult event that any of us will face in our lives and it falls upon those who are most affected by the loss to organise the funeral.
2. The CMA launched a review of the funerals industry on 1 June 2018, amid concerns that prices had been increasing substantially and that funerals had become unaffordable for many. Following an initial phase of work, we are now proposing to make a Market Investigation Reference (MIR) to carry out an in-depth investigation. We are now consulting on that proposal<sup>1</sup> and set out below why we consider this necessary.
3. In 2017, there were 607,000 deaths in the UK, 513,000 of which involved a funeral that had to be paid by the bereaved at the time of death.<sup>2</sup> The average cost of the essential elements of a funeral now stands at nearly £4,300, with another £2,000 being spent on discretionary items, such as flowers and catering.
4. Over the past 14 years, the price of the essential elements of a funeral has grown by 6% annually, twice the inflation rate over this period. By contrast, the average spend on discretionary items has remained broadly unchanged, as people have tried to keep the overall cost down.
5. The average spend on a funeral varies very little by household income, which means that the poorest are disproportionately affected by funeral costs. The cost of a funeral will amount to nearly 40% of the annual expenditure of someone on the lowest income. This is more than what they would spend on energy, food and clothing combined in a given year.<sup>3</sup>
6. In the past 6 months, we have focused our work on understanding the activities of funeral directors (who care for the deceased and organise the funeral on behalf of the bereaved) and of crematoria (the cremation fees representing a subset of the overall funeral bill). These two categories are the most significant in the context of the industry overall, since funeral director fees are the largest element of a typical funeral bill and 77% of funerals involve a cremation. They generated revenues of around £1.6 billion in 2017.
7. Overall, we have found evidence that for a considerable number of years the largest firms of funeral directors have implemented consistently large annual price increases, without reference to underlying operating cost pressures.
8. Those above-inflation price increases have instead been driven by broader strategic aims (eg cross-subsidising various corporate activities), rather than factors directly related to providing services to the bereaved. We are not persuaded by the argument we heard that higher prices were justified by better quality of service: where there was evidence of targeted quality improvements, they were largely outweighed by the standard large price increases that were implemented as a matter of policy. Although the large funeral

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<sup>1</sup> See section 9 for further details.

<sup>2</sup> The balance is accounted for by funerals (partially or fully) funded through pre-paid plans.

<sup>3</sup> ONS lowest income decile group.

directors' prices are, on average, well above those of the independent funeral directors, it is clear that others in the sector have also implemented some large price rises. But we have also heard from smaller funeral directors who have sought to keep their prices low.

9. In addition to large annual price increases, the funeral director services sector is characterised by large price differentials between suppliers, including when their branches are located in the same local area. Such wide price differences appear hard to explain on the basis of cost, range, quality and brand differences between suppliers. They can also be significant: customers could save over £1,000 by shopping around in their local area.
10. The larger operators of private crematoria have similarly implemented average price rises of between 6% and 8% every year for the past 8 years (and higher in the years before that). The evidence shows that meeting shareholder expectations has been the main factor underlying these large annual price rises for at least one supplier and we do not believe that industry cost pressures (including regulations relating to emissions) can fully explain such levels of price inflation. Neither do we accept the argument that quality improvements have been driving price increases and differentials between suppliers: there does not seem to be a clear relationship between quality and the cremation fee charged; quality does not generally drive customer choice; and slot length (identified by suppliers as a quality measure) appears to be set independently of competitive conditions and to be linked to the level of capacity of a crematorium.
11. The situation is more complex for local authority crematoria: in England, Northern Ireland and Wales, local authorities can charge for discretionary services (the category of services to which crematoria belong) on a cost recovery basis only, while in Scotland they may charge such fees as the local authority sees fit. It is not uncommon for crematoria to be used to cross-subsidise other activities (eg the maintenance of cemeteries) within their portfolio of discretionary services. Consequently, and in the face of reductions in central government funding, some local authorities have also implemented large fee increases at their crematoria, although, on average, local authorities' price rises have been lower than those implemented by private crematoria. The cheapest crematoria remain local authority ones and the 20 most expensive crematoria are all private ones.
12. The profit margins achieved by the largest suppliers in the industry have been high by international standards, with Dignity's in particular having been well above those of equivalent businesses operating in some other major countries. Although Dignity's profit margin has recently fallen, it is still higher than international benchmarks and is expected by the company to recover in the foreseeable future. Together with the large suppliers' pricing policies, these profit margins are symptomatic of a market that is not working well for consumers.
13. Arranging a funeral has been described by a funeral director as, "the ultimate distress purchase ... made infrequently by inexperienced, emotionally vulnerable clients under time pressure... Clients don't know what to expect, spend little time thinking about the provider and feel under pressure to sort things quickly".

14. Because of these exceptionally difficult circumstances, the bereaved are not able to exercise some of the most basic commercial judgements that customers typically display in more normal circumstances: according to our research, only 14% of people organising a funeral compare more than one funeral director and only 4% search for a funeral director on the internet. Only 6% and 5% of people respectively consider that the prices or range of funeral options on offer were important factors in their choice of funeral director.
15. It seems clear that the extreme vulnerability of customers has been a major factor in enabling suppliers to charge high prices in this sector. But there are other factors at play. For example, it is very difficult for people to compare funeral directors, with limited information being provided online and little means by which to judge quality standards. We have also found that, due to high barriers to entry, in many parts of the UK there are a limited number of crematoria in close proximity and therefore no genuine choice for customers.
16. Much has been written in recent months about how the industry is changing, it is claimed because of the increasing price sensitivity of customers. It is well documented that the large funeral directors have implemented new pricing strategies. However, we do not believe that the drivers behind the considerable price rises seen in the past 15 years have fundamentally changed. We believe that despite the recent increase in competitive pressure in the supply of low-cost funerals, most people will continue to be open to exploitation. Our views are supported by the plans and forecasts of the large funeral directors.
17. As for private crematoria, we have seen evidence that they continue to plan on the basis of consistently high annual price rises, driven by the need to meet shareholder and investor expectations in terms of profit and growth.
18. We therefore consider that the markets for funeral director and crematoria services are not functioning as well as they should be. We anticipate continuing high price increases in relation to crematoria services, and we consider that the average price of funeral director services is well above what could be expected in a well-functioning market. Although funeral director prices seem likely to remain relatively stable in the short-term, we expect that most people will be at risk of further price rises in the medium term.
19. Therefore, we consider that there are reasonable grounds for suspecting that there are features which prevent, restrict or distort competition in the markets for services by funeral directors at the point of need and crematoria services in the UK and that the legal test for making an MIR is met.
20. In addition, the funerals industry is large in value terms and the issues we have identified are likely to affect a large proportion of customers. We also believe that should any MIR identify an adverse effect on competition, appropriate remedies are likely to be available at the end of an in-depth investigation. We are therefore proposing to make an MIR in relation to the supply of services by funeral directors at the point of need and the supply of crematoria services in the UK. Important factors in our decision are that: the purchase of products and services relating to a funeral can neither be avoided, nor delayed; customers



are extremely vulnerable at the point of purchase; and the poorest appear to be disproportionately affected by high prices.

21. If we ultimately decide to make an MIR, a group of CMA Panel members<sup>4</sup> will be appointed to carry out a detailed assessment of the issues, and potentially impose remedies through the use of the CMA's order making powers.
22. We are now consulting on our proposal to make an MIR. During the consultation, the CMA will be interested to hear views about the issues identified in the report and summarised in the above paragraphs, as well as the reasons for proposing to make a reference. Specific consultation questions are set out in section 9 of this report.

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<sup>4</sup> Members are independent of the CMA Board and are appointed to the CMA panel by the Department for Business, Innovation and Skills for up to 8 years.

# 1. Introduction

- 1.1 A funeral can either be purchased by the bereaved at the time of bereavement (“at need” or “at the point of need”), or in advance by people purchasing a pre-paid funeral plan – a contractual arrangement with a provider that allows a person to pay in advance for their own or another person’s funeral.<sup>5</sup>
- 1.2 There were 607,000 deaths in the UK in 2017, approximately 513,000 of which involved a funeral that was paid for at the time of bereavement.

## Concerns identified about the funerals sector

- 1.3 In the past five years, rising funeral costs have generated an increasing amount of attention, including from Parliament, consumer organisations, charities and the media, often alongside calls for greater transparency.<sup>6</sup>
- 1.4 A number of concerns about the funeral industry have been raised directly with the CMA, including by people contacting us about their own personal experiences and concerns, and by the Work and Pensions Committee following its inquiry into bereavement benefits.<sup>7</sup> In addition, a report by Fairer Finance<sup>8</sup> raised concerns that the pre-paid funeral planning market was not working well for consumers.<sup>9</sup>
- 1.5 In summary, we have heard the following specific concerns:
  - (a) Too high funeral prices, a particular issue for those on low incomes.
  - (b) Long-term above-inflation price increases (across funeral director fees, cremation fees and burial fees).<sup>10</sup>
  - (c) Significant price differentials across areas (burial and cremation fees in particular) and across funeral directors in the same areas.
  - (d) Lack of transparency of pricing information.
  - (e) Difficulties in comparing funeral packages, because the items included or excluded differ widely.

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<sup>5</sup> Funeral Planning Authority FAQs.

<sup>6</sup> For example, [The Royal London National Funeral Cost Index 2017](#) suggests that “against a backdrop of continued above inflation rises in funeral costs and the increasing issue of funeral poverty, more work needs to be done to raise awareness of the options that consumers have to find a funeral to fit their budget.”

<sup>7</sup> [Support for the bereaved](#). House of Commons Work and Pensions Committee, Ninth Report of Session 2015-16, HC 551 and associated evidence.

<sup>8</sup> [Fairer Finance](#) describes itself as a consumer group and research and ratings agency that looks to help consumers make more informed decisions.

<sup>9</sup> [Is the prepaid funeral planning market working well for consumers?](#) Fairer Finance report, commissioned by Dignity.

<sup>10</sup> It is well documented that there has been a shortage of burial plots in the UK for a number of years, due to land/planning issues and constraints on the re-use of burial plots, and this has been one of the drivers behind the growth of crematoria services. We are therefore not proposing to consider burial fees or cemeteries in the market study.

- (f) Consumer protection concerns in relation to pre-paid funeral plans. These include concerns that product limitations are rarely made clear, in particular that the cost of a funeral may exceed the cover offered; allegations of high-pressure selling and concerns about high cancellation fees.

## **Scope of this market study**

- 1.6 In our statement of scope published on 1 June 2018, we said that we would focus on the following issues:
- (a) the extent to which, and dimensions along which, funeral directors compete with each other and what factors may drive price rises and price differentials in the market;
  - (b) whether the practices of funeral directors (eg around transparency of pricing information) further impede the ability of people, who are already faced with challenging circumstances, to make informed choices when buying a funeral at the time of need. If so, we will explore what more is needed to support people making such choices;
  - (c) the extent to which crematoria have, and are able to exercise, market power. This will include an examination of levels of cremation fees and trends over time.
- 1.7 On 1 June 2018, in parallel to the CMA's market study, the government launched a Call for Evidence to aid in the design of a more appropriate regulatory framework for the pre-paid funeral plan sector. The government said that it believed the current self-regulatory framework for the funeral plan sector is not sufficient to ensure the fair treatment of consumers and believes a more robust regime is required.<sup>11</sup> In light of the government's review, we did not propose to investigate the supply of pre-paid funeral plans.
- 1.8 In response to our statement of scope, we received calls to bring other areas into the scope of the market study.<sup>12</sup> The two main issues that we were asked to consider were: burial plots and cemeteries; and the provision of pre-paid funeral plans. Having carefully considered all the representations we received on these matters, we have decided not to expand the scope of the study to incorporate them, for the reasons set out in the following paragraphs.

### ***Burial plots and cemeteries***

- 1.9 We received representations that burial costs have increased significantly, with one respondent stating they have risen circa 80% since 2007.<sup>13</sup> An industry trade association said that cemeteries were discriminating by charging non-residents of local authorities

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<sup>11</sup>[Consultation - pre-paid funeral plans.](#)

<sup>12</sup> We do not summarise all the representations we received in this report. However, individual responses to the statement of scope may be found at: [Funerals market study.](#)

<sup>13</sup> [Dignity response to CMA statement of scope.](#)

“double, triple fees and even quadruple fees.”<sup>14</sup> The association also said that other fees have been introduced such as late-running service fees and memorial permits. Some respondents linked the increase in burial fees to financial pressures faced by local authorities.<sup>15</sup> It was suggested that it is probable that there is substitution between cremation and burial, so that scarcity and the price of grave plots will be a contributory factor in determining the market power of crematoria. The same respondent also highlighted “huge” regional differences in the cost of burial.<sup>16</sup>

- 1.10 The root cause of high burial plot costs is well understood<sup>17</sup> and there seems to be broad agreement that the remedy to the problem is to enable the re-use of graves. In 2001, the House of Commons Environment, Transport and Regional Affairs Committee concluded, “If the public are to continue to have access to affordable, accessible burial in cemeteries fit for the needs of the bereaved, there appears to be no alternative to grave reuse.”<sup>18</sup> The government accepted this recommendation<sup>19</sup> (although implementation did not follow) and has said since then it regularly discusses the issue of burial space with its Burial and Cremation Advisory Group and is keeping the matter under review.<sup>20</sup> The Burial and Cremation (Scotland) Act 2016 makes provision for the restoration of lairs (graves) so long as human remains are not exhumed.

### ***Pre-paid plans***

- 1.11 We received representations from a number of parties to bring pre-paid plans within the scope of our market study. It was suggested to us that, by excluding pre-paid funerals from the scope of the study, the CMA would not gain a good understanding of the commercial drivers for funeral directors, and the CMA should look at how funeral directors compete to attract redemptions of pre-need plans, as well as decision-making by consumers in relation to redemptions.<sup>21</sup> It was suggested that the growing pre-paid segment may be having an impact on funeral prices overall. A trade association in the at-need segment noted that there is a significant number of people who subsequently find that there is a shortfall between the cost covered by the plan and the cost of the funeral. It added that this may affect the funeral director’s ability to run a profitable business (if the funeral director absorbs the shortfall rather than asking the family to meet additional costs) and can have an impact on their choices about fee rises.<sup>22</sup>
- 1.12 A consumer organisation said it was aware of certain instances within the contracts of pre-paid funeral plan providers that appear egregiously unfair and which may be causing

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<sup>14</sup> [NAFD response to CMA statement of scope.](#)

<sup>15</sup> See eg [NAFD response to CMA statement of scope.](#)

<sup>16</sup> [Which? response to CMA statement of scope.](#)

<sup>17</sup> See for example [University of Bath: Death, Dying and Devolution](#), section starting at page 97, on the shortage of burial spaces.

<sup>18</sup> [Select Committee on Environment, Transport and Regional Affairs Eighth Report Cemeteries.](#)

<sup>19</sup> [Government reply to the Eight report on cemeteries HC91.](#)

<sup>20</sup> [Cemeteries Written question 27219.](#)

<sup>21</sup> [Co-operative Group response to CMA statement of scope.](#)

<sup>22</sup> [NAFD response to CMA statement of scope.](#)

significant detriment. It suggested that the CMA's consumer powers may provide a much faster route than possible regulation to an adequate solution for consumers.<sup>23</sup>

- 1.13 As noted above, we did not consider it appropriate to investigate either the way competition between pre-paid funeral providers works, or consumer protection concerns while the government is reviewing the regulatory framework governing the supply of pre-paid funeral plans. We have not investigated competition between funeral directors in relation to the supply of funeral services under pre-paid plans because the nature of such competition would be intrinsically linked to the way the market for funeral plans operates and issues that are being investigated by the government (including relationships between funeral directors and funeral plan providers).<sup>24</sup> We accept, however, that the take-up of pre-paid plans by customers may be relevant to our analysis, to the extent that it is having an impact on the demand for funerals purchased at the time of bereavement. We have had regard to this issue as part of our exploration of how competition between funeral directors works and can be expected to change in the future.

## **Other issues**

- 1.14 We set out below our views on the other main scoping issues that were raised:
- (a) Concerns were raised that some local authority funeral director businesses may benefit from an unfair advantage over private providers, for example, by not paying business rates.<sup>25</sup> It was also suggested that some local authorities offer concession arrangements for funerals for local families and the contracting funeral director, in return for endorsement, advertising and recommendation by the local authority, contracts to carry out these funerals at set prices and sometimes these appear to be at less than cost. It was suggested that contracted funeral firms must be cross-subsidising the cost of these funerals.<sup>26</sup> First, we have not been provided with any supporting evidence that any particular local authority is benefitting from an unfair advantage, nor that contracted funeral firms are pricing below cost, cross-subsidising the cost of funerals. Second, we are not convinced that a contracted funeral director would have the incentive to pursue a below cost price strategy in the instance reported, nor that such a strategy would have the potential to force competitors out of the market, given the factors driving customers' choices in this market. Third, to the extent that a funeral director is able to increase substantially the prices charged to at-need customers (as cross-subsidisation would imply) because of lack of competitive constraints, this is already within the scope of this market study.
  - (b) It was suggested that we should investigate other costs across the supply chain, such as the prices of coffins and flowers. We have examined the drivers of price rises, including significant categories of cost, within our analysis of the increases in the

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<sup>23</sup> [Which? response to CMA statement of scope](#).

<sup>24</sup> Pre-paid funeral plans [call for evidence](#) (see sections 2.2. to 2.4. in particular).

<sup>25</sup> See, for example: [NAFD response to CMA statement of scope](#).

<sup>26</sup> [AW Lymn response to CMA statement of scope](#).

charges of funeral directors. We did not examine specifically the cost of discretionary items, as there is no evidence that these items have been the subject of significant price increases at the wholesale level. To the extent that funeral directors have increased the prices of such items, this is taken into account in our analysis of competition between these companies.

- (c) Some respondents indicated that funeral directors' contracts or arrangements with organisations such as coroners or care homes may restrict consumer choice. For example, one consumer organisation suggested that care homes may have an arrangement with a local funeral director, so that a deceased resident's body can be quickly removed from the premises, noting that although customers are at liberty to then switch, many do not switch in practice, and if they do, they are obliged to pay a fee to the initial undertaker.<sup>27</sup> Another respondent said that many companies bid for coroner or police contracts to provide removal contracts for deaths at home etc, noting that most of the time the family will end up staying with that funeral director.<sup>28</sup> We have not widened the scope of the market study to focus on this issue, as examination of the internal documents of the large funeral directors indicates that such contracts amount to a very small proportion of the market and are therefore unlikely to have a material impact on its functioning. However, our study touches upon the difficulties of switching between funeral directors once a body is in their care.

- 1.15 We have therefore decided not to expand the scope of our market study and have been exploring the themes described in paragraph 1.6 during its first six months. Our interim conclusions and proposed way forward are set out in the remainder of this document. In particular, we are required under section 131B of the Enterprise Act 2002 to decide by 30 November 2018 whether to begin the process of consulting on making an MIR. This question is addressed in section 8 of this report.

## **Work undertaken to date**

- 1.16 We have received evidence from a wide range of stakeholders through submissions, responses to information requests, face-to-face meetings, and telephone calls.
- (a) We received over 50 responses to our statement of scope, including from funeral directors, trade associations, local authorities/representatives, the Scottish Government, consumer organisations, charities and individuals who have arranged a funeral. Subsequently, 47 of these, including a summary of submissions from individuals, have been published on the CMA website. Generally, respondents have been very supportive of the market study.

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<sup>27</sup> [Fairer Finance response to CMA statement of scope.](#)

<sup>28</sup> [Beyond response to CMA statement of scope.](#)

- (b) We sent information requests to the nine largest funeral directors, accounting for circa 35% of funerals.<sup>29</sup> In response to our requests, we received a considerable number of internal documents.<sup>30</sup> We carried out telephone interviews with 18 independent funeral directors to ensure we had information from a range of sizes of firm. We have also engaged with, and obtained information from, the main industry trade associations.
- (c) We sent information requests to comparison websites operating in the sector. We obtained pricing data from one comparison website and from Royal London,<sup>31</sup> the latter to carry out analysis of the significant price differentials between funeral directors operating in the same geographic area.
- (d) We analysed the database of information on cremation fees compiled by the Cremation Society of Great Britain (referred to as the Cremation Society throughout this report).<sup>32</sup>
- (e) We sent information requests to the three main private crematoria providers. We also spoke with 13 local authorities about their crematoria operations.<sup>33</sup> We did not collect detailed data from local authorities, nor did we speak to all local authorities that operate crematoria, given the fragmented nature of this side of the market. In addition, we spoke to two local authority planning departments that had recently approved a new crematorium.
- (f) We commissioned a consumer survey and consumer research with people who had recently arranged a funeral to explore behaviours, experiences and decision-making processes when arranging a funeral at the point of bereavement. One hundred in-depth interviews were carried out for the consumer research and over 300 people took part in our survey. More information on the methodologies used and the findings of these two pieces of research are available on our website.<sup>34</sup>
- (g) We are liaising closely with government – in particular, the Scottish Government which is in the process of introducing regulation in the sector in Scotland; and HM Treasury, which launched a parallel Call for Evidence into the pre-paid funeral plan market on 1 June 2018.

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<sup>29</sup> Approximation derived from NAFD/SAIF membership databases and responses from Co-op and Dignity to CMA information requests (2016 figures).

<sup>30</sup> Throughout this report, the term internal document refers to all documents in the possession of the respondent to our information request, including documents prepared by external consultants and other parties employed to provide advice and expertise that would be subsequently used by the respondent to our information request.

<sup>31</sup> Royal London is a mutual insurance society. It publishes an annual funeral cost index.

<sup>32</sup> [The Cremation Society](#) is a registered charity which collects data from both private and public crematoria on a voluntary basis.

<sup>33</sup> Includes one trading arm of a local authority.

<sup>34</sup> [Ipsos MORI quantitative research](#); [Ipsos MORI technical report](#); [Research Works qualitative research](#). Note that the consumer survey analysis set out in this update paper is that of the CMA, based on data provided to it by Ipsos MORI, and not the analysis of Ipsos MORI. Some findings presented result from additional analysis of the survey dataset and may differ from the Ipsos MORI data tabulations as published.

## 2. Industry background

- 2.1 This section provides key facts about the funerals industry and its evolution over time, and in particular:
- (a) The elements that make up a funeral,
  - (b) Key market statistics and trends,
  - (c) The structure of the industry, including an overview of how it has changed over time, and
  - (d) A description of the regulatory framework under which funeral directors and crematoria operate, and the role of the trade associations within it.

### What organising a funeral entails

- 2.2 Organising and carrying out a funeral broadly involves three distinct sets of activities:
- (a) Various administrative tasks: registering the death (this is typically carried out by the family of the deceased), booking the necessary facilities and preparing the associated paperwork.
  - (b) Handling of the body: removal from the place of death, holding (including, where required, enabling the viewing of the body in the time before the funeral) and preparing the body; transporting the body to the place of committal, and either burying or cremating the body.
  - (c) Organising and carrying out a ceremony/service.
- 2.3 In the UK, there are two authorised approaches to body disposal that are currently in use:<sup>35</sup>
- (a) Cremation; and
  - (b) Burial, which can be in a cemetery or in a natural burial ground.<sup>36,37</sup>
- 2.4 It is not possible to think about funerals purely in economic terms. We touch upon the socio-cultural factors that may impede people's ability to make informed decisions about funerals in Section 3 and Appendix B. Although we recognise that religious affiliation may also have an impact on how a funeral is organised, we have not focused any aspect of this

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<sup>35</sup> Under the Law Commission's [13<sup>th</sup> Programme of Law Reform](#) the Ministry of Justice will undertake a project: A modern framework for disposing of the dead, which will seek to create a future proof legal framework which, amongst other matters "enables safe and dignified new processes to be made available in England and Wales".

<sup>36</sup> A natural burial takes place in a green/woodland habitat. The first natural burial ground was established in 1993 and there are now over 270 natural burial grounds in the UK. (Source: [The Natural Death Centre](#)).

<sup>37</sup> Alkaline hydrolysis (or 'resomation'), a process by which the body is dissolved into a liquid solution, is also authorised, but we understand that this method is not currently operational in the UK and recent plans to open a facility were put on hold due to concerns over the public acceptability of the process ([Water cremation plans put on hold](#)).



report on the practices of any particular religious group. However, our consumer research sought to obtain views from a diverse sample of the population (and this is apparent in some of the examples used in our research report). We note that in response to our statement of scope we have not received any representation that there are issues associated with the practices dictated by any specific religion (although we recognise that the timing pressures we discuss in section 3 and Appendix B of this report may be more acute for certain groups). We will seek to engage further with representatives of major faiths in the next stage of this study to ensure that we have not overlooked any issue specific to them in our analysis.

## **Key market statistics and trends**

- 2.5 There were 607,000 deaths in the UK in 2017, approximately 513,000 of which involved a funeral paid for at the time of bereavement, rather than through a pre-paid plan.
- 2.6 According to public sources, the total spend on funerals in the UK is around £2 billion.<sup>38</sup> We have estimated that, within this overall spend, the value of services provided by funeral directors for funerals purchased at the point of need and cremation fees, together amount to approximately £1.6 billion.<sup>39</sup> The average cost of the core elements of a funeral is around £4,300, with discretionary items, such as flowers and catering amounting to a further £2,000.<sup>40</sup> Analysis of the CMA consumer survey responses implies that people will typically spend between £3,000 and £5,000, with at least 16% spending more than £5,000.<sup>41</sup>
- 2.7 In sections 3 to 7 of this report, we use the term “funeral” to refer to “funerals that are purchased at the point of need”, as this has been the focus of our work.

### ***Growth in demand for cremations***

- 2.8 The proportion of funerals involving a cremation has grown steadily in the past 60 years, from 35% in 1960 to 77% in 2017.<sup>42</sup>
- 2.9 The number of crematoria has also increased, with significant waves of construction taking place in the 1960s and in the last decade, as shown in Figure 1.

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<sup>38</sup> [Funeral Activities UK Market Research Report](#).

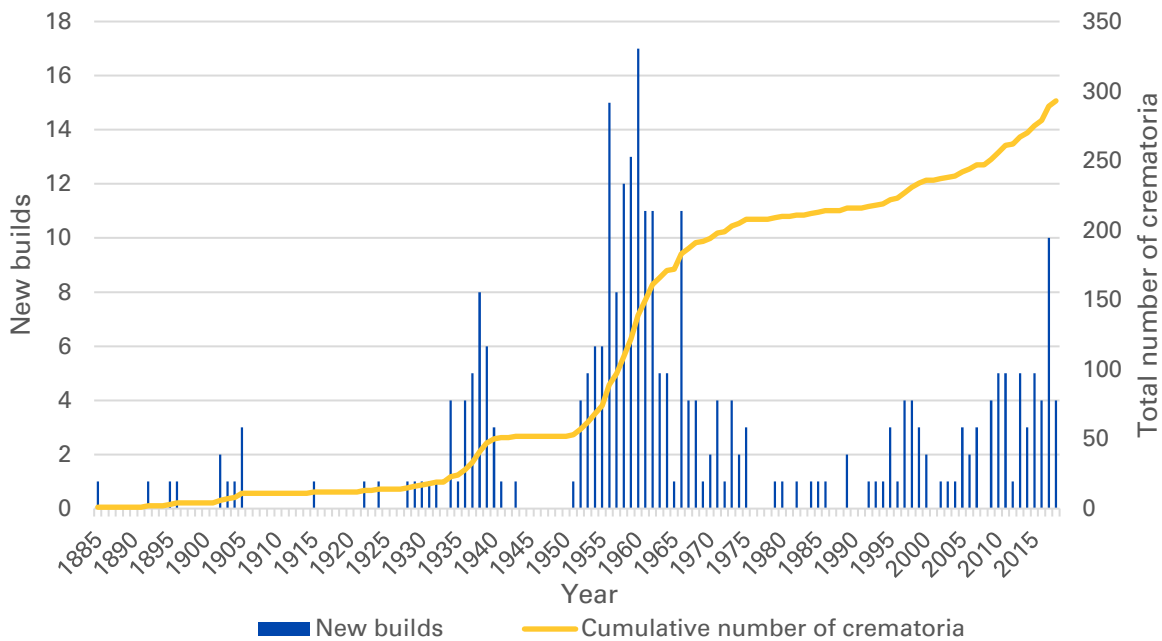
<sup>39</sup> The methodology used to produce this estimate is described at paragraphs 8.40 and 8.51.

<sup>40</sup> [Sunlife cost of dying report 2018](#).

<sup>41</sup> [CMA consumer survey](#), Tables 37/38.

<sup>42</sup> Cremation Society statistics.

**Figure 1: Number of crematoria in operation in the UK over time**

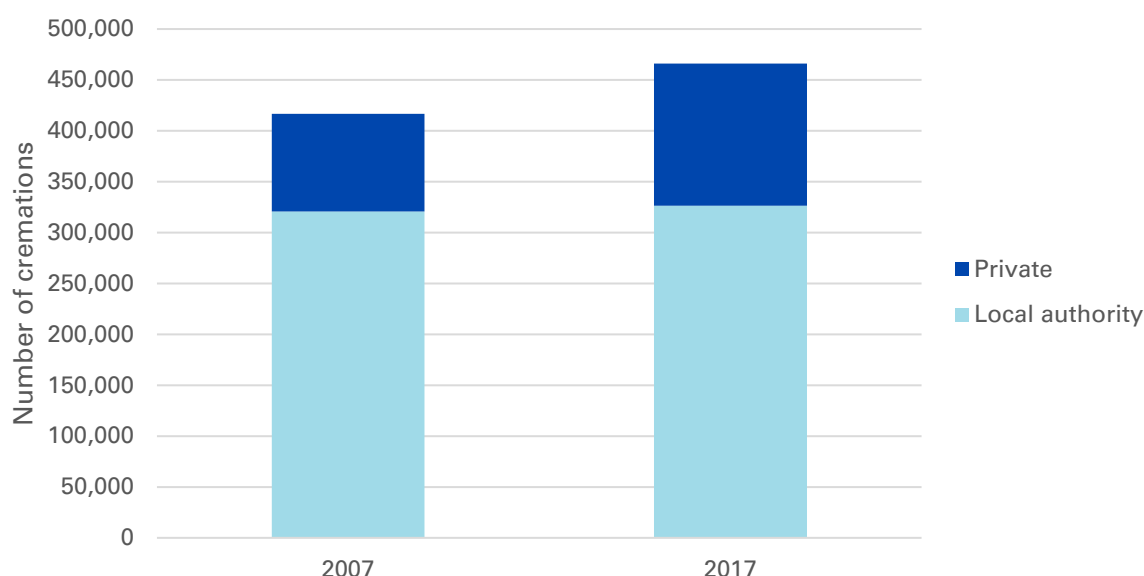


Source: CMA analysis of ICCM information. 10 new crematoria directly replacing old crematoria not counted as new builds.

- 2.10 The development of the cremation sector started in the 1930s and the number of new builds reached a peak in the 1960s, driven by municipal authorities seeking to introduce an alternative to their cemeteries.<sup>43</sup> Since the 1980s, the delivery of new facilities across the UK has been driven by the private sector.
- 2.11 The number of cremations carried out annually has increased by 12% in the last 10 years to just over 465,000 in 2017, with local authority crematoria conducting 70% of cremations in 2017. However, the share of cremations carried out by private crematoria has increased from 23% in 2007 to 30% in 2017, while the absolute number of cremations carried out by local authorities has remained broadly constant over this period.

<sup>43</sup> It has also been observed that there was a major change in 1963 when the Pope lifted a ban on Roman Catholics seeking cremations, and when, 3 years later, Roman Catholic priests were allowed to conduct services in crematoria.

**Figure 2: Number of cremations by type of provider, 2007 and 2017**



Source: CMA analysis of Cremation Society data

- 2.12 The increasing number of crematoria in the UK is broadly in line with the increasing number of cremations in the UK. Consequently, the average number of cremations per crematorium has not changed significantly in recent years (in 2007 the average number of cremations per crematorium was 1,666, compared with 1,624 in 2017).<sup>44</sup>
- 2.13 It has been reported that there is a continuing trend towards removing cremated remains from crematoria grounds (over 75% are removed) and that this reduces the demand for gardens of remembrance.<sup>45</sup>

### **Growth in funeral prices**

- 2.14 Sunlife has reported information on the cost of the core elements making up a funeral<sup>46</sup> since 2004.<sup>47</sup> Its analysis indicates that the average cost of a ‘basic’ funeral has increased by an annual rate of 6% in the 14 years to 2018, from £1,920 to £4,271. The average cost of a funeral involving a cremation was £3,744 in 2018.
- 2.15 In contrast, the amount spent on discretionary items has remained broadly unchanged over the past 11 years.

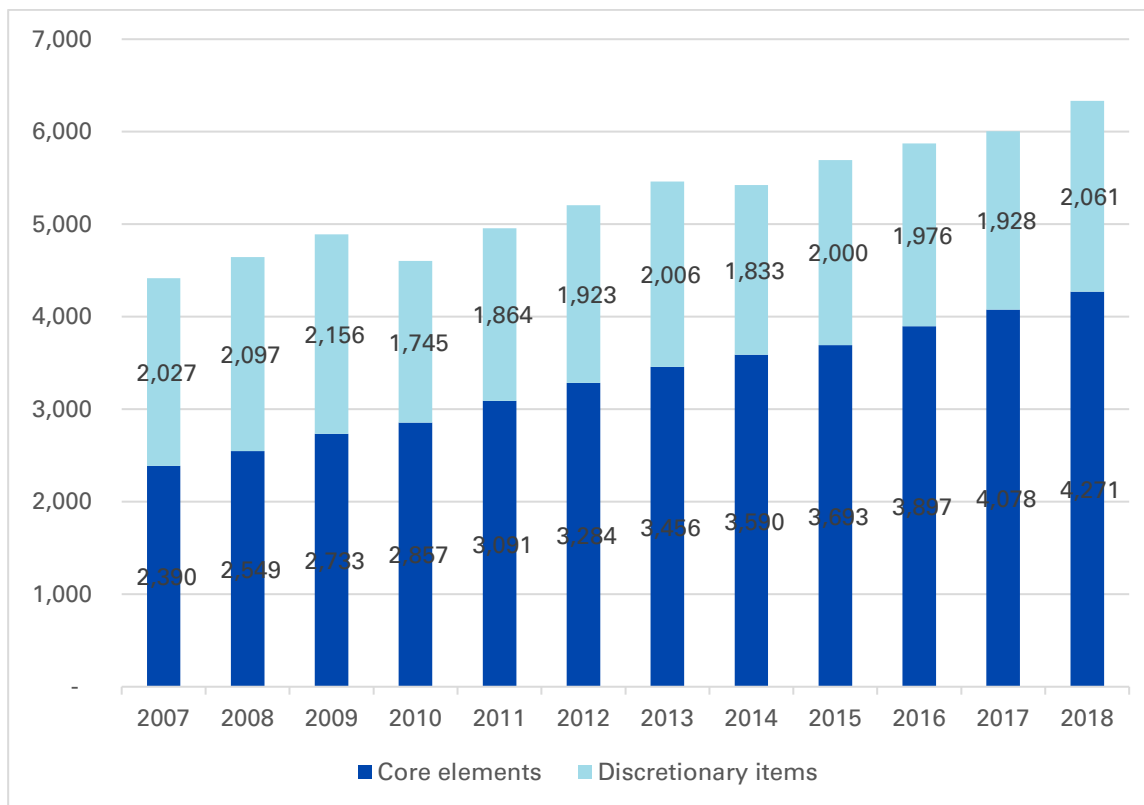
<sup>44</sup> CMA analysis of Cremation Society and ICCM data. In 2007 we have data relating to 417,000 cremations over 250 crematoria, and in 2017 we have data relating to 466,000 cremations over 287 crematoria. We do not have data on number of cremations for all crematoria.

<sup>45</sup> [University of Bath, Death, Dying and Devolution](#), page 94.

<sup>46</sup> Defined by Sunlife as the fees for: the funeral director (including provision of the coffin, hearse, collection and care of the deceased, and professional guidance); the cremation or burial itself; the doctor; and the minister or celebrant. In 2017, average burial fees were around £1,000 higher than cremation fees. [Sunlife cost of dying report 2018](#).

<sup>47</sup> We have seen other research on funeral price inflation over time, including the Royal London funeral cost index and research undertaken by YouGov. Consistent with Sunlife, these find that funeral costs have risen over time, although their methodology and estimates of price inflation vary. A table comparing estimates from different sources is included in Appendix D.

**Figure 3: Basic and discretionary funeral costs (£)**



Source: Sunlife Cost of Dying reports

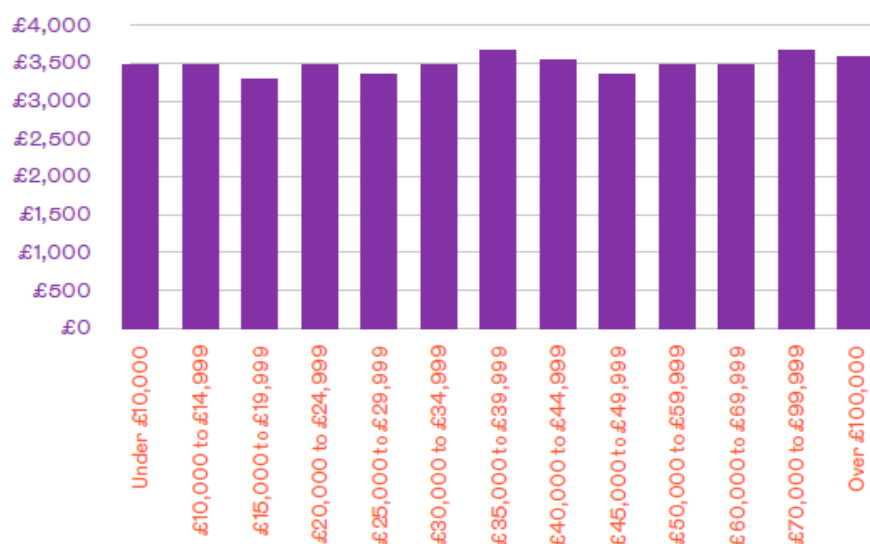
2.16 Looking at the various elements of the cost of a basic funeral involving a cremation, the two largest components are the funeral director’s fee and the cremation fee. Of the two, cremation fees have seen the highest level of inflation in the past 3 years, according to research carried out by a funeral director.

### ***Funeral poverty***

2.17 Low income consumers are disproportionately affected by funeral costs. Figure 4 below indicates that the average spend on a funeral varies very little by household income.<sup>48</sup> This implies that those in the lowest income bracket spend on funerals a share of their income that is more than ten times higher than the share for those in the highest income bracket.

<sup>48</sup> Royal London Funeral Cost Index 2014.

**Figure 4: Average spend on a funeral (by household income) in 2014**



Source: Royal London National Funeral Cost Index

- 2.18 The average annual expenditure of those in the lowest income decile group was £11,050 in 2017.<sup>49</sup> This means that the spend on a funeral could amount to 39% of the average annual expenditure of people on the lowest incomes.<sup>50</sup> This is higher than the total spend on energy, food and clothing combined (at 26%).<sup>51</sup>
- 2.19 In the light of above-inflation cost increases, concerns about funeral poverty started to form part of the political agenda around 2015 and were widely reported in the media.
- 2.20 In April 2015 the BBC warned of a “funeral time bomb”,<sup>52</sup> following publication of a report by the International Longevity Centre<sup>53</sup> which noted that soaring funeral costs, combined with pressure on funeral services caused by rising numbers of deaths and a lack of financial planning by people for funeral costs, would lead to a growing number of families struggling with funeral bills. In November 2015, another BBC report focused on the rise of public health funerals and related cost to local authorities.<sup>54</sup>
- 2.21 In December 2015, the Work and Pensions Committee launched an inquiry into funeral poverty, Social Fund funeral payments and bereavement benefits.<sup>55</sup> It published its report on the inquiry in March 2016,<sup>56</sup> recommending, amongst other matters, that the UK Government should follow the lead of the Scottish Government and conduct a cross-

<sup>49</sup> [ONS Family spending in the UK, 2017: detailed household expenditure by disposable income decile group, UK: Table 3.1](#). The table shows average total weekly expenditure of £212.50 (non-equivalised; the equivalised total is £266, as set out in Table 3.1E). Over 52 weeks this totals expenditure of £11,050.

<sup>50</sup> A household spending £4,300 on a funeral (the average funeral price) out of total annual expenditure of £11,050 would spend 39% of their disposable income on a funeral (or 31% of equivalised expenditure).

<sup>51</sup> [ONS Family spending in the UK, 2017: Detailed household expenditure as a percentage of total expenditure by disposable income decile UK, 2017: Table 3.2](#).

<sup>52</sup> [BBC News](#) Warning of ‘funeral time bomb’ in UK as population ages.

<sup>53</sup> [The International Longevity Centre - UK The funeral time bomb](#).

<sup>54</sup> [BBC news](#) ‘Paupers’ funerals’ cost councils £1.7m.

<sup>55</sup> [Commons Select Committee](#) Bereavement benefits inquiry launched.

<sup>56</sup> [House of Commons Work and Pensions Committee](#) Support for the bereaved Ninth Report of Session 2015-16.

Departmental review of burials, cremations and funerals to “look to make recommendations that have a long-term impact on funeral inflation and work to reduce funeral poverty.”<sup>57</sup>

- 2.22 In June 2015 Citizens Advice Scotland (CAS) published its *Cost of saying goodbye* report<sup>58</sup> addressing the rising and varying cost of funerals in Scotland, evidencing the increasing number of people who struggled to pay for basic funerals. This was followed by a further report<sup>59</sup> and, in 2016, a Scottish Government National Conference on Funeral Poverty that led to a range of policy initiatives with a focus on funeral affordability. The Scottish Government published its Funeral Costs Plan in August 2017.<sup>60</sup> This sets out a range of actions that the Scottish Government is taking to tackle funeral poverty.
- 2.23 It seems clear that the public debate on funeral poverty has led to some changes in the way the industry operates. We discuss this further in section 4.

## Structure of the industry

### Overview

- 2.24 At the centre of the funerals industry are funeral directors, who are typically the only point of contact for people seeking to organise a funeral. They operate as an intermediary for the crematoria, cemeteries, officiants and medical referees and pass on the costs associated with these suppliers’ activities, as ‘disbursement costs’, to the customer.
- 2.25 The industry is very fragmented, but there are three sizeable firms of funeral directors: Co-op Funeralcare (a division of the Co-operative Group Limited, together referred to as Co-op throughout this report), Dignity plc (Dignity), and Funeral Partners Limited (Funeral Partners). Dignity also operates crematoria, alongside Westerleigh (a trading name of Western Topco Limited), Memoria Limited (Memoria), smaller private providers, and local authorities. A number of companies, eg Pure Cremation Ltd (Pure Cremation), specialise in the provision of cremations without ceremony.

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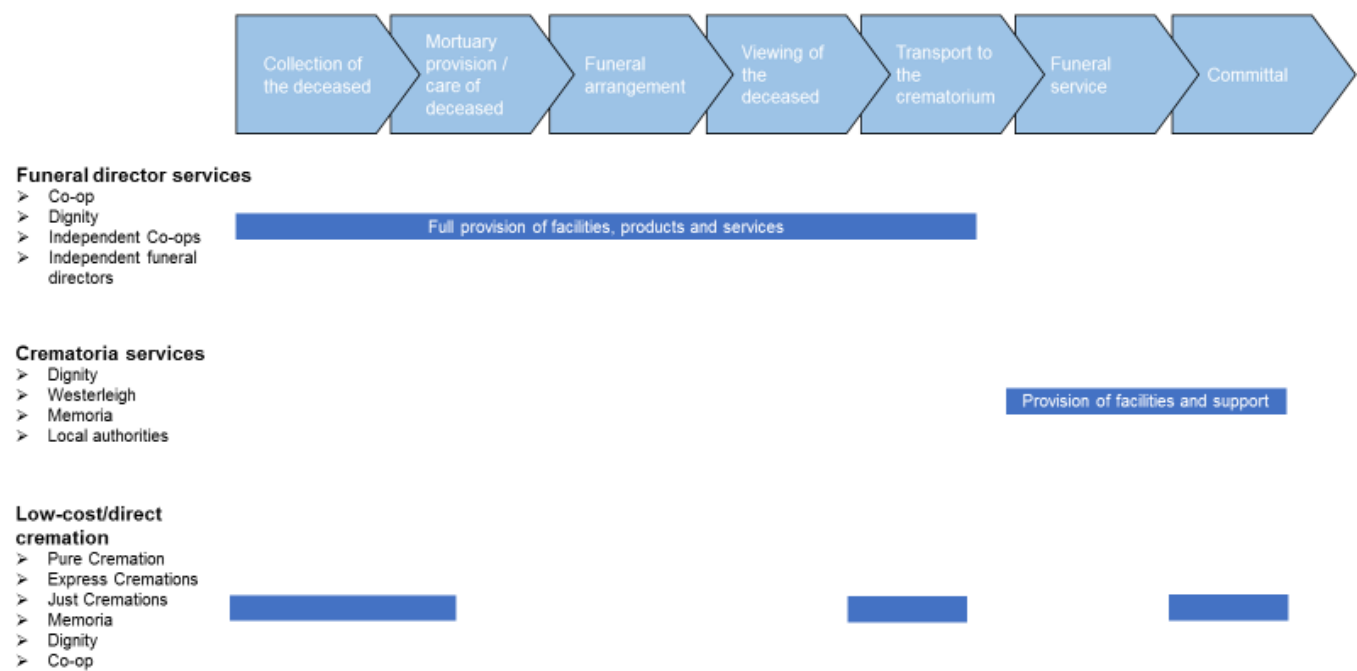
<sup>57</sup> The Minister for Family Support, Housing and Child Maintenance wrote to the Chair of the Work and Pensions Committee on 24 May 2018, outlining the steps Government had taken to date in response: [Letter to Frank Field MP from Kit Malthouse MP, dated 24 May 2018](#).

<sup>58</sup> [The Cost of Saying Goodbye 2015](#). Citizens Advice published its first research paper the subject of funeral costs in June 2014.

<sup>59</sup> A report was commissioned by the Cabinet Secretary for Social Justice, Communities and Pensioners’ rights in October 2015, to allow for work on funeral poverty to progress alongside the development of a new Scottish funeral payment, following the transfer of powers under the Scotland Bill. [Funeral Poverty in Scotland](#).

<sup>60</sup> [Funeral costs Plan](#).

Figure 5: Services and suppliers involved in the organisation of a funeral



Source: CMA

2.26 Looking at the industry overall, Dignity is by far the largest operator, with a turnover of £324m in 2017, and is the only publicly listed company operating in this sector. As shown in Figure 6 below, Dignity’s shares have outperformed the FTSE 250 for most of the period from its listing on the London Stock Exchange on 8 April 2004 to now. The gap was particularly pronounced in the 5 years to the end of 2017. For a more detailed discussion of Dignity’s financial performance, see paragraphs 6.98 to 6.105.

**Figure 6: Dignity's share price and FTSE 250 since 8 April 2004**



Source: Google

## ***Funeral directors***

- 2.27 Funeral director services are mostly provided by privately owned companies. To fully understand the way the industry operates today, it is useful to start with its commercial development, alongside the rapid expansion of cities in Victorian Britain.
- 2.28 Funeral directors were essentially family firms until the early years of the 20<sup>th</sup> century: this model of enterprise was ideally suited to this industry because continuity of a trading name and stability were key to maintaining personal contacts in the community, thus generating additional work from recommendations. The co-operative movement became involved in the supply of funerals in the 1920s, as an extension of their role in providing death benefits to their members. By 1995, the industry remained fragmented, although a number of larger funeral director firms had emerged through a series of mergers and acquisitions, and the co-operative societies collectively had gained just over 25% share of supply (some of them having merged). In 1994, the American funeral business, Service Corporation International (SCI), entered the UK by acquiring two firms, which together had 520 branches and a share of supply of around 14%. Following a management buy-out by the UK board in 2001, SCI's holdings in the UK was floated on the London Stock Exchange as Dignity in 2004.<sup>61</sup>

<sup>61</sup> This paragraph is based on The Evolution of the British Funeral Industry in the 20<sup>th</sup> Century, Brian Parsons, 2018.



- 2.29 Despite these changes, the funeral director industry remains fragmented, with many family-owned and managed firms continuing to operate in this sector. We have analysed the membership databases of the two trade associations representing funerals directors and estimated that together they account for 1,386 funeral directors, operating 5,231 branches.<sup>62</sup> In addition, some funeral directors are not registered with either association. Although there is no authoritative source of information on the size of the funeral directors' cohort, we have seen an unpublished report estimating that overall in 2017 there were 6,955 funeral director branches in the UK.
- 2.30 Of the three largest suppliers, Co-op has an estimated 16% share of all UK funerals and Dignity around 11%, while Funeral Partners has a share of just under 2%. These estimates are broadly consistent with estimates from public sources. We found that Co-op and Dignity's shares have been relatively stable (with a very small decrease) over the period 2013-2017, while Funeral Partners has nearly doubled its share over the same period.<sup>63</sup>
- 2.31 The largest supplier is Co-op. It generated revenue of £292m (excluding disbursements revenue)<sup>64</sup> from 99,925 at-need funerals conducted by 1,079 branches in 2017.<sup>65</sup> In the past 3 years, Co-op has pursued a growth strategy centred on opening new funeral director branches, refurbishing and rationalising the existing branch network and repositioning its prices and services.
- 2.32 Alongside Co-op, there are also 10 independent co-operative societies, the three largest of which are Central, Midcounties and Southern, offering funeral director services. The independent societies account for circa 330 funeral homes and an estimated combined share of 6%.
- 2.33 Dignity is the second largest provider of funeral director services. In 2017, it carried out 68,800 funerals, generating revenues (excluding disbursements) of £222m out of 826 funeral homes.<sup>66</sup>
- 2.34 The third largest supplier, Funeral Partners, was established in 2007, and has expanded principally through acquisitions. In 2016/17, its turnover was £34.8m<sup>67</sup> and, as of 26<sup>th</sup> June 2018, it operated 162 funeral homes.
- 2.35 The rest of the industry is accounted for by a long tail of small firms (referred to in this report as independent funeral directors), many of which have only one branch. Among them, there are also a few companies with a regional coverage, the largest of which

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<sup>62</sup> To produce this estimate, we have removed duplications resulting from membership to both associations by some funeral directors.

<sup>63</sup> We estimated each funeral director's share of funerals in 2017 by dividing the total number of funerals it organised by the total number of deaths in the UK as reported by the Office for National Statistics - [Deaths by single year of age tables - UK](#). The shares include both pre-paid and at-need funerals.

<sup>64</sup> CMA calculation based on [§].

<sup>65</sup> [Co-op Annual Report 2017](#).

<sup>66</sup> [Dignity Annual Report 2017](#).

<sup>67</sup> Funeral Partners Limited statutory accounts.

include: Lodge Bros. (Funerals) Ltd; Beverley Funerals Ltd; CPJ Field and Co Ltd and AW Lymn, The Family Funeral Service Ltd.

## ***Crematoria***

- 2.36 In June 2018, there were 293 crematoria in the UK. Of these, 183 were operated by local authorities<sup>68</sup> and 110 by private companies.<sup>69</sup>
- 2.37 Dignity and Westerleigh are the largest private operators of crematoria and together own around two-thirds of the private crematoria and one-quarter of all crematoria:
- (a) With 46 crematoria, Dignity is the largest operator.<sup>70</sup>
  - (b) With 29 crematoria, Westerleigh is the second largest operator.<sup>71</sup>
- 2.38 Another two companies, Memoria and the London Cremation Company, operate nine and six crematoria respectively. The remaining 20 private crematoria are operated by smaller operators or funeral directors who have opened a crematorium in the area of operation of their core business.

## ***Direct cremation providers***

- 2.39 Although direct cremation (also referred to as cremation without ceremony) is offered by some funeral directors and by Memoria, a number of companies have been set up that specialise in the supply of such funerals.
- 2.40 One example is Pure Cremation which was founded in 2015. In 2017, it carried out circa 1,000 cremations without ceremony at crematoria owned by Memoria. Its standard service to customers includes the collection and storage of the deceased, completion of paperwork, provision of a simple coffin, transport of the deceased to the crematorium and return of the ashes. Customers also have the option to attend the actual cremation and to purchase a casket or urn.

## ***The role of comparison websites and online directories***

- 2.41 Comparison websites specialising in funerals have emerged in recent years and a number focus on at-need funerals. Models differ: for example, some provide comparisons between simple funerals, others allow for the selection and comparison of different packages, some also provide itemised quotes. A number allow customers to leave reviews and/or rate the

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<sup>68</sup> This also includes crematoria operated by a trading company owned by a local authority, or crematoria operated by a committee/board on behalf of a local authority (or multiple local authorities).

<sup>69</sup> Institute of Cemetery and Crematorium Management (ICCM), [Directory of Crematoria](#) (as at July 2018), CMA analysis. The ICCM list 314 crematoria, of which 1 has closed, 10 are replacements for existing crematoria, and 10 are in the Republic of Ireland, Isle of Man or Channel Islands. As such, there are 293 crematoria in the UK.

<sup>70</sup> Dignity operate seven crematoria (Rotherham, North Somerset, Enfield, Emstrey, Stockport, Loughborough and Holytown) on behalf of, or in conjunction with, local authorities.

<sup>71</sup> Westerleigh has since opened an additional crematorium in August 2018. [X].

funeral director's services. Examples of such comparison websites include About the Funeral,<sup>72</sup> Beyond,<sup>73</sup> and Funeral Choice.<sup>74</sup>

- 2.42 These websites do not generally charge people looking for a funeral director to use their comparison services, but they have adopted different models for generating revenue from the funeral directors listed on the websites. Some charge funeral directors a commission or percentage of the funeral director's professional fees for each referral; others charge a fixed fee/subscription; some charge for the provision of additional services.
- 2.43 There are also a number of online directories which allow people to search for a funeral director. Examples include: Funeral Zone,<sup>75</sup> Localfuneral.co.uk<sup>76</sup>, and the NAFD's Funeral Directory, which was launched earlier this year.<sup>77</sup> The NAFD has indicated that, in the second phase of development, its website will provide customer reviews and that NAFD members will be able to add pricing information on both simple and bespoke funerals.<sup>78</sup>

## Regulation

- 2.44 This section summarises the regulatory landscape for funeral directors and crematoria. It also considers the outcomes of previous examinations of issues in the supply of funerals at the point of need by the CMA's predecessor, the Office of Fair Trading (OFT). A more detailed examination is set out in Appendix A of this report.

### *Funeral directors*

- 2.45 The activities of funeral directors are not regulated in England, Wales and Northern Ireland.<sup>79</sup> There are no licensing or registration schemes, no compulsory professional qualifications or training, nor other statutory restrictions on who can operate as a funeral director. Quality and service standards are not prescribed by law, and there is no statutory inspection regime for funeral directors' premises.
- 2.46 A regulatory regime is being introduced in Scotland. The Burial and Cremation (Scotland) Act 2016 was passed by the Scottish Parliament in March 2016 and provides the statutory framework to appoint Inspectors of Funeral Directors. The Act also makes provision for Scottish Ministers to introduce a licencing scheme for the funeral director industry, should this be deemed appropriate. In its 2015 Policy Memorandum to the Bill, the Scottish Government stated that regulation of the funeral industry "will address current concerns

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<sup>72</sup> [www.aboutthefuneral.com/](http://www.aboutthefuneral.com/) - operated by About the Funeral Limited.

<sup>73</sup> [beyond.life/](http://beyond.life/) - operated by Funeralbooker Limited.

<sup>74</sup> [www.yourfuneralchoice.com/](http://www.yourfuneralchoice.com/) - operated by Funeral Advisor Limited.

<sup>75</sup> [www.funeralzone.co.uk/](http://www.funeralzone.co.uk/) - operated by Funeral Zone Limited.

<sup>76</sup> [localfuneral.co.uk/](http://localfuneral.co.uk/) - operated by Golden Charter Services Limited.

<sup>77</sup> [funeral-directory.co.uk/](http://funeral-directory.co.uk/)

<sup>78</sup> [NAFD response to CMA statement of scope](#).

<sup>79</sup> Funeral directors are subject to a range of generally applicable laws, including health and safety and public health law.

that there are few formal requirements to operate as a funeral director and that there is little independent scrutiny of funeral directors.”<sup>80</sup>

- 2.47 The 2016 Act also provides Scottish Ministers with a power to issue guidance about the costs associated with making arrangements for a funeral. The Scottish Government is currently consulting on draft statutory guidance on funeral costs. Amongst other matters, the draft guidance sets out steps that funeral directors can take to improve transparency and availability of funeral pricing information.<sup>81</sup>

### *Self-regulation and voluntary initiatives*

- 2.48 There is no obligation for a funeral director to belong to any trade association in the UK. However, many funeral directors are members of one or more trade associations, voluntarily agreeing to abide by their codes of practice which set certain conduct and service standards.
- 2.49 There are two main trade associations: The National Association of Funeral Directors (NAFD) and the National Society of Allied and Independent Funeral Directors (SAIF). Both set standards of conduct and service through their codes of practice (which include minimum standards for providing information on prices), provide access to independent dispute resolution, carry out inspections of their members’ premises, provide practical guidance to members and access to training and funeral director qualifications. Based on the overall numbers of funeral directors and branches in the UK set out in paragraph 2.29, we estimate that between them, their membership represents just over 75% of funeral director branches.
- 2.50 As part of its initiative to address funeral poverty, Quaker Social Action (QSA) encourages funeral directors to sign up to the *Fair Funerals Pledge*, thereby committing to help people find funerals that are within their means, and to be transparent about their most affordable options.<sup>82</sup> QSA estimates that over one third of the UK funeral industry is signed up to the pledge.<sup>83</sup>
- 2.51 The Good Funeral Guide, a not-for-profit social enterprise company, is dedicated to supporting, empowering and representing the interests of dying and bereaved people living in the UK. It operates an accreditation scheme for funeral directors and undertakes visits to firms that it reviews and recommends on its website. It lists around 175 branches of the companies that have chosen to seek accreditation.<sup>84</sup>

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<sup>80</sup> [Burial and Cremation \(Scotland\) Bill Policy Memorandum.](#)

<sup>81</sup> [Draft statutory guidance on funeral costs: consultation.](#)

<sup>82</sup> [Fair funerals pledge.](#)

<sup>83</sup> [Fair funerals pledge.](#)

<sup>84</sup> [Good Funeral Guide response to CMA statement of scope](#) and [website.](#)

## *Previous investigations*

- 2.52 The OFT published reports into the funerals industry in 1989 and 2001.<sup>85</sup> Recommendations from both reports focused primarily on increasing transparency (of price and ownership information) and the provision of better information, by industry and third parties, to help inform choice. Prior to this, in 1976, the Secretary of State for Prices and Consumer Protection asked the Director General of Fair Trading to negotiate a code of practice with the NAFD to ensure that people were given a written estimate, that a basic funeral was made available, and that its price was displayed in a prominent position in the funeral director's premises.
- 2.53 Both of the OFT's reports examined the operation of industry codes of practice.<sup>86</sup> In 2001, having ruled out recommending new legislation as "a disproportionate solution", the OFT suggested that consumer safeguards could best be achieved by building on the OFT's Consumer Codes Approval Scheme initiative (CCAS) for encouraging trade associations to develop robust industry codes of practice. In 2003 both the NAFD and SAIF sought to obtain OFT approval for their codes under CCAS. However, the NAFD told us it reached a stalemate position and SAIF advised that a compatible solution could not be found between CCAS and SAIF.<sup>87</sup> The specific recommendations made by the OFT are set out in Appendix A.

## **Crematoria**

- 2.54 As explained in paragraph 2.36, most crematoria are operated by local authorities. However, local authorities are not obliged to provide crematoria services, which are therefore categorized as 'discretionary services'. Generally speaking,<sup>88</sup> in England, Wales and Northern Ireland, local authorities can charge for discretionary services (including crematoria services) on a cost recovery basis. In Scotland, a local authority may charge such fees as it sees fit. Further detail on the legal basis for charging is provided in Appendix A.
- 2.55 Laws on cremation are predominantly set out within the Cremation Act 1902 (the 1902 Act), the Cremation Act 1952, the Cremation (England and Wales) regulations 2008 and the Cremation (Scotland) Regulations 1935. The Burial and Cremation (Scotland) Act 2016 provides for the repeal of all existing legislation relating to cremation in Scotland. It allows Scottish Ministers to make regulations which make provision about matters including the

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<sup>85</sup> Funerals published in 1989, and [A report of the OFT inquiry into the funerals industry 2001 \(OFT346\)](#).

<sup>86</sup> In 1989, the OFT focused on the operation of the NAFD's code of practice. In 2001, the OFT focused on the codes of practice operated by the NAFD, SAIF and the Funeral Standards Council.

<sup>87</sup> The NAFD told us "it undertook a lot of work to ensure its Code of Practice would meet all of the criteria set by the CCAS scheme. However, the requirements were changed a number of times, reaching a point at which the NAFD could simply no longer meet the criteria, specifically in relation to the introduction of a requirement for trade associations to effectively underwrite any members whose business failed while in possession of client disbursement payments for funerals that had not yet taken place." SAIF said that it worked with the CCAS on a complaint redress service that CCAS would host. However, the operational costs for administering the scheme and insurance fund was disproportionate to the scale of complaints across the sector.

<sup>88</sup> Under section 95 of the Local Government Act 2003 local authorities in England and Wales can profit from services if they set up trading companies.

management and operation of crematoria. It is anticipated that such regulations will be laid before the Scottish Parliament in the coming months. An Inspector of Crematoria was appointed in Scotland in 2015. Special arrangements for crematoria apply in Northern Ireland, as the provisions of the 1902 Act do not apply there.<sup>89</sup>

- 2.56 Amongst other matters, the 1902 Act contains restrictions on where a crematorium may be constructed. Section 5 of this act states that, “No crematorium shall be constructed nearer to any dwelling-house than two hundred yards, except with the consent, in writing of the owner, lessee and occupier of such house, nor within fifty yards of any public highway, nor in the consecrated part of the burial ground of any burial authority”. The London County Council (General Powers) Act 1935, s.64 reduced this limit to 100 yards in the case of crematoria built by borough councils.
- 2.57 In Scotland, the Policy Memorandum to the 2016 Act notes that the Scottish Government was unconvinced that a minimum distance (ie as set out in section 5 of the 1902 Act) was necessary, because its purpose was not clear from the 1902 Act, and to the extent that this was linked to concerns relating to emissions, this had been addressed through Scottish Environment Protection Agency emission regulations. As such, the 2016 Act contains no minimum distance, with the Scottish Government noting that it would rely on the planning system to consider development applications for crematoria in the general context of a given location, taking into account the development plan and all ‘relevant material considerations,’ such that land is used efficiently and new sites are not prevented unnecessarily.<sup>90</sup>
- 2.58 All new crematoria across the UK are subject to local planning rules and require planning approval. Crematoria providers are required to support their planning applications with evidence of a local ‘need’ for new crematorium provision. This is particularly important when developing crematoria in Green Belt areas where it is necessary to prove that any harm from building on the Green Belt is outweighed by other considerations, as set out in the National Planning Policy Framework.<sup>91</sup> The meaning of what constitutes a local ‘need’ for a crematorium has been shaped by a number of planning decisions and appeals. This is considered further in Appendices A and C.
- 2.59 Environmental rules seek to control emissions from crematoria, and a permit is required to cremate human remains. The Environmental Protection Act 1990 required crematoria to improve their emissions performance by 1997. Mercury abatement equipment was required to be fitted to crematoria to ensure that, by the end of 2012, 50% of all cremations were carried out subject to abatement. All new crematoria since 2006 have had to fit mercury abatement equipment while existing crematoria can fit mercury abatement equipment or ‘burden share’<sup>92</sup> or choose a combination of both approaches.

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<sup>89</sup> See Appendix A for further details.

<sup>90</sup> [Burial and Cremation \(Scotland\) Bill Policy Memorandum](#).

<sup>91</sup> [National Planning Policy Framework \(July 2018\)](#).

<sup>92</sup> ie provide a contribution to those crematoria that have had abatement equipment fitted. [CAMEO](#) is a scheme under which crematorium operators who could install abatement plant do so, and the cost is shared with those crematorium operators who could not install such abatement equipment.



### 3. How people choose a funeral

3.1 In this section, we describe how people choose a funeral, including how they choose the funeral director who organises the funeral for them and the crematorium at which it takes place.<sup>93</sup> We consider the following:

- (a) The process of choosing a funeral director and a funeral;
- (b) How the elements of the funeral package are chosen; and
- (c) How people choose a crematorium.

#### Context

- 3.2 People are often uncomfortable about discussing their funeral or the funeral of someone close to them. Consequently, people may not have planned or given much thought to choosing a funeral director ahead of time. The decision about which funeral director to contact is, in many cases, not thought about until a death has occurred (or is expected imminently).
- 3.3 Further, the people purchasing a funeral are often doing so for the first time or have only limited experience of doing so.<sup>94</sup> Levels of consumer knowledge of the funerals industry is low and their knowledge of how to arrange a funeral broad and relatively vague.<sup>95</sup> As well as being inexperienced purchasers, people are very often poorly prepared and uncomfortable about making the funeral arrangements. They are making their purchase decisions when they are likely to be grieving, upset and emotional. They are also subject to time pressures which may be even more acute in the case of some religious/cultural groups.
- 3.4 The CMA consumer research found that respondents had a marked adherence to a series of social norms around funeral arrangements that informed what they wanted from a funeral director and the funeral. The most important factor, for all respondents, was the wishes of the deceased. Where these were known, they were universally respected without question. In cases where the deceased's wishes were not known, the family consulted each other and tried to work out what the deceased would have wanted.<sup>96</sup>
- 3.5 The core social norms identified by participants in the CMA consumer research included the following:
- A funeral director to store the body and to make arrangements for transporting (hearse) and disposing of the body (burial or cremation).

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<sup>93</sup> This is based on CMA research, comprising the [CMA consumer survey](#) and the [CMA consumer research](#).

<sup>94</sup> [Dignity plc response to CMA statement of scope](#), page 4.

<sup>95</sup> [CMA consumer research](#), paragraph 4.1.6.

<sup>96</sup> [CMA consumer research](#), paragraph 4.1.10.

- A service (whether religious or non-religious), formally conducted by someone (clerical or lay), the presence of mourners and a gathering afterwards.
- A certain standard of coffin, not obviously made out of the cheapest material. The choice of coffin was one area where the wishes of the deceased might be overridden, although only in the direction of getting a more expensive option.

## The process of choosing a funeral director and a funeral

- 3.6 When someone dies, those who were closest to the deceased are faced with a number of practical decisions to make, most immediately about what to do with the body and then how best to commemorate their passing. There is often some immediate time pressure related to moving the body from the place of death, as well as some emotional desire to hold the funeral as soon as practicably possible. In addition, some religions and cultures have specific criteria relating to the timing of the burial and/or cremation arrangements.
- 3.7 Nearly everyone who arranges a funeral uses the services of a funeral director to guide them through the funeral process and make all of the necessary arrangements on their behalf, subject to some ability to personalise certain aspects of the funeral (eg flowers, music, choice of coffin, etc).<sup>97</sup>
- 3.8 Where a person has died can have an impact on the choice of funeral director. Public Health England statistics<sup>98</sup> show that in England and Wales only 23.5% of people die at home, with nearly half of all deaths occurring in hospital (46.9%) and another 21.8% in a care home.<sup>99</sup>
- 3.9 Professional intermediaries at the hospital or care home can, in some circumstances, influence the choice of funeral director. SAIF said in its response to the CMA statement of scope that: “Where deaths occur in a professional care environment such as a hospital, care home, or where support has been received from pastoral or medical carers such as a local priest or Macmillan Care team, then their recommendation can be a significant influencing factor for a family, especially if it is the first time that they have experienced bereavement. Recommendation can be a big influence in decision-making”.<sup>100</sup> Quaker Social Action similarly told us that: “Sometimes registrars at the council, or hospital staff or care/nursing homes will ‘recommend’ a funeral director that they’ve used before and grieving people will make a quick decision to use them”.<sup>101</sup>

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<sup>97</sup> The CMA consumer research found that not using a funeral director (the other options being either direct cremation or organising the funeral oneself) is outside of social norms. According to the CMA consumer survey, 93% of people personally involved in arranging an at-need funeral between June 2016 and July 2018 (n=360) used the services of a funeral director. Where a ‘DIY funeral’ is arranged, the arrangers may still need access to a funeral director’s storage facilities. See also [CMA consumer research](#), paragraph 4.1.5.

<sup>98</sup> Public Health England, [Statistical commentary: End of Life Care Profiles, February 2018 update](#).

<sup>99</sup> Statistics are only available for England and Wales.

<sup>100</sup> [SAIF response to CMA statement of scope](#), page 10.

<sup>101</sup> [Quaker Social Action response to CMA statement of scope](#), page 3.



- 3.10 While such intermediaries may have some influence, the CMA consumer survey found that few respondents found out about the funeral director they used through this type of recommendation.<sup>102</sup> Similarly, the CMA consumer research found that only a small group of respondents, specifically those with a lack of prior experience in arranging a funeral and those who had no reliable sources of personal recommendation, might shortlist on the basis of an intermediary recommendation.<sup>103</sup>
- 3.11 The CMA consumer survey found that only a minority of respondents (14%) compared the services of two or more funeral directors when deciding which one to use. Similarly, independent funeral directors that the CMA spoke to estimated that between 5-15% of their customers shopped around. Research carried out by a funeral director found that 89% of customers buy from the first funeral director they go to.
- 3.12 The CMA consumer survey found that around a third of respondents considered that, effectively, there was no comparison to make between funeral directors. This was either because they were honouring the express wishes of the deceased (17%) or because (as they saw it) only one funeral director was available locally (14%). Half of respondents said they did not compare funeral directors even though a genuine choice of providers was available to them.<sup>104</sup>
- 3.13 The CMA consumer survey found that those with a choice of funeral director tended to use one already known to them (57%) and/or recommended to them by a personal contact (19%). One in twelve (8%) had found out about their funeral director through local knowledge/word-of-mouth.<sup>105</sup>

### ***Use of the internet to find a funeral director***

- 3.14 The CMA consumer survey found that only 3% of respondents spontaneously said they searched online using a search engine/browser to find out about the funeral director they used.<sup>106</sup> With prompting, more – but still a minority (13%) – said they had searched online for some information about the funeral director they used.<sup>107</sup>
- 3.15 Where respondents did not search online for information, most said they had not done so because the funeral director they were going to use was already known to them (74%). A minority (6%) said it did not occur to them to go online to find a funeral director and very few (1%) said that to do so was inappropriate/“not something you do” for this type of purpose.<sup>108</sup>

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<sup>102</sup> [CMA consumer survey](#), Tables 17/18. Of those with a choice of funeral director (n=224), 3% said they had received a recommendation from a member of staff at the care home/hospice/hospital where the deceased died, and 0.4% from a member of staff at the register office.

<sup>103</sup> [CMA consumer research](#), paragraph 4.3.8.

<sup>104</sup> [CMA consumer survey](#), Tables 15/16.

<sup>105</sup> [CMA consumer survey](#), Tables 17/18.

<sup>106</sup> CMA analysis. Base: all involved in arranging an at-need funeral in the last 2 years with a funeral director (n=335).

<sup>107</sup> CMA analysis. Base: all involved in arranging an at-need funeral in the last 2 years with a funeral director (n=335).

<sup>108</sup> [CMA consumer survey](#), Tables 45/46.

- 3.16 The CMA's consumer survey found that while some respondents did say they had used a search engine, none had used a comparison website,<sup>109</sup> or an online directory/reviews-based comparison website,<sup>110</sup> to find out about the funeral director they used.
- 3.17 The NAFD also commented in its response to the CMA statement of scope that: "Interestingly, the use of comparison sites by funeral consumers has not grown significantly between 2016 and 2018 with only 1% of respondents saying they'd checked one in 2018 compared to none in 2016".<sup>111</sup>

## **Factors driving the choice of funeral director**

### ***Factors driving the initial choice of funeral director***

- 3.18 The CMA consumer research found that, when choosing a funeral director, it was the proximity to the deceased's 'home area' that largely defined decision-making. Arranging a funeral that was local to where the deceased had lived for a large proportion of their life was important, even if family members had subsequently moved away.<sup>112</sup>
- 3.19 As well as the importance of choosing a funeral director from the deceased's 'home area', there were also felt to be practical benefits to choosing a local funeral director which further strengthened the rationale behind the decision to do so. The CMA consumer research found that all respondents wanted a local funeral director. They considered that it would be easier to visit the funeral director in person during the process of making arrangements. This was important for family members who lived locally and who preferred to discuss funeral arrangements with their funeral director face-to-face.<sup>113</sup>
- 3.20 The CMA consumer research found that there was a preference for minimising journey times from the place of death (or the deceased's home) to the funeral director and from the funeral director to the crematorium or burial ground. The respondents said that this helped facilitate access for those who wished to visit the deceased while they were in the care of the funeral director. A drive time of 10-20 minutes between these key locations was typical.<sup>114</sup>
- 3.21 Respondents to the CMA consumer survey reported a variety of factors as being the most important in their choice of funeral director, but the one most frequently described as such, was personal experience of using the funeral director before, or of attending a funeral that the funeral director concerned had arranged (41%, rising to 49% of respondents making

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<sup>109</sup> For example, AboutTheFuneral, Beyond, DeadRight, Funeral Booker, Your Funeral Choice

<sup>110</sup> For example, FuneralZone, Good Funeral Guide, Google Reviews, Localfuneral.co.uk. Such sites enable comparative services based on location and other non-price factors.

<sup>111</sup> [NAFD response to CMA statement of scope](#), page 20.

<sup>112</sup> [CMA consumer research](#), paragraph 1.4.5.

<sup>113</sup> [CMA consumer research](#), paragraph 4.3.2.

<sup>114</sup> [CMA consumer research](#), paragraph 4.3.3.

any mention<sup>115</sup> of this factor). Those who did not compare funeral directors were significantly more likely than average (47%) to cite this as the most important factor in their choice.

- 3.22 By contrast, relatively few respondents overall said that either prices (6%), or the range of funeral options on offer (5%), were important factors in their choice of funeral director.<sup>116</sup>
- 3.23 The CMA consumer research found that respondents knew and expected funerals to be expensive (ie would cost several thousand pounds). They knew this either because they had arranged a funeral before or knew people who had done so.<sup>117</sup>
- 3.24 Most believed that a funeral would cost them between £3,500 and £6,000.<sup>118</sup> Some consciously opted for prices at the lower end of the £3,500-£6,000 range generally anticipated by consumers. This 'ballpark' estimate of cost was extremely influential in determining what they were prepared to pay for the services of a funeral director.
- 3.25 While the overall ballpark price of the funeral package is a consideration when choosing a funeral director, people are not generally 'shopping around' for a better price. There was very little awareness that pricing could vary significantly between different funeral directors or different crematoria.<sup>119</sup>

### ***Factors confirming the choice of funeral director***

- 3.26 The CMA consumer research found that by the time respondents met the funeral director for the first time to discuss the funeral arrangements, they were already committed – mentally and emotionally – to using that funeral director, for the following reasons:
- Firstly, they felt the funeral director was trustworthy (based on their previous experience, recommendation or reputation) and didn't want to shop around further for the reasons discussed above.
  - Secondly, many had already instructed the funeral director to transport the body of the deceased to their premises before meeting them to discuss funeral arrangements in detail.<sup>120</sup>
- 3.27 The respondents told us that to change the funeral director at that stage would require moving the body again and (possibly) incurring further transport costs. It could also lead to delays in arranging the funeral, all of which was unwanted.

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<sup>115</sup> [CMA consumer survey](#), Tables 19-24. "Any mention" = all who reported a factor as the most important factor in their choice plus all who reported the same factor as important (but not the most important factor) in their choice.

<sup>116</sup> [CMA consumer survey](#), Tables 19-24.

<sup>117</sup> [CMA consumer research](#), paragraph 1.4.3.

<sup>118</sup> [CMA consumer research](#), paragraph 4.1.12.

<sup>119</sup> [CMA consumer research](#), paragraph 4.1.13.

<sup>120</sup> [CMA consumer research](#), paragraph 1.4.13.

- 3.28 For these reasons, almost all respondents felt that it would be extremely unlikely for someone arranging a funeral to change the funeral director at this stage – even if any problems arose in the funeral director’s service.<sup>121</sup>
- 3.29 In terms of what respondents were looking for, we were told that the main thing people wanted from a funeral director was a smooth and hitch-free, respectful and personal funeral.<sup>122</sup>
- 3.30 The CMA consumer research indicates that customers want funeral directors to meet a range of needs. These are not limited to the practical processes, such as the physical disposal of the body, advice and practical assistance with organising a funeral. People also want a funeral director’s help to achieve a ‘meaningful farewell’.<sup>123</sup> Supporting the bereaved emotionally and helping them to give meaning to the funeral was often the most appreciated aspect of the funeral director’s service.<sup>124</sup> A report commissioned by a funeral director states that the top priority for consumers is to find someone sympathetic and helpful.
- 3.31 In addition, the CMA consumer research found that respondents appreciated funeral directors’ professionalism, which was perceived in terms of the following aspects of their service:
- smart dress and presentation of their premises;
  - responsiveness to funeral arrangers’ needs;
  - flexibility in how and when services were provided (eg available outside normal working hours);
  - expertise in guiding respondents through the process; and
  - a calm and respectful manner.<sup>125</sup>
- 3.32 The face-to-face meeting with the funeral director was key to confirming their choice. It made respondents feel reassured that they were making the right choice. As long as the meeting went well, the prospective customer was likely to commit (either contractually and/or ‘emotionally’) to the funeral director following this meeting.
- 3.33 The principal (and typically the only) reason that respondents indicated might mean they did not enter into a contractual arrangement after the face-to-face meeting was if the price of the funeral package was not within their ‘ballpark’ range (and, on one occasion, because the respondent felt that the funeral director premises looked ‘tacky’).<sup>126</sup>

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<sup>121</sup> [CMA consumer research](#), paragraph 1.4.13.

<sup>122</sup> [CMA consumer research](#), paragraph 4.5.2 (see also comments in the Research Works case studies).

<sup>123</sup> [CMA consumer research](#), paragraph 1.4.19.

<sup>124</sup> [CMA consumer research](#), paragraph 4.5.1.

<sup>125</sup> [CMA consumer research](#), paragraph 1.4.20.

<sup>126</sup> [CMA consumer research](#), paragraph 4.3.18.

## Choosing the elements of the funeral package

- 3.34 The purchased funeral package is typically agreed in a face-to-face meeting between the customer and the funeral director, usually (but not always) held at the funeral director's premises.
- 3.35 A typical discussion with a prospective customer starts<sup>127</sup> with the funeral director seeking to put the customer at ease. They will do this by talking about the deceased and what they were like. The funeral director then explains the practical arrangements that need to be made and what sort of funeral the customer would like for the deceased.
- 3.36 Having broadly established what sort of funeral the customer would ideally like, the funeral director then provides information about the various packages available and discusses personalisation options. These are typically based on the funeral package options set out in the funeral director's brochure/detailed price list. Funeral directors can get a sense of customers' budgets by asking them to pick one among several differently priced packages.
- 3.37 We were told that prices were often not discussed until the end of the conversation. It was typically the funeral director who would initiate the conversation about costs. Because of the rapport established by this point in the conversation, those people working within a budget seemed to feel comfortable in disclosing it to the funeral director, something they often did before costs were discussed in any detail.
- 3.38 In summary, by the point in the conversation when costs are discussed in detail, the funeral director will typically have established what the prospective customer would ideally like and an idea of their budget.
- 3.39 Funeral directors then go on to explain how different choices affect overall costs. There were cases where the funeral director re-calculated the total sum as and when individual items changed to keep track of overall costs as the discussion progressed. Respondents were generally invited to select or omit items, as well as to choose from a variety of options for each item (as noted above, typically by browsing brochure/detailed price list):
- Which services they wanted or did not want (cars, order of service, memorials, notice in the paper);
  - Which elements they wanted to organise themselves – these typically included flowers, catering and order of service;
  - Which extras they wanted to personalise the funeral (white horses, types of car, flags for mourners' cars); typically, these involved additional cost, and required budget adjustment.
- 3.40 Most respondents to the CMA consumer research told us that, when the funeral director went through a checklist of all potential elements, they had found it helpful. Some, though,

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<sup>127</sup> [CMA consumer research](#), paragraphs 4.4.2 to 4.4.6.

said they had felt awkward about having to actively reject certain elements of the ‘funeral norm’ (eg hiring a car to transport the bereaved family). Research commissioned by a funeral director found that families were more likely to add to an existing package (34%) than reduce it (10%).

- 3.41 At the end of the discussion, provided the total estimate of costs was within their ballpark estimate, it was unlikely that respondents would make any comment or other adjustments. This was particularly the case if the funeral was being paid for from the deceased’s savings or estate (because respondents did not see this as spending their own money). Where the cost was slightly outside of their budget or ballpark estimate, some respondents considered making adjustments to the package, for example, by excluding a funeral car, sourcing the flowers direct or choosing a cheaper coffin/casket.<sup>128</sup>
- 3.42 A key finding to note from the CMA consumer research is that respondents told us they were under the impression that funeral directors would not negotiate over their fee.<sup>129</sup> Indeed, very few respondents tried to negotiate on cost. Of those who did, the families had very recent experience of organising burials, which they perceived to be expensive.<sup>130</sup>

## Choosing a crematorium

- 3.43 The CMA consumer survey found that almost two thirds (64%) of those who organised a cremation did not think they had a choice of crematorium, either because they needed to honour the express wishes of the deceased (15%) or because (as they saw it) there was only one local crematorium (49%). Of those who said they did have a choice of crematorium (32%), only one in five had actually compared two or more.<sup>131</sup>
- 3.44 There were two key factors most frequently described as being most important by respondents when choosing a crematorium.
- 3.45 The first was that it was the only local crematorium (32%, rising to 38% of respondents making any mention<sup>132</sup> of this factor). As with choosing a funeral director, when choosing a crematorium, the idea of the deceased’s ‘home area’ defined decision-making.<sup>133</sup> Short journey times (typically 20-30 minutes by car) from the deceased’s home to the crematorium and on to a local gathering afterwards was a benefit too. This was important in facilitating access for local mourners.<sup>134</sup> Funeral Partners similarly commented that in its experience: “customers tend to choose a crematorium as a result of either location, previous experience or availability of time slots”.<sup>135</sup>

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<sup>128</sup> [CMA consumer research](#), paragraph 4.4.12.

<sup>129</sup> [CMA consumer research](#), paragraph 4.4.9.

<sup>130</sup> [CMA consumer research](#), paragraph 4.4.17.

<sup>131</sup> [CMA consumer survey](#), Tables 51/52. Of the 76 people who had a choice of crematorium, 16 had compared two or more.

<sup>132</sup> “Any mention” = all who reported a factor as the most important factor in their choice plus all who reported the same factor as important (but not the most important factor) in their choice.

<sup>133</sup> [CMA consumer survey](#), Tables 63-68.

<sup>134</sup> [CMA consumer research](#), paragraph 4.2.5.

<sup>135</sup> Funeral Partners’ response to CMA statement of scope, paragraph 53.

- 3.46 The second was that the customer had personal experience of using the crematorium before, or of attending a funeral there (26%, rising to 38% of respondents making any mention<sup>136</sup> of this factor).<sup>137</sup> For many respondents, the deceased's wishes imposed further subjective limitations on their choice of crematoria.<sup>138</sup>
- 3.47 The CMA consumer research also found that respondents' perceptions of having a choice of crematorium was limited. Indeed, awareness that there might be a choice of local crematoria was extremely low.<sup>139</sup>

## **Interim conclusions on customer behaviour**

- 3.48 People are often poorly prepared, grieving, emotional and under time pressure to arrange a funeral quickly. In addition, they purchase a funeral relatively infrequently, and therefore have little knowledge of what is required or what options are open to them.
- 3.49 People typically choose to use a local funeral director and do not shop around for better prices and services (89% of people bought from the first funeral director they went to). Instead, they tend to rely either on recommendation by a personal contact or on their own experience of having used a particular funeral director before (or attended a funeral arranged by that funeral director).
- 3.50 Further, people's expectation of the cost of a funeral is that it will be expensive. Provided the final bill falls within their expectation of a ballpark figure they had formed beforehand, people typically do not challenge the price being charged.
- 3.51 Only 6% and 5% of people respectively consider that the prices or range of funeral options on offer were important factors in their choice of funeral director. Indeed, few knew that prices varied between different funeral directors and crematoria. Even if people wanted to compare funeral directors' prices and services, there is only limited information being provided online (which makes such comparison difficult). Providing a good send-off and fulfilling the wishes of the deceased, if known, were regarded as being more important than price.
- 3.52 By the time people met with the funeral director for the first time to discuss the funeral arrangements, they were already committed to using that funeral director. To change or look for another funeral director at this stage, particularly as the funeral director had already moved the body of the deceased to their premises, was regarded as potentially too difficult and time-consuming to be a realistic option.
- 3.53 The negotiation of the funeral package is typically a discussion led by the funeral director. Given the customers' vulnerable emotional state and propensity to adhere to 'social norms', people are more likely to accept the price and services provided by the funeral

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<sup>136</sup> CMA consumer survey, Tables 63-68.

<sup>137</sup> CMA consumer research, paragraph 1.4.6.

<sup>138</sup> CMA consumer research, paragraph 1.4.6.

<sup>139</sup> CMA consumer research, paragraph 4.2.7.



director and not challenge or demand something different. Further, any negotiation on price tends to be on the discretionary items rather than the funeral director's fee, which consumers assumed was fixed and non-negotiable.

- 3.54 Our research therefore shows that people who organise a funeral do not exercise some of the most basic commercial judgements that customers typically display in more normal circumstances. The key decisions that drive the final cost of the funeral arrangements are made in an iterative discussion with the funeral director, which he/she largely controls. This leaves customers in a position of extreme vulnerability.



## 4. Competition between funeral directors

- 4.1 In this section, we assess competition between funeral directors. We consider: the services they provide; the underlying characteristics of the market; the extent and nature of competition; as well as the evolving pricing strategies of large funeral directors. We also examine the impact of comparison websites and trade associations on competitive dynamics in the sector.

### Services provided by funeral directors

- 4.2 Funeral directors provide a wide range of services that fall into three broad categories:

- (a) Professional services, typically including:
  - (i) Guidance and support to the family;
  - (ii) Collection and care of the deceased; and
  - (iii) Organisation of the funeral and supply of goods and services to facilitate the arrangements (eg coffin, hearse, limousine(s), pallbearers etc);
- (b) Intermediary services between the customer and third parties, such as: the crematorium or burial site; the doctor and the minister;<sup>140</sup> and
- (c) Discretionary services that are provided by the funeral director directly or as an intermediary between the customer and third parties, such as: memorials; death notices; venue hire and catering; flowers; order of service etc.

- 4.3 Funeral directors typically offer several funeral options (often packaged):

- (a) Standard funeral: this typically includes most or all of the elements set out in paragraph 4.2 above and allows the greatest degree of personalisation.
- (b) Simple funeral: a more restricted option, this may exclude the provision of limousines; have no/limited choice of slot for the funeral service; not provide the option of viewing the deceased; and/or include a basic coffin with no/limited opportunity to upgrade.
- (c) Direct cremation (or burial): also referred to as 'cremation without ceremony'. Such services are also provided by specialist providers and are currently the most basic funeral option available, as explained in paragraphs 2.39 and 2.40.

- 4.4 A standard funeral is the type of funeral that has been prevalent since the 19th century. There are no industry-wide figures available but evidence we have seen indicates that they accounted for around 80% of funerals supplied by funeral directors in the UK in 2017. For Dignity, Co-op and Funeral Partners, standard funerals accounted for around 90%, 80%

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<sup>140</sup> The funeral director will pass on the cost of services provided by third parties as 'disbursements'.

and 86% of their funerals respectively. Evidence from independent funeral directors implies that, on average, standard funerals represent a slightly lower proportion of the funerals they organise.

- 4.5 Of the 20% of customers buying a 'non-standard' type of funeral package in 2017, the majority chose a simple funeral, and this type of funeral has become more popular in the past 5 years. We discuss further in paragraphs 4.62 to 4.68 developments that have taken place in recent months.
- 4.6 Demand for direct cremations/burials has also grown in recent years, but these funeral options appear still to account for a small proportion of the funerals supplied by funeral directors. Estimates range from 2% to 8%<sup>141</sup> but evidence from large funeral directors<sup>142</sup> implies that the lower estimates may be more reliable (notwithstanding that direct funerals organised by specialist firms will bring the market average up).
- 4.7 Funeral directors generally provide services as a bundle. Within these packages some elements will be provided as standard and others may be optional/customisable by the customer. The services that are included as standard (and those that are optional/customisable) vary between funeral directors and types of funeral.

## Underlying characteristics of the funeral director services market

### *Lack of customer engagement*

- 4.8 Consumer behaviour can drive competition between suppliers when consumers are willing and able to compare offers and to act upon this to choose their preferred supplier.
- 4.9 However, most consumers who need to organise a funeral do not behave in this way: we found that only 14% of respondents who had organised a funeral in the last 2 years compared the services of two or more funeral directors (see paragraph 3.11).<sup>143</sup>
- 4.10 We received a range of views and survey evidence from third parties on the extent to which consumers shop around. Overall, these appear broadly consistent with our consumer research and survey. We saw the results of two YouGov surveys. One of these surveys<sup>144</sup> found that 6% of those who organised a funeral in the previous five years had obtained more than one quote. The other survey<sup>145</sup> found that 15% of those who organised

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<sup>141</sup> See Royal London (2018), [National Funeral Cost Index Report 2018](#), Dignity (2018), [Time to talk about quality and standards](#), Sunlife (2018) [Cost of Dying Report](#), CMA consumer survey (Tables 7/8). For the subset of respondents to the CMA consumer survey who stated that a funeral director was involved in making any of the arrangements, 7% of funerals were direct funerals (5% being direct cremations and 2% direct burials).

<sup>142</sup> CMA analysis of data supplied by Co-op showed that 0% of their funerals were direct funerals in 2017. Co-op forecast that [X]% of their funerals would be direct cremations in 2018 [X]. CMA analysis of data supplied by Dignity showed that [0-5] [X]% of their funerals were direct cremations in 2017. Dignity forecast that [0-5] [X]% of their funerals would be direct cremations in 2018 ([X]).

<sup>143</sup> [CMA consumer survey](#), Tables 15/16.

<sup>144</sup> CMA analysis of YouGov Report, *Funeral Planning 2017* (excludes respondents whose reason for not getting quotes was because the funeral was pre-paid).

<sup>145</sup> YouGov for the NAFD/Wordsmith Communications (2018).

a funeral in the previous five years had compared the prices of different funeral directors before making a selection. A survey commissioned by Dignity<sup>146</sup> found that, of those who were responsible for arranging, or had helped to organise or arrange, a funeral in the previous three years, 21% had ‘considered’ more than one funeral director.<sup>147</sup>

- 4.11 One funeral director stated that they believed the proportion of customers obtaining multiple quotes had increased. This was consistent with some funeral director internal documents that discussed an increase in shopping around. Conversely, we saw consumer research indicating that the proportion of consumers who obtain multiple quotes may have decreased in recent years.<sup>148</sup> We note that, in any event, this proportion remains very low.
- 4.12 There are several reasons underpinning why most consumers do not shop around for funeral directors including, as set out in paragraph 3.3, that they are vulnerable, under time pressure and inexperienced.

*Demand is relatively unresponsive to price and quality*

- 4.13 Consumers want to use a funeral director who is local for practical benefits such as it being easier to visit the funeral director during the process of making arrangements (see paragraphs 3.19 and 3.20).
- 4.14 As noted in paragraph 3.13, most consumers choose a local funeral director by relying on factors such as personal experience, recommendations and reputation. The CMA consumer research<sup>149</sup> found that choosing in this way can reassure consumers that the funeral is likely to go smoothly, an important criterion of success for them.<sup>150</sup>
- 4.15 In contrast, price appears to be an important factor in the choice of funeral director for only a very small proportion of customers. For example, the CMA consumer survey found that ‘price’ and ‘value for money’ were reported spontaneously as important factors in choosing a funeral director by only 6% and 5% of respondents respectively.<sup>151</sup>
- 4.16 The CMA consumer research was consistent with these survey findings, in particular:

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<sup>146</sup> Dignity (2018), [Time to talk about quality and standards](#). Dignity’s research was based on an online panel. Typically we consider that online panels may be subject to sample bias and may not be sufficiently robust (see: Good practice in the design and presentation of customer survey evidence in merger cases). As such we place limited weight on this evidence but note that generally its findings align with comments that we have received in the course of our market study.

<sup>147</sup> Another third party survey found that a higher proportion of respondents (27%) had contacted two or more funeral directors. [X]. We consider it appropriate to attach less weight to this finding. A marked proportion of the survey sample said they had ‘helped’ with arrangements for the funeral but, were not directly involved in, for example, helping to make decisions about the funeral, deciding what type of funeral to have and/or obtaining quotes from funeral directors. Moreover, survey eligibility was based on being involved in a funeral in the previous 10 years, so accuracy of recall may be an issue.

<sup>148</sup> The YouGov Reports, *Funeral Planning 2015* found that 9% of customers organising a funeral obtained more than one quote, while CMA analysis of YouGov Reports, *Funeral Planning 2017* found that 6% of those organising a funeral had obtained more than one quote (excludes respondents whose reason for not getting quotes was because the funeral was pre-paid).

<sup>149</sup> See paragraph 1.4.10 of [CMA consumer research](#).

<sup>150</sup> Dignity (2018), [Time to talk about quality and standards](#); 75% of all respondents said that ‘ensuring the funeral runs smoothly’ was a ‘very important’ aspect of the services provided by funeral directors.

<sup>151</sup> [CMA consumer survey](#), Tables 19-24.

- (a) The small number of consumers who compared funeral directors did so to a very limited extent. Most chose based on their initial interaction and few with regard to prices (as other factors were considered more important);
- (b) The very few consumers who compared prices often did so cursorily, for example by looking on the website. Within our sample of 100 customer interviews,<sup>152</sup> only one respondent obtained quotes from more than one funeral director for the services they wanted.<sup>153</sup>

4.17 Our research findings are broadly consistent with the survey commissioned by Dignity which found that just 26% of all customers who were responsible for arranging, or had helped to organise or arrange, a funeral in the previous three years said that “keeping costs as low as possible” was one of the biggest considerations when arranging the funeral.<sup>154</sup>

4.18 Consistent with the evidence above that most customers do not choose (or compare) funeral directors with regard to price, we saw evidence from internal documents that customers have historically been very unresponsive to firm-level price changes.<sup>155</sup>

4.19 Similarly, few consumers compare the quality of funeral directors. This may be because:

- (a) Quality is partially inferred from previous personal experience or it is assumed from recommendations or reputation (in particular, in relation to the aspects of quality relating to how ‘smoothly’ the process will go);
- (b) Customers are inexperienced purchasers, often with little knowledge of how to assess service standards; and
- (c) Customers do not expect differences in certain aspects of quality: the CMA consumer research found that customers often assume that funeral directors meet industry standards (whereas, as noted in paragraph 2.45, minimum standards on quality are not prescribed by law). Third party research found that over half of those surveyed believe that all funeral directors have similar and good quality facilities (53%), and similar and good quality training (55%). Moreover, two in five (40%) believe that funeral directors are regulated by the government.<sup>156</sup>

4.20 It is also difficult for consumers to compare funeral directors against certain aspects of quality. Some aspects may be known only after the purchase (eg the quality of the funeral

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<sup>152</sup> 80 individual interviews and 20 paired interviews.

<sup>153</sup> This is consistent with YouGov Report, *Funeral Planning 2017* which found that just 6% of those who organised a funeral in the previous five years had obtained more than one quote. Source: CMA analysis (excludes respondents whose reason for not getting quotes was because the funeral was pre-paid).

<sup>154</sup> Dignity (2018), [Time to talk about quality and standards](#).

<sup>155</sup> We saw estimates for the firm-level customer price elasticity of demand for funeral director firms, which is the percentage change in the quantity demanded in response to a 1% change in price:

- $[-0.15]$ .
- $[-0.15]$  estimated own price elasticity of  $-[-0.15]\%$ .

<sup>156</sup> Dignity (2018), [Time to talk about quality and standards](#).

director's service). Other aspects may not be visible (eg back of house facilities and care of the deceased) and customers may therefore only compare the visible aspects of quality, such as the quality of the front of house premises. Even then, the evidence indicates that these aspects are of only secondary importance. The CMA consumer survey found that a very small proportion of respondents mentioned (without prompting) either the presentation of premises and staff, or the look and feel of the premises, as an important factor in their choice of funeral director.<sup>157</sup>

## ***Lack of transparency and sales practices***

### *Transparency issues in the selection of a funeral director*

- 4.21 We have found that there is limited visibility of pricing, particularly online. For instance, the CMA consumer research found that the few consumers who compared the prices of funeral directors online reported difficulties in doing so due to a lack of transparency of pricing.<sup>158</sup> NAFD submitted that around 32% of its member firms currently have “some or all of their prices online”.<sup>159</sup> Both Co-op and Dignity publish the price of their simple funeral options online, but very little pricing information on either their standard funeral packages or the prices of individual components of a funeral. Our research indicates that other funeral directors have adopted a variety of different policies in this respect.
- 4.22 Even when price information is available online (or a customer obtains multiple quotes) it is not always easy to compare packages. For instance, many funeral directors advertise a simple funeral package, but the elements included in the package vary between suppliers making it difficult to compare them on a like-for-like basis.<sup>160</sup>
- 4.23 As discussed above, many aspects of service quality are difficult or impossible for consumers to observe. There are no minimum standards on quality, aside from those contained within trade association codes of practice and guidance underpinning their inspection regimes.<sup>161</sup> There is also a lack of published information (such as star ratings /

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<sup>157</sup> [CMA consumer survey](#), Tables 19-24. For instance, 2% of respondents who compared funeral directors or had a choice but did not compare (n=275) referred to the presentation of premises and staff and 1% said they liked the look/feel of the premises. Other factors mentioned by these respondents that relate to service quality included: trusted them and felt the funeral would be in safe hands (6%); generally flexible to our needs (2%); funeral director's empathy/sensitivity (2%).

<sup>158</sup> Conversely, the [CMA consumer survey](#) found that most of those who compared two or more funeral directors (42 of 48) considered it easy (*very + fairly*) to get the information they needed to make a comparison. It was not clear, however, what information they searched for and what kind of comparison they made (Tables 25/26).

<sup>159</sup> They submit that this will be well over 50% of the branches of their members. Source: [NAFD response to statement of scope](#).

<sup>160</sup> Evidence supporting this:

- i. One funeral director told us that it had recently mystery shopped 150 rivals and found that those offering a lower price for a simple funeral than Co-op did not offer the same level of service.
- ii. The results of mystery shopping research carried out by an agency on behalf of a funeral director in 2014 and 2017 revealed variation in the simple packages offered by independents and by different branches of the same large funeral director.
- iii. The CMA reviewed a sample of funeral director websites and found that their simple funeral options differed in terms of factors including: whether pallbearers were provided; the ability to choose the day/time of the funeral; whether the deceased could be viewed; the ability to add additional services (at extra cost); whether disbursements costs were included/excluded in the headline price.

<sup>161</sup> For instance, the [NAFD code of practice](#) requires members to “respect and maintain the dignity of the deceased at all times”. We note that an inspection regime is being introduced in Scotland and the Scottish Government will be consulting on a draft statutory Code of Practice for funeral directors to underpin the inspection regime.

consumer reviews / trade association inspection reports) that might provide an indication of quality.

- 4.24 We therefore consider, based on the evidence we have seen so far, that lack of transparency limits the ability of customers to compare funeral director offerings in terms of price, quality and range.
- 4.25 There can also be limited visibility of business ownership, because individual branches within a group may feature a family/private name rather (or more prominently) than the group's brand. Customers may therefore unknowingly compare two branches operated by the same firm. One funeral director's consumer research found that customer awareness of their corporate brand was very low, even among previous customers, though many remember the family name rather than the brand. One respondent to our statement of scope said that: "when [bereaved customers] do shop around they may contact three different branches of the same large brand and believe that must be the only cost, not knowing an independent funeral director could be less expensive". They also suggested that customers may base their choice of funeral director on previous experience and thus have an "emotional attachment to the local longstanding funeral director", which they choose for this reason, even though in reality the company does not exist anymore.<sup>162</sup>

#### *Transparency issues in the selection of a funeral*

- 4.26 The sales practices of funeral directors can also limit a customer's knowledge of the range of funeral options available, so customers may end up not choosing the option they would prefer if they had information on all the available options (including their respective prices). As explained in paragraph 3.34, customers often select the funeral type (and/or decide specific elements) in a face-to-face meeting with the funeral director. The funeral director plays an important role in these meetings, particularly given the position of vulnerability that customers are in. In the context of an iterative conversation that funeral directors largely control (as described in paragraphs 3.35 to 3.40), we consider that they have an ability to target different packages to customers based on their stated or assumed willingness to pay.
- 4.27 There is evidence that some funeral directors have targeted different packages at different customers, and that a significant proportion of customers are not made aware of all the options available to them when choosing a funeral package:
- (a) The Royal London report (2018)<sup>163</sup> found that less than half of respondents were certain that they had been offered the funeral director's most affordable funeral package: one in four (25%) said the funeral director had brought it up as an option; a further 22% said that they, as the customer, had asked about it. In addition, 12% said it was not offered to them because they had already indicated it was not wanted. Taken together, therefore, these research findings suggest that up to two in five consumers

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<sup>162</sup> [Quaker Social Action response to CMA statement of scope](#).

<sup>163</sup> Royal London (2018), [National Funeral Cost Index Report 2018](#) (*Buried in Debt – the price of a 'good send-off'*).

may not be made aware (unprompted or otherwise) of lower-cost packages by funeral directors (although only 7% of respondents said definitively that the most affordable package was not offered). This was consistent with the range of views the CMA received from independent funeral directors, some of whom indicated that they would not raise the subject of lower cost options unless specifically prompted to do so by the customer.

- (b) A recent internal document provided by a funeral director set out suggested selling techniques for a revised funeral range. In particular, it suggests not mentioning the simple funeral option unless the customer hesitates or has budget concerns.
- (c) A funeral director submitted that it had retrained its staff to ensure that customers have knowledge of all their main packages, including lower cost options, which implies that not all staff did this previously. They audit their funeral branches to ensure compliance with this policy.

- 4.28 We note that sales practices vary: we have seen evidence that some funeral directors specifically make customers aware of lower cost options, even when customers do not enquire about them or raise budget concerns; while others do not.
- 4.29 One funeral director's customer research found that this type of sales process, in which customers are unaware of their options, together with embedded cultural norms, can result in them purchasing a more expensive funeral than if they were aware of lower cost options.

### ***Summary of underlying characteristics of the funeral director services market***

- 4.30 The evidence reviewed by the CMA in this market study indicates that vulnerability, time pressure and inexperience limit the extent to which consumers shop around for funerals and/or compare funeral directors' offerings. When choosing a funeral director, price and/or quality differentials between the available options are not significant factors in their decisions. With regard to quality, customers are not able to assess certain aspects (or can do so only after the purchase). Some funeral directors' sales practices, including a general lack of transparency on ownership, the options available, what they include and their prices, mean that customers face real barriers to comparing options with each other and making informed choices.
- 4.31 In such circumstances, we expect competition between funeral directors to attract customers to be weakened, with the result that prices will be higher and non-price factors (such as quality) will be worse than would otherwise be the case.
- 4.32 Against this background, we examine in paragraphs 4.33 to 4.79 evidence on the nature and extent of competition between funeral directors in practice.

## Assessment of competition between funeral directors

### *Dimensions of competition*

- 4.33 In this section, we consider the main parameters over which funeral directors compete: price, non-price factors (including quality), promotions/marketing activity and location.

#### *Price*

- 4.34 Funeral directors that are members of NAFD/SAIF are required, by the respective codes of practice, to meet minimum standards for providing information on prices (see Appendix A, paragraphs 9 and 10).<sup>164</sup> Many funeral directors do not appear to go beyond meeting these minimum standards. For instance, pricing does not feature prominently in marketing/promotional materials or on many funeral director websites. Independent funeral directors we talked to also told us that their advertising generally emphasises their quality and heritage, but hardly ever price.
- 4.35 Funeral directors told us that they monitor rivals over a range of parameters, including prices.<sup>165</sup> The extent and nature of this monitoring behaviour appears to vary widely – some funeral directors undertake mystery shopping exercises and others simply maintain “an awareness” of rival activity. One funeral director submitted a large number of investment proposals in which it reviewed the presence of local incumbents in targeted areas. These regularly recorded a range of factors about incumbent operators, including the relative prices of their simple/standard funerals.
- 4.36 While many funeral directors monitor local rivals, there is little evidence that they closely benchmark their prices against those of local rivals:
- (a) Some funeral directors told us that they monitor pricing so as to broadly maintain their position relative to local competitors (eg one funeral director submitted that it tried to achieve pricing that is ‘middle of the road’).
  - (b) There is very little evidence that incumbent funeral directors in a local area respond to new entry, for instance, by lowering their prices.<sup>166</sup>
  - (c) We saw evidence from one funeral director’s internal documents that, when setting prices for branches that had been acquired, it almost only ever took into account the pricing of its other local or regional branches (rather than competitor prices).
- 4.37 Conversely, price appears to be a relatively more important dimension of competition between funeral directors in the supply of lower cost funeral packages such as simple funerals, with price being more prominently displayed in the marketing material for these

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<sup>164</sup> Including, to provide information on the range of services available, display itemised price lists in their funeral homes, and make them available to customers and prospective customers to take away. They also require written estimates to be provided.

<sup>165</sup> As well as other factors including service quality and volumes.

<sup>166</sup> For instance, in a review of [X], there is no mention of a price response by a rival to entry and only one instance where the new entrant price-matched a local rival.



packages. For instance, some funeral directors (including Co-op and Dignity) publish a price for a simple funeral package on their website. One independent funeral director that we spoke to, explicitly benchmarked the price of their simple funeral package relative to Co-op. As discussed later (see paragraph 4.65(a)), Co-op and Dignity have recently both cut their prices for their respective simple funeral packages.

- 4.38 Despite evidence of some price pressure on simple funerals, two independent funeral directors expressed concerns that simple funeral prices are sometimes used to attract customers into the branch but that they are misleading and do not always reflect the price ultimately paid (as those customers end up buying a more expensive funeral).

### *Non-price factors*

- 4.39 Most funeral directors supply a range of funerals, corresponding broadly with the general description given above at paragraph 4.3.

- 4.40 There is evidence that the propensity for funeral directors to offer a simple funeral has increased in recent years. There is also some evidence that funeral directors may sell a higher proportion of simple funerals where local competition is stronger.<sup>167</sup>

- 4.41 The evidence we have obtained indicates that competition over service quality is limited:

- (a) Internal [redacted] reviews [redacted] undertaken by a funeral director highlight very limited examples of incumbents responding to its entry by improving aspects of quality.<sup>168</sup>
- (b) One funeral director explained that it is difficult to respond to entry, although a possible response mentioned was that they could improve their branch frontage (although this was not considered guaranteed to increase volumes). Another told us that, in response to new entry, they tried to make sure that their service quality was “absolutely perfect”.

### *Promotion/marketing activity*

- 4.42 Several independent funeral directors told us that the funerals themselves constitute their primary marketing activity. This derives from the fact that many customers rely on previous experience, recommendations and reputation when choosing their funeral director. Each

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<sup>167</sup> For instance:

- An internal document from one funeral director indicated that funeral directors can influence the mix of funerals sold, which can be driven by local competitive intensity.
- In an internal review of [redacted] where a competitor was discussed, it was observed that the mix of simple funerals was relatively high. Conversely, there was no mention of the mix of simple funerals in the [redacted] reviews that did not mention a competitor.
- An internal document from one funeral director stated that “operationally we have historically used the simple funeral in selected places as a tool to grow market share or arrest decline with some success.”

<sup>168</sup> For example, [redacted]:

- [redacted], there were only three references to a rival undertaking a specific action to improve an aspect of quality: one example of a rival undertaking a branch refurbishment and two of a rival offering customers free limos in response to entry. The document stated that the entrant themselves only took measures to increase its quality at one branch (by the funeral director spending more time at the branch).
- [redacted] there were only two examples where the document stated that a competitor had raised its service standards in response to entry and only one example where the entrant planned to improve staffing to compete with incumbents.

funeral can therefore lead to future enquiries, described in the internal documents of one funeral director as a 'persistence' of their clientele.

- 4.43 Aside from the funerals themselves, the promotional and marketing activities mentioned most frequently by independent funeral directors included: community marketing (eg supporting local teams/events, meeting local groups/people, open days, lectures), online activity (eg social media, pay per click advertising) and local print advertising.
- 4.44 An internal document from one funeral director confirms that advocacy is vital to generating new business. Another indicates that each of the funeral director's branches undertook, on average, around [X] community activities each in 2015.
- 4.45 There is evidence that promotions/marketing can be undertaken in response to competition. Internal documents from one funeral director indicate that when it opens a new branch and faces strong competition from local rivals, its response is often to increase community marketing<sup>169</sup> and to invest in building relationships. An internal document also highlights examples where local incumbents carried out some rebranding and/or distributed leaflets in response to new entry.
- 4.46 Overall, however, we have seen evidence that spend on promotions/marketing activity may not be particularly high. This may reflect the limited effectiveness of advertising for an infrequent purchase that people do not wish to think about ahead of time. Consistent with this, an independent funeral director said that advertising more is a possible response to new entry but that it is not 'guaranteed' to increase volumes.

### *Location*

- 4.47 There is evidence that some funeral directors compete over locations for branch openings:
- (a) In recent years, some funeral directors have adopted strategies aimed at achieving greater geographic coverage and penetration (either organically or through acquisitions), for example, targeting local areas where they were not present or had a relatively low market share;
  - (b) As part of these broad strategies, we have seen evidence that funeral directors compete with each other for specific acquisition targets;
  - (c) We have seen evidence of expansion aimed at deterring entry by rivals. We have also seen evidence of expansion aimed at responding to the threat of competition that was not expected to win any incremental customers.

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<sup>169</sup> Stated to include: coffee mornings with local stakeholders; bereavement clubs, public open days, supporting local bowling/football clubs.

## ***Local concentration***

- 4.48 We have assessed the extent to which customers have access to alternative funeral directors in their local area, to understand whether there may be structural issues in the supply of funeral director services.
- 4.49 To inform our assessment we have undertaken two pieces of analysis. In one, we assessed the size of a funeral branch's typical catchment area and the number of rival branches located within it (see paragraph 8.21). In another, we reviewed a large number of internal investment proposal documents that discussed the presence and strength of rivals in the targeted local areas.
- 4.50 Based on this analysis, we believe that, in many local areas, people have a choice of several funeral directors. We acknowledge that there will be a number of areas in which people have limited or no choice, but we expect this number to be limited.
- 4.51 We note that, regardless of the actual degree of choice available to people in their local area, there is relatively limited awareness among customers of the choices available to them. The CMA consumer research found that few customers were aware of more than two or three local funeral directors.

## ***Impact and response to new entry***

- 4.52 We have been told that there has been a significant number of new entrants in the funeral sector, for instance, one large funeral director submitted that over 500 new funeral directors have entered in the last five years. Many of the independent funeral directors who we spoke to referred to new entrants in their local area and one funeral director stated that nearly 40% of its funeral homes had been faced with competitor entry within the last two years. There is some evidence indicating that low priced operators have accounted for a significant proportion of these new entrants.<sup>170</sup> The evidence we have received does not enable us to confirm the precise scale of new entry, nor whether this is a national phenomenon or mainly involves certain local areas.
- 4.53 Consistent with the advent of entry and an increasing number of funeral director branches over time, the average number of funerals undertaken per branch both at the industry-level and at group-level for some funeral directors has been in decline for several years (with an acceleration of the trend for certain funeral directors in recent years).<sup>171</sup>
- 4.54 The evidence on the impact of new entry on the performance of the incumbent operators in specific local areas is more mixed:

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<sup>170</sup> For instance, an internal document from one funeral director states that "more low cost operators have opened in 2017".

<sup>171</sup> For example, one funeral director stated that they have gone "from an average of [X] funerals per home to fewer than [X]". Internal documents from another funeral director state:

- "Historical volume performance suggests there has been consistent [like-for-like] volume decline with accelerated recent under-performance versus the market".
- [X]
- [X]

- (a) Most independent funeral directors who we asked reported that there had been new entry within their local areas, but the large majority of them also stated that new entry had not materially affected their business in terms of lower volumes;
- (b) Internal documents from one funeral director indicated that a substantial proportion [X] of its branches that had experienced new entry were 'behind budget';
- (c) Emails from some regional managers at a funeral director indicated that, of the [X]% branches that suffered significant volume losses in their area between 2015-2017, less than half attributed the losses (at least in part) to the effect of new entry.<sup>172</sup>

4.55 Some independent funeral directors submitted that the lack of impact from new entrants relates to the time that it takes for a new entrant to build a local reputation and customer base. This was consistent with internal documents from one large funeral director showing that, on average, its new branches carried out just [X] 'incremental' funerals in their first year. Some new entrants may also not compete closely with specific incumbents if the new entrant focuses on lower-cost funerals and the incumbent mainly on standard funeral services.

4.56 In a competitive market, we would expect incumbent suppliers to respond to new entry (for example, by lowering their prices or improving their offers) in order to protect their share of customers. The evidence we have seen shows that the response to new entry by incumbents is typically limited. The most common response was an increase in marketing activity:

- (a) The majority of independent funeral directors who experienced new entry told us that they had not responded. A small number told us they had advertised more or focused on their service standards. One funeral director told us that it was difficult to respond to entry.
- (b) We reviewed a large funeral director's internal performance reviews for its recently opened branches. These indicated that incumbent providers rarely took specific actions in response to its entry. Examples of responses included: carrying out a branch refurbishment; rebranding; offering free services to customers (eg such as providing a limousine free of charge). The funeral director itself often responded to encountering strong competition from incumbents by increasing its marketing activity.

4.57 However, the decision by a large funeral director to significantly reduce the average price of its simple funeral was attributed, in part, to the entry of low cost rivals. We note, however, that action was taken only when the reported acceleration of losses started to be noticeable at the group level and even then, it took some months before the company reacted.

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<sup>172</sup> In emails submitted by a funeral director, a regional manager covering [a particular region in the UK] indicated that, for [X], new entry was a factor behind the branch volume losses. [X]

## ***Summary of the assessment of competition between funeral directors***

- 4.58 Competition for customers over price and non-price factors appears relatively muted, although there is some evidence that competition is relatively more intense with regard to simple funerals (both in terms of propensity to offer these as part of the funeral range and price). There is also evidence that the large funeral directors compete to attract customers by opening branches in new locations.
- 4.59 We believe that, in many local areas, people have a choice of several funeral directors and that local concentration is not generally an issue in this sector.
- 4.60 The incumbent's typical response to entry appears to have been limited and generally centred on increased marketing activity.

## **The evolving pricing strategies of the large funeral directors**

- 4.61 There has been a significant shift in the pricing strategies of the large funeral directors in recent years. We examine below what these changes have been and the implications for the competitive process and constraints on funerals pricing.

### ***Recent developments***

- 4.62 In this section we set out the evidence we have obtained on competitive dynamics in the supply of low-cost funerals and we assess whether, on the basis of the evidence available, competition appears to be effective within this segment.
- 4.63 Funeral directors submitted that competition has increased. This was attributed to factors including the significant degree of new entry and changing consumer behaviour, such as an increased propensity to shop around.
- 4.64 A range of evidence supports the view that there have been increased competitive pressures in the supply of low-cost funerals. For instance:
- (a) The Royal London report (2018) states that the costs of a specific low-cost funeral that it tracks has risen broadly in line with inflation (and funeral director fees have fallen in nominal and real terms) over the last five years (although price differentials between areas have become more extreme).<sup>173</sup>
  - (b) The results of mystery shopping research carried out by an agency on behalf of a funeral director in 2014 and 2017 indicate that the proportion of independent funeral directors offering a simple funeral has almost doubled since 2014.

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<sup>173</sup> Source: Royal London (2018), [National Funeral Cost Index Report 2018](#) (*Buried in Debt – the price of a ‘good send-off’*).

- (c) The internal documents of some large funeral directors point towards increased competitive pressures from low-cost providers (evidenced by more significant losses of volume in recent years).<sup>174</sup>

4.65 The most visible manifestation of a change in the competitive dynamics has been the much-publicised launch of new pricing strategies by Co-op and Dignity:

- (a) Co-op launched a lower-priced simple funeral (at £1,995) in 2016 and in the same year Dignity launched Simplicity, its direct cremation proposition. In 2017 Co-op further reduced the simple funeral price in Scotland by over £300 and in 2018 the price in England and Wales by £100. The reduction in Scotland was apparently in response to competitive pressures<sup>175</sup> [REDACTED]. In 2018, two years after Co-op introduced its lower-priced simple funeral, Dignity launched its own lower-priced simple funerals (currently £100 more expensive than Co-op in England and Wales, and the same or a similar price in Northern Ireland and Scotland). Co-op introduced a direct cremation offer in May 2018, over a year later than Dignity.<sup>176</sup>
- (b) These moves appear to be, in part, an attempt to maintain or grow market share in the supply of low-cost funerals and avoid losing price-sensitive customers to more ‘aggressive’ competitors. Following these changes, both Co-op and Dignity are now offering a simple funeral that is priced significantly lower than their respective standard funerals.
- (c) It is clear from internal documents that heightened media and government interest in the cost of funerals (the so-called funeral poverty debate, described in paragraph 2.19) has also been a significant factor in the development of low-cost funeral options by the large funeral directors.
- (d) As discussed in paragraph 4.5, simple funerals have become more popular in recent years. There is evidence that the proportion of simple funerals sold by the large funeral directors has increased in 2018. Dignity report that 27% of the funerals sold to date in 2018<sup>177</sup> were either simple or ‘limited’.<sup>178</sup> We note that the limited funeral falls within our definition of standard funeral and, therefore, the proportion accounted for by simple funerals will be lower than 27%. [REDACTED].

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<sup>174</sup> For instance

- [REDACTED].
- [REDACTED].

<sup>175</sup> See: the Financial Times article, dated 9 September 2018, “[Co-op cuts funeral costs as price war heats up](#)” states that competition is “fiercest” in Scotland.

<sup>176</sup> Dignity direct cremation packages currently begin from £995 and Co-op sells a package for £1,395 or £1,230 in Scotland (prices accurate as of November 2018).

<sup>177</sup> The proportion of funerals that were simple or ‘limited’ funerals out of all ‘full service’, ‘simple’ and ‘limited’ funerals (i.e. excluding pre-need and ‘other’). CMA calculation based on figures reported in Dignity Plc Third quarter trading update (12 November 2018).

<sup>178</sup> The ‘limited’ funeral offers the same services as a simple funeral but includes upgrade options, such as one or two limousines and a better quality coffin, available at an additional cost. It is priced at £2,595, i.e. £600 more than the simple package in England and Wales and £900 more than the simple package in Scotland. The breakdown between simple and limited funerals is not available.

- 4.66 Beyond the funeral directors' activity in the supply of low-cost funerals described above, we are aware that a small number of local authorities have set up their own funeral services to offer affordable funerals to residents, either by contracting with local funeral directors to provide the service on their behalf (eg Cardiff City Council), or by creating their own company to do so (eg Gateshead Council/Regent Funeral Services).<sup>179</sup> However this does not appear to be a new development as such (as a similar development was already mentioned in the OFT 1989 report on funerals<sup>180</sup>), and in any event appears to remain relatively marginal.
- 4.67 Although the recent strategies adopted by Co-op and Dignity support the argument that competition has increased in the supply of low-cost funerals, it is difficult to establish whether this level of competition will be maintained over time. In addition, some evidence also indicates that competition in the supply of low-cost funerals may not be effective:
- (a) The current developments have been described by many industry commentators as “a price war”, which implies an expectation that it will not be sustained for a long period. We have obtained evidence from funeral directors that both supports this and that the overall benefits for customers from the recent pricing activity may be relatively modest in the context of large historical price rises (discussed further in section 6). For instance, a recent financial forecast from Dignity indicated that their average revenue per funeral was expected to decline by around [X]% between [X], but to rise in subsequent years. This was consistent with an internal document stating that “most of the pain in terms of overall [average revenue per funeral] declines will soon be behind us” and that they expect to be able to “push through price rises in line with inflation from [X]”. [X] Co-op submitted a forecast showing that [X].
  - (b) While, as noted in paragraph 4.65(d), the proportion of simple funerals sold by the large funeral directors appears to have increased in 2018, based on the evidence we have received, we do not expect this trend to continue and it may even be reversed. Dignity submitted a forecast indicating that, by 2021, simple funerals are expected to account for around [X]% of funerals sold.<sup>181</sup> Co-op submitted a forecast indicating that the proportion of simple funerals would [X]. Both of the large funeral directors forecast that the proportion of direct cremations would [X], [X].<sup>182</sup>
  - (c) The recent strategies of the large funeral directors have been driven, at least partly, by media and government interest in the price of funerals. However, the extent to which it is a long-term commitment is not clear, and in the absence of such external pressures, it may be profit-maximising to reverse recent price reductions or otherwise reduce their impact on profits. We saw evidence that one funeral director is considering [X].

<sup>179</sup> Some examples are given in section 4 of: [LGA response to the CMA statement of scope](#).

<sup>180</sup> Funerals, January 1989, paragraph 4.15.

<sup>181</sup> The proportion of funerals that are forecast to be simple funerals, out of all their standard, simple and direct cremation funerals (ie excluding pre-need). CMA calculation based on [X].

<sup>182</sup> [X]. We consider that these forecasts may use third party estimates for the proportion of funerals that are direct cremations/burials which, as noted in paragraph 4.6, can vary widely.

- (d) In 2016 Co-op sold its lower-priced simple funeral for £1,995 across the UK. In August 2017, as noted in 4.65(a), it decreased the price in Scotland to £1,675, apparently in response to competitive pressures. This implies that, in the rest of the country, where Co-op charges a higher simple funeral price,<sup>183</sup> competition may be weaker and the simple price charged may not be at the competitive level, as there is no evidence of other changes in local conditions that would explain the differences in approaches.
- (e) As we discuss in section 6, our analysis of Royal London 2017 data shows that there is considerable variation in simple funeral prices within local areas – in approximately half of all local areas, the lowest priced simple funeral is at least 50% cheaper than the highest priced simple funeral. Factoring in the recent changes implemented by the large funeral directors, the simple funeral price differentials remain material. Such wide price differentials suggest that some funeral directors may exercise market power on simple funerals (see paragraphs 6.37 to 6.42 for further discussion).
- (f) Some of the underlying characteristics of the market we have set out above in paragraphs 4.8 to 4.31 may be less severe in relation to low-cost funerals. Internal documents indicate that customers are likely to be more willing to shop around<sup>184</sup> and may be more price-sensitive. There may also be some greater transparency (eg prices of simple funerals may be more often publicised). However, certain demand-side issues still apply in this segment of the market, as customers buying low-cost funerals remain vulnerable, under time pressure and inexperienced.
- (g) The headline simple funeral prices may be below the actual prices paid by customers as customers may buy optional services. Our analysis of data provided by one funeral director showed that on average customers paid at least £[X] more for a simple funeral (based on the average revenue per simple funeral) than the price that was advertised.

4.68 On the basis of the evidence set out above, we are not persuaded that competition in the supply of low-cost funerals is currently effective. Neither are we persuaded that the intensity of competition between Co-op and Dignity in the supply of low-cost funerals will persist.

### ***The constraint of simple funerals on standard funerals***

4.69 In this section we consider to what extent the availability of lower-cost funeral options, and in particular of simple funerals, may act to constrain the behaviour of funeral directors with respect to their standard funeral offerings (the impact of direct cremation is examined separately at paragraphs 4.75 to 4.78). We note that, while some of the poorer customers may choose to purchase a simple funeral due to tight budget constraints, many may

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<sup>183</sup> £1,895 in England and Wales, £1,995 in Northern Ireland.

<sup>184</sup> For instance, [X] reported that 39% of respondents buying a simple cremation shopped around compared to 23% of those customers that bought a traditional cremation.



continue to purchase standard funerals, given that the amount spent on a funeral varies little by household income (see paragraph 2.17).

- 4.70 First, we have considered the extent to which customers of standard funerals consider simple funerals to be good alternatives. The evidence available indicates that simple funerals and standard funerals largely cater to separate groups of customers and that there is limited substitutability between them:
- (a) Following the simple funeral price changes implemented by Co-op and Dignity in the last two years, the proportion of their customers opting to purchase simple funerals has remained relatively small. This is consistent with the introduction of lower-priced simple funerals cannibalising sales of standard funerals to only a limited extent. We saw internal documents from funeral directors indicating that, although demand for simple funerals has grown, most customers still want a standard funeral.<sup>185</sup> As noted in 4.67(b), based on the evidence we have seen, we do not expect simple funerals to become significantly more prevalent in the foreseeable future.
  - (b) Several independent funeral directors told us that they believed that if they did not offer standard funeral packages then their customers would choose another funeral director rather than purchase a simple funeral from them.
  - (c) One funeral director's documents draw a clear distinction between customers of lower-cost and standard funerals and one document from another funeral director highlights that customers of higher cost options are far less price sensitive than customers of simple funeral options.
  - (d) We have also seen evidence that simple funerals are regarded by some funeral directors as a marketing tool, the aim of which is mainly to provide an attractive headline price, and thus encourage potential customers enquiring on the phone or checking prices online to visit the premises of the funeral director (who would then seek to sell another package).<sup>186</sup>
- 4.71 Second, we have considered the extent to which, following the introduction of lower-priced simple funeral options, the prices of standard funerals have been constrained by the availability of these lower-cost options. The evidence indicates that the constraint, if any, has been limited:
- (a) We have seen evidence of a funeral director increasing the average price of its standard funeral package by a substantial amount in parallel or soon after reducing the price of its simple funeral. This suggests that, once more price-sensitive customers

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<sup>185</sup> An internal document from a funeral director states that there is "growing demand for celebration, low cost, simple and alternative funerals" but it also states that the "majority still want a traditional funeral". [X].

<sup>186</sup> For instance, one email from a funeral director regarding a proposed simple funeral states "I believe will enable us to be more competitive with phone quotes and actually get people in the door in the first instance" [X].

have traded down to the simple funeral, prices of the standard funerals can be profitably increased to the remaining, less price-sensitive, customers.

- (b) We have seen the pricing strategies of the large funeral directors and their projections for the average revenue per funeral they expect to achieve across their portfolio. This evidence indicates that there is no increased pricing pressure in the supply of standard funerals.<sup>187</sup>
- (c) If simple funerals and standard funerals were close substitutes, we would expect their prices to move in the same direction over time. As set out in paragraph 8 of Appendix D, there is evidence that the price of simple and standard funerals may be diverging, implying that they are not close substitutes and largely target different customer groups.

4.72 Finally, as noted above, in the context of an iterative conversation about the components of the funeral, which the funeral director largely controls, funeral directors can and do target different packages to different customers, based on the customer's perceived or stated willingness to pay. When combined with the limited engagement displayed by customers when purchasing a funeral (paragraphs 4.8 to 4.20), this means that many customers of standard funerals may not even be aware of the availability of low-cost funerals.

4.73 On the basis of the evidence set out above, we do not consider that the increased competitive pressure that has characterised the supply of simple funerals provides a significant constraint on the supply of standard funerals by funeral directors.

4.74 Our views are consistent with the generally positive market response to Dignity's 1 August interim results (discussed in more detail at paragraph 6.105).

### ***The constraint from direct cremations***

4.75 Direct cremations<sup>188</sup> are a relatively new low-cost funeral option that has increased in popularity in recent years. They are currently offered by direct cremation providers and most funeral directors,<sup>189</sup> but (as noted in paragraph 4.6) they still account for a small proportion of funerals and a very small proportion of the funerals offered by the large funeral directors (the proportion may be higher for smaller funeral directors). While these types of funerals do not generally envisage anyone in attendance, versions with the option to attend the cremation exist on the market. We have therefore considered the extent to which the availability of direct cremation options constrains the behaviour of funeral

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<sup>187</sup> One large funeral director submitted that they are making changes to their standard funeral offering, indicating they are introducing a more modular approach – ie an entry-level price to which optional extras (which will be priced separately) can be added. The funeral director's own internal forecasts showed that, despite a lower headline entry price, it [X]. [X]. This evidence does not suggest an increased pricing pressure in the supply of standard funerals. In fact, internal documents discussing possible alternative changes to the standard funeral offering suggest that the key objective of the change is to [X]. [X]

<sup>188</sup> In this section, we focus on direct cremations which we understand account for the large majority of direct funerals.

<sup>189</sup> The SunLife [Cost of Dying Report 2018](#) states that 95% of funeral directors that they surveyed said that they offered direct cremation.

directors in the supply of more traditional funerals (including low-cost/simple and standard funerals).

- 4.76 The evidence available indicates that direct cremations and more traditional funerals are substantially different propositions and are not considered good alternatives by the large majority of customers:
- (a) [X]. Whilst a lower price is a reason for buying these types of funeral, other motives were also identified for those buying a direct cremation.<sup>190</sup>
  - (b) During consumer trials, one funeral director found that, even though direct cremation resulted in cost savings, not having a service was too much of a compromise for many customers.
  - (c) Analysis carried out by a funeral director after introducing a direct cremation service indicates that the funerals it gained were mostly incremental as opposed to resulting from customers trading down from simple or standard funerals.
  - (d) An Investec report on Dignity describes its direct cremation service (Simplicity Cremations) as “tapping into an untapped customer base”.
  - (e) Some funeral directors market their direct cremation services very differently to their more traditional funeral packages. In particular, they only offer direct cremation online/by telephone and not in branch.
  - (f) Royal London 2018 states: “Data from this year’s research suggests that some less affluent consumers are taking up direct cremation – a low cost no-frills funeral – as an option. But separate qualitative research conducted by Royal London suggests direct cremation is not an attractive option for all less affluent consumers, many of which would still prefer to give their loved ones a more traditional, full-service send off. In this context, it is interesting to see that take up of direct cremation is still relatively low and has not increased significantly in the time we have been monitoring it”.
- 4.77 While the evidence above points towards a very limited level of substitutability between direct cremations and more traditional funerals, as it can be expected some other evidence indicates that direct cremations are a closer alternative to simple funerals than to standard funerals. For example, one funeral director predicted that introducing direct cremation could materially cannibalise sales of its simple funeral (and still be profitable), while no cannibalisation was estimated on its standard funeral.
- 4.78 This evidence set out above indicates that direct cremations still account for a small proportion of funerals and that, while their popularity has grown in recent years and may continue to grow to an extent, they are nevertheless likely to continue to account for a relatively small share of supply as for many customers they do not represent an alternative to more traditional funerals. As such, we consider that the constraint from direct

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<sup>190</sup> Including – practicality and the deceased requested it. [X].

cremations on more traditional funerals is very limited, although the constraint is somewhat greater on simple funerals.

### ***Summary of pricing strategies of the large funeral directors***

4.79 Recently, the large funeral directors have made significant changes to their pricing strategies, including by offering lower priced simple funerals. The increased competitive pressure for price-sensitive customers in the supply of low-cost funerals does not appear to have constrained the behaviour of funeral directors with respect to their standard funerals: even assuming that customers are aware of the different options (which often is not the case), these options seem to largely target different customer groups and the vast majority of customers still choose standard funerals. Moreover, simple funeral headline prices may be used to attract customers in branch, with customers often ending up paying higher prices.

### **Constraints from online competition (including comparison websites)**

4.80 Some third parties and internal documents state that the internet (and comparison websites) are increasingly important in the supply of funeral services. For instance, websites act as a showcase for a funeral director, and comparison websites, by facilitating comparisons, have increased competition and pricing pressures.

4.81 However, customer research indicates that the constraints from online competition are weak. Some third party evidence shows that a significant minority of customers go online to find address/contact details.<sup>191</sup> However, the CMA consumer survey found that (without prompting) only 4% of respondents with a choice of funeral director said they had gone online to find out about the funeral director they used.<sup>192</sup> Furthermore, no consumer interviewed in either the CMA consumer research or the CMA consumer survey had used a comparison website.

### **The role of the trade associations and impact on competition**

4.82 In response to our Statement of Scope, we received a number of representations on the effectiveness of industry codes of practice in facilitating consumer choice, and more general representations on the effectiveness of the self-regulation of funeral directors. We also sought information directly from the NAFD and SAIF to inform our assessment of the trade associations' effectiveness in facilitating choice and supporting competition.

4.83 A funeral director said that membership of a verified trade association was the best way for people to assess both value for money and quality.<sup>193</sup> Another one, however, considered

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<sup>191</sup> For example, analysis of customer feedback carried out in 2016 by one large funeral director found that 24% had gone online to find its contact details [X]. [X].

<sup>192</sup> [CMA consumer survey](#), Tables 17/18. With prompting, 19% said they had searched online for at least some information about the funeral director (Tables 41/42).

<sup>193</sup> [Harold Wood Funeral Services Ltd response to CMA statement of scope](#).

that the effectiveness of existing industry codes of practice could be improved<sup>194</sup> while another suggested that the codes of practice did not particularly assist in facilitating consumer choice of which funeral director to use.<sup>195</sup> A consumer organisation said that although the two trade associations required their members to display price lists, and make them available to customers when arranging a funeral, there was no standard wording to describe what services were provided, which meant that it could be difficult for consumers to compare one funeral director's charges with another.<sup>196</sup> Several respondents observed that both trade associations do not require their respective members to put their prices online, with one respondent suggesting that this should be an "instant requirement."<sup>197</sup>

- 4.84 Some concerns were expressed around the lack of visibility of any monitoring and/or enforcement of compliance with the codes of practice.<sup>198</sup> While both the NAFD and SAIF have systems in place for monitoring and enforcing compliance, we were told by one respondent, "we see no evidence of the trade associations disciplining or expelling offending members even when their third party arbitrator may find in favour of the family and obtain a refund".<sup>199</sup> A small number of respondents suggested there was a lack of consumer knowledge of the trade bodies, their complaints processes or the ability to access independent conciliation/arbitration.<sup>200</sup>
- 4.85 In 2009 the OFT published a Policy Statement on the role of self-regulation in the OFT's consumer work<sup>201</sup> and a report on the economics of self-regulation.<sup>202</sup> In those reports, the OFT set out several factors that contribute to success of self-regulatory initiatives, including: public awareness, clear and robust complaints procedures, and effective redress mechanisms.
- 4.86 The OFT also said that self-regulation may have disadvantages, "predominantly that a self-regulatory body might have interests and objectives that are not closely aligned with those of consumers and may be anti-competitive." Based on some information we have gathered, it appears to us that the interests of the trade associations have not always been closely aligned with those of consumers, or that their practices may raise competition concerns.
- 4.87 Based on internal documents provided to us by SAIF we have identified a potential conflict between the consumer protection objectives of clause 1.7 of SAIF's Code of Practice and the commercial interests of the trade association and its members. Further, we note that until relatively recently, it may have been more difficult for consumers to raise complaints

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<sup>194</sup> [Dignity response to CMA statement of scope.](#)

<sup>195</sup> [AW Lymn response to CMA statement of scope.](#)

<sup>196</sup> [Citizens Advice Scotland response to CMA statement of scope.](#)

<sup>197</sup> [Kevin Cobbold Funeral Services response to CMA statement of scope.](#)

<sup>198</sup> See, for example: [Beyond response to CMA statement of scope](#) and [Summary of response from individuals to CMA statement of scope.](#)

<sup>199</sup> [The Natural Death Centre response to CMA statement of scope.](#)

<sup>200</sup> See, for example: [Summary of response from individuals to CMA statement of scope](#) (page 4).

<sup>201</sup> [Policy statement: the role of self-regulation in the OFT's consumer protection work, OFT115, 2009.](#)

<sup>202</sup> [The economics of self-regulation, March 2009, OFT1059.](#)

under SAIF's Code of Practice, than is desirable in an effective self-regulatory environment.<sup>203</sup>

- 4.88 We received information from a number of sources highlighting a specific clause within the NAFD's Code of Practice: clause 9.2. It states:

*"Members shall not solicit funeral instructions, nor employ any person to do so, nor shall they offer or give reward for recommendation."*<sup>204</sup>

- 4.89 Based on this information, it appears that the payment of commission by funeral directors to comparison websites for referrals from the comparison website, is being interpreted, or has in the past been interpreted, as breaching this clause. We understand that this issue became apparent in 2017 or earlier, and we have seen evidence from several sources that the risk of potentially breaching this clause has deterred a number of funeral directors from joining comparison websites.<sup>205</sup> Despite this issue being considered on several occasions by the NAFD over the past 2 years, the NAFD's position on how to interpret clause 9.2 appears to us to remain ambiguous at best.
- 4.90 Meanwhile, the NAFD has launched its own online directory of NAFD funeral directors, which is provided free to NAFD members as a benefit of membership (and which, we understand, will offer the opportunity to provide pricing information in due course).
- 4.91 In our view, there is a real risk that the combination of this latest development and funeral directors' interpretation of Clause 9.2 could have the effect of distorting the market for comparison websites.<sup>206</sup>

## **Interim conclusions on competition between funeral directors**

- 4.92 Customers are vulnerable, under time pressure and inexperienced and, as such, their engagement in the choice of funeral director and funeral, as well as their responsiveness to price and quality differences (to the extent these can be assessed) are relatively limited. Comparing funeral directors' offerings is also difficult due to certain sales practices and a general lack of transparency of price, service quality and range offerings. Funeral directors can (and some do) target different packages at different customers based on their willingness to pay, including by limiting information on low-cost options.
- 4.93 As a result of these factors, very few customers compare funeral directors as part of the purchasing process. They often choose a local funeral director by relying on: personal experience (which may simply mean having attended a funeral organised by that funeral director), recommendations and general reputation. Therefore, although the industry is

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<sup>203</sup> [8]. SAIF's Code of Practice, clause 1.7 states "Members shall not try to persuade clients to choose an expensive or elaborate funeral when a less expensive funeral is more appropriate to their circumstances." [8].

<sup>204</sup> [NAFD Code of Practice](#).

<sup>205</sup> [Beyond response to CMA statement of scope](#)

<sup>206</sup> [The economics of self-regulation, March 2009, OFT1059](#): "competition concerns can arise because by its nature self-regulation involves businesses collectively altering or agreeing to alter their behaviour and this can provide opportunities for anti-competitive practices, such as foreclosure ..."

relatively fragmented and, in many areas, people appear to have a choice of several funeral directors, competition to win customers can be expected to be muted and funeral directors to be able to set their offering without close regard to the prices and quality of their rivals. As a result, prices in this sector can be expected to be higher (and non-price factors, such as quality, to be worse) than would otherwise be the case.

- 4.94 Indeed, competition for customers over price and non-price factors appears weak, while there is some evidence that competition is relatively more intense with regard to simple funerals (both in terms of the propensity to offer these as part of the range of funerals, and of price). There is also evidence that some funeral directors compete to attract customers by opening branches in new locations. The evidence we have seen also shows that the response to new entry by incumbents can be limited. The most common response is an increase in marketing activity.
- 4.95 In the past three years, and partly in response to new entry (including from low-cost operators), large funeral directors have embarked on new pricing strategies. Co-op and Dignity, for instance, have both launched new low-cost options, including lower priced simple funerals and direct cremations. As a result of these new pricing strategies and increased competition between Co-op and Dignity in the supply of simple funerals in the past 6 months, we estimate that simple funerals now account for a higher proportion [X] of all funerals sold by Co-op and Dignity, but we expect that the level will drop back down to around 20% in the medium term.
- 4.96 Although these recent strategies indicate that competitive pressures have increased in the supply of low-cost funerals, we are not persuaded that this level of competition will be maintained over time. We are also not persuaded that competition in the supply of low-cost funerals is effective.
- 4.97 Our research does not support the view that customers have generally become more price sensitive. We recognise that a small proportion of customers shop around for a funeral, and that the internet is increasingly playing a role (albeit currently a very limited one) in facilitating this process.
- 4.98 In addition, the availability of, and increased competitive pressure in the supply of, lower-cost options, does not appear to have significantly constrained funeral directors with respect to their standard offerings. Most customers still want a standard funeral and would not be willing to accept the limitations of a simple funeral. Consistent with a lack of constraint, the prices of standard funerals and simple funerals appear to have diverged in the past 2 years.
- 4.99 Likewise, the evidence indicates that direct cremations are a substantially different proposition, catering to largely a different customer group, from more traditional funerals. They currently account for a very small proportion [X] of the funerals sold by the large funeral directors. Forecasts we have seen indicates that this will not increase substantially. Across all suppliers, direct cremations account for less than 10% of funerals sold. As such, their constraint on more traditional funerals is very limited.

- 4.100 We therefore expect that a large proportion of customers will continue to purchase standard funerals at the point of need. These customers, more so than any others, will be open to exploitation (including through high prices) due to the uniquely vulnerable circumstances in which they find themselves and the nature of a purchasing process which the funeral director largely controls. Under such circumstances, there is potential for prices to continue to rise (and non-price factors to worsen), particularly for those who seek standard funerals. Further, to the extent that there is competition for simple funerals, at least partly prompted by political and media pressure, we consider that when such pressures recede, so too could the competition currently seen in the supply of simple funerals.
- 4.101 We recognise that trade associations bring a number of benefits to their members and may also be of benefit to consumers. However, the evidence we have seen indicates that the two trade associations have fallen short of bringing about the level of transparency that is necessary to facilitate consumer choice. The evidence also indicates that the trade associations' focus on supporting the commercial interests of its members may have been detrimental to competition, as illustrated by the approach taken to matters relating to online price transparency and the development of online comparison tools.



## 5. Competition between crematoria

- 5.1 This section contains our assessment of how, and the extent to which, crematoria compete. We first describe the services offered by crematoria, before explaining the key parameters over which they compete. We then consider the extent to which existing crematoria compete with one another, including incumbents' responses to entry.

### Crematoria services and charges

#### *Crematoria services*

- 5.2 The services offered by crematoria are relatively standard. Crematoria allow mourners to gather for a service before the deceased is cremated.<sup>207</sup>
- 5.3 For a typical service, mourners will wait for the funeral service in a waiting room. The coffin will be brought into the chapel by bearers, followed by the mourners. It is at this point that the service will be conducted. Mourners may have already attended a service at another location, eg a church, in which case time at the crematorium may be shorter and involve a brief committal, although we have been told that this has become less common and services now tend to be held at the crematorium. After the service, the mourners will leave the chapel and will have the opportunity to inspect any floral tributes. When organising cremations, crematoria allow a certain amount of time, a 'booking slot', and may split this, such that a certain amount of time is permitted in the chapel, and time may be allocated as a 'buffer' for entry and exit from the crematorium.
- 5.4 Mourners can also witness the introduction of the coffin into the cremator, if arranged with the crematorium.<sup>208</sup> There may be a viewing room available to view the coffin being 'charged' into the cremator, and this is particularly important for certain religious groups such as Hindus and Sikhs.<sup>209</sup>
- 5.5 Crematoria may have gardens of remembrance such that families can visit, reflect, and place memorials (purchased from the crematorium or a third party associated with the crematorium). Memorials tend to be in place for a fixed period of time but are not placed in perpetuity. Crematoria may also offer inscriptions in books of remembrance.<sup>210</sup>
- 5.6 After the cremation the ashes will be collected and stored. The FBCA estimates that for around three-quarters of those cremated their ashes will be collected by family members and taken from the crematorium and placed elsewhere. For the remainder of those cremated, their ashes will either be strewn or interred at the crematorium.

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<sup>207</sup> Crematoria may also offer unattended cremations which are discussed further below.

<sup>208</sup> FBCA, [A Guide to Cremation and Crematoria](#). Page 38.

<sup>209</sup> FBCA, [A Guide to Cremation and Crematoria](#). Page 18.

<sup>210</sup> FBCA, [A Guide to Cremation and Crematoria](#). Pages 20-21.

- 5.7 Crematoria may offer a range of additional services on the day of the cremation, for example: the purchase of additional slots to allow for a longer service (providers tend to offer a single slot length at a crematorium, which can be extended through the purchase of additional slots or through the purchase of additional time<sup>211</sup>), bearers, organists and hospitality services.
- 5.8 Services are held predominantly on weekdays. Crematorium operators have told us, and provided data to show, that they face a higher level of demand for slots in the middle of the day (the preferred time by families for a cremation service), and as such, there is often a limited number of available slots at the times preferred by families. Early morning slots tend to have a reduced fee given the lack of demand for these slots. We note that in many instances customers may not view a reduced fee early morning slot as an option due to the inconvenient timing of these slots. This is likely to be the case if mourners have to travel some distance to the crematorium and/or are elderly. In addition, our consumer research found that customers did not tend to be aware that earlier morning slots, at a reduced fee, may be available.
- 5.9 The level of demand for weekend services is low, with the average crematorium for which we have data carrying out less than 20 weekend services per year.<sup>212</sup> We note that weekend services tend to be more expensive than weekday services, which, along with a tradition of holding funerals during the week, may limit demand. Furthermore, funeral directors may prefer to conduct services during the week and limit the work they do at weekends to emergency activities.
- 5.10 Crematoria may also carry out unattended cremations, in which no service is offered. These are conducted by the crematorium on behalf of companies offering direct cremation services.

### ***Crematoria charges***

- 5.11 We have split cremation revenue into three categories:
- (a) cremation fee revenue (both basic fee and reduced fee);
  - (b) the sale of additional products and services, for the day of the cremation; and,
  - (c) the sale of follow up products such as memorials.
- 5.12 Fees for cremations fall into two types: basic fee (also known as ‘full fee’) and reduced fee. The basic fee (as reported by the Cremation Society) includes medical referee fees, environmental surcharges and all fees for services necessary for a cremation, such as a chapel slot. Fees may be reduced for early or late services (typically before 10am or after 4pm), or because the cremation is unattended (these are typically held in an early time slot). Crematoria also offer reduced fees for public health funerals (funerals provided by

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<sup>211</sup> CMA analysis of [X].

<sup>212</sup> Based on data from private crematoria providers.

the local authority where there is no next-of-kin or in which the family is unable or unwilling to pay) and for body part cremations (as part of a contract with medical schools).

- 5.13 We have gathered data from the three largest private providers (accounting for around three-quarters of all private crematoria) as to the different types of cremation that they offer, and the number of cremations conducted for each type of cremation. Around 90% of cremations at these providers were basic fee services in recent years. The remainder of cremations were reduced fee services.
- 5.14 The services covered by the basic cremation fee are broadly comparable across crematoria. However, a significant element of variation between crematoria is the length of the booking slot and the length of time permitted for the service in the chapel, with the length of booking slots ranging from 20 minutes to 90 minutes and the time in the chapel ranging from 20 minutes to 60 minutes. We have found that booking slots and time allowed in the chapel have been getting longer, with private providers offering, on average, longer slots and more time in the chapel (53 minutes and 36 minutes, respectively) compared with local authorities (41 minutes and 29 minutes, respectively).<sup>213</sup> In addition, we have been told that new crematoria operated by some private providers tend to offer one-hour slots as standard.<sup>214</sup>
- 5.15 In addition to cremation fee revenue, crematoria also generate revenue from the sale of additional products and services for the day of the cremation (such as the use of bearers or payment for an extended slot). However, crematoria providers told us that the take-up of these extras was limited and that these extras account for a very small proportion of their revenue.
- 5.16 In addition to cremation fee revenue and additional services offered on the day of the cremation, crematoria also generate revenues from other sources such as follow-up sales of memorials, plants with plaques and inscriptions in books of remembrance. It appears that a wide range of products and options are offered at a range of price points.<sup>215</sup>
- 5.17 Data provided to us by private crematoria providers indicates that basic cremation fees make up over 90% of revenues from basic cremation fee services, reduced fee services and additional services purchased on the day of the service combined. We have insufficient data to comment on the proportion of overall crematoria revenues that come from memorials and other follow up sales but note that for one private provider this is around 10% of overall crematoria revenues.

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<sup>213</sup> CMA analysis of Cremation Society data for 2018. In calculating average slot lengths, we dropped observations where no data was available or appeared unreliable (for example, service lengths reported as 5 minutes). Furthermore, some crematoria reported multiple slot lengths, and in calculating averages we used the shorter of the two, assuming the longer lengths to be optional should families wish to pay for a longer service. We note that our estimate of the average slot length at a local authority crematorium (41 minutes) is slightly shorter than the estimate in Dignity's report "*Cost, Quality, Seclusion and Time*" which reports local authority slot lengths of 42 minutes. Our estimates of chapel time are the same as Dignity's estimate at 29 minutes. We have used a different data set to Dignity but note the difference is minimal.

<sup>214</sup> Memoria offers one-hour slots at its crematoria and Dignity offers one-hour slots at all of its new crematoria. Based on our analysis of Cremation Society data for 2018, a substantial proportion [X] of existing crematoria operated by the three largest private providers offer one-hour slots.

<sup>215</sup> Based on a review of a sample local authorities' memorialisation options.

## Underlying characteristics of the crematoria services market

### ***Fixed overall demand***

- 5.18 The overall demand for cremation services is determined by the number of deaths and the proportion of funerals that are cremations, which is currently 77% in the UK and marginally increasing year on year. While there has been a general trend away from burials and towards cremations in the last decades, in the short term the rate of cremations appears fixed and outside the control of the crematoria. The overall demand for cremation services is therefore largely fixed, ie it cannot be changed through the commercial activities of crematorium operators.
- 5.19 As a consequence, we consider that reductions in price or improvements in quality will not affect the overall level of demand that crematoria face. New entrants will not be able to materially increase the number of cremations required and will mainly gain volumes by taking volumes from other existing crematoria.

### ***Demand relatively unresponsive to price and quality measures***

- 5.20 We first consider the extent to which customers perceive that they have a choice of crematoria, and the extent to which they shop around. Where customers do make a comparison between crematoria, we look at the factors important to them in making their choice. Responses to our statement of scope suggest that customers will tend to choose either the closest crematorium or one with which they have a family connection, and that any shopping around is limited.

### ***Propensity to shop around***

- 5.21 The vast majority of customers do not compare the services of different crematoria.
- 5.22 In the CMA consumer survey 64% of respondents stated that they had no choice of crematorium as there was either only one crematorium locally (49%) or the deceased had made their wishes known in advance (15%).<sup>216</sup> Our consumer research found similar evidence, in that perceptions of having a choice of crematorium were limited, with most respondents only considering the closest crematorium in their area.
- 5.23 In total, 26% of respondents stated that they had a choice of crematoria but did not compare crematoria, and only 6% overall compared two or more crematoria.<sup>217</sup>
- 5.24 Despite a general lack of active choice, customers did not tend to seek the advice of their funeral director when making a choice of crematorium. Over half (44) of those who said

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<sup>216</sup> CMA consumer survey, Tables 51/52.

<sup>217</sup> CMA consumer survey, Tables 51/52.

they had a choice of crematoria (whether they compared or not) had chosen or shortlisted the crematoria they wished to use prior to contacting the funeral director.<sup>218</sup>

### *Location*

- 5.25 Most customers use a local crematorium that is close to the address of the deceased or to which the family has a previous connection. The CMA consumer survey found that of the 76 respondents who said they had a choice of crematorium (whether they compared or not),<sup>219</sup> 41 stated that personal experience of using the crematorium was an important factor in their choice, and 17 stated that the distance or journey time was an important factor. In contrast, only six respondents cited the buildings and gardens as an important factor in the choice, four respondents cited the facilities available, and two respondents the price.
- 5.26 One private crematorium operator's internal document notes the importance of proximity in customer decision for those within the "core captive area" of the crematorium (ie within a 30-minute drive time, at cortege speed<sup>220</sup>), stating 'inelastic demand supported by proximity [is] the most important factor in crematoria use.'

### *Price*

- 5.27 The evidence available to us consistently indicates that crematoria do not compete over price to any significant degree. Private providers have noted that price is not a major consideration for families when choosing a crematorium, and have told us that in many circumstances, families may not know what the cremation fee is. We consider that this may be driven by two key factors:
- (a) First, families are likely to have limited perceptions of any choice available to them, or may not shop around,<sup>221</sup> or there may be limited choice in their area. A private provider has stated that the expectation of families is that all crematoria are the same and may therefore not appreciate that there may be price and quality differentials between different crematoria.<sup>222</sup>
  - (b) Second, the price differential between crematoria in the same local area may not be large enough relative to the overall price of the funeral to make a significant difference in the choice of crematorium.
- 5.28 As noted above, the CMA consumer survey found that where customers had a choice of crematorium, only two respondents out of 76 said without prompting that price was a factor in their choice.<sup>223</sup> The CMA consumer research made similar findings, noting that none of

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<sup>218</sup> Source: CMA analysis of CMA consumer survey results. In total, 76 respondents said they had a choice of crematorium.

<sup>219</sup> Source: CMA analysis of CMA consumer survey results.

<sup>220</sup> 60% of normal speed.

<sup>221</sup> [§]. In total, 90% of respondents to the [CMA consumer survey](#) did not compare crematoria (they either had a choice and did not compare, only had one in the area, or the deceased had made their wishes known in advance) (Tables 51/52).

<sup>222</sup> [Dignity response to the CMA Statement of Scope](#)

<sup>223</sup> Source: CMA analysis.

the respondents who had a choice of crematorium stated that price was a factor in their choice.

## *Quality*

- 5.29 Statements from private crematoria providers indicate that they consider quality as a parameter over which they compete. An internal document from one private crematorium operator notes that outside of its core catchment area (30-minute drive time at cortege speed), quality of service and facility are usually the key factors of customer choice.
- 5.30 Evidence from the CMA consumer survey and consumer research indicates that, while quality is a factor that consumers consider relatively more important than price, a very small number of customers choose a crematorium based on quality:
- (a) The CMA consumer survey found very little evidence of people choosing a crematorium on the basis of quality related factors. Only six respondents identified the buildings/gardens as an important factor in their choice and only four respondents identified the crematorium facilities as an important factor in their choice.<sup>224</sup>
  - (b) For the small group of respondents in the CMA consumer research who were aware of two local crematoria and were not bound by the wishes of the deceased or family connections, the choice of crematorium was in some circumstances based on the quality of the grounds and premises. In addition, a very small number of respondents were impressed by additional facilities such as the presence of visual tributes and the ability to stream services.

## ***Few existing and potential suppliers***

- 5.31 Respondents to our Statement of Scope noted that there are many parts of the UK with a limited number of crematoria (and, as such, fees in these areas may be higher).<sup>225</sup> We have analysed the cortege drive time (60% of full speeds) between all crematoria in the UK to understand the extent to which crematoria across the UK have alternative crematoria nearby.<sup>226,227</sup> Drive times quoted in this chapter are at cortege speed unless otherwise stated.<sup>228</sup>
- 5.32 We have found that there is a significant proportion of crematoria that have a limited number of alternative crematoria within a 30-, 45- and 60-minute drive time. Table 1 shows that approximately one third of UK crematoria have no alternatives within a 30-minute drive time, and approximately two-thirds have at most one alternative crematorium within a 30-

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<sup>224</sup> Source: CMA analysis. Base: all who compared crematoria or all who had a choice but did not compare (76).

<sup>225</sup> For example, response from [Citizen's Advice Scotland](#) and [Beyond](#).

<sup>226</sup> Where a crematorium had another nearby under the same ownership, we have not counted it as an alternative crematorium so that we could understand areas in which customers had a lack of rival crematorium operators. A different local authority is considered an alternative provider.

<sup>227</sup> The CMA used ESRI UK Limited's Arc GIS Pro software. The drive-time network analysis is based on the OS MasterMap Integrated Transport Network Layer (ITN), which uses speed profiles based on speed limits.

<sup>228</sup> In particular, our analysis of entry in Appendix C includes some analysis at normal driving speed (this is specified), due to the limited number of observations available at cortege speed. All other analysis is at cortege speed.

minute drive time. Our analysis found that over two-thirds of crematoria in the UK are in areas classified as urban (although we note that in practice they are more likely to be located in the urban fringe). The proportion of crematoria in rural areas with no alternative crematoria within half an hour is higher (52%) than in urban areas (29%). We note that in reality for some customers the choice of crematoria may be further restricted if large chapels or particular facilities are required. This could be an issue for certain faith groups and is currently being considered by the Ministry of Housing, Communities and Local Government.<sup>229</sup>

**Table 1: Proportion of UK crematoria with alternative crematoria at given cortege drive times**

	30 minutes, %	45 minutes, %	60 minutes, %
No alternative crematoria	36	12	5
One alternative crematorium	29	19	7
Fewer than two alternative crematoria	65	31	13

Source: CMA analysis based on the ICCM Directory of Crematoria and ArcGIS mapping software

5.33 We have also considered the extent to which there are areas in which there is common ownership by the same provider of crematoria. We may be concerned if there is a high concentration of crematoria owned by the same provider, as that provider is likely to face weaker competitive constraints. We did not find this to be a significant issue. Among private providers, there are only five Dignity crematoria which have another Dignity crematorium as the closest alternative and only one Westerleigh which has another Westerleigh crematorium as the closest alternative. There are two instances where there is a pair of Dignity crematoria within a 30-minute drive time of one another, and there are two instances where there is a pair of Westerleigh crematoria within 30 minutes of one another.<sup>230</sup> In addition, there are only around 20 local authorities that operate more than one crematorium.

5.34 We consider that a number of underlying characteristics of the crematoria services market may contribute to explaining the small number of crematoria in any given area:

(a) Firstly, the nature of costs in the industry, and in particular the presence of economies of scale due to high fixed costs, implies that only a small number of suppliers may profitably operate given the overall fixed demand in any local market. Economies of scale mean that crematoria benefit from conducting a high number of cremations. In particular, we have been told that a crematorium needs to conduct 800-1,000 cremations per year to be viable due to the high fixed costs. Furthermore, busier crematoria can benefit through the more efficient use of gas, and thus lower variable costs, when conducting a higher volume of cremations.<sup>231</sup> This means that profitable entry can only occur at a location where there is sufficient demand, which will typically

<sup>229</sup> [Review of crematoria provision and facilities: discussion paper.](#)

<sup>230</sup> No Memoria has another Memoria within 30 minutes or another Memoria as its closest crematorium.

<sup>231</sup> By conducting a higher number of cremations, the cremator is likely to be in constant use, or cremations can be scheduled back-to-back, meaning the cremator retains heat and needs less gas per cremation to get to the right temperature.

be in areas where existing crematoria are conducting a large number of cremations.<sup>232</sup> In addition, due to the fixed locations of crematoria, there will only be space for profitable entry between existing crematoria if the profits at those existing crematoria are significantly above break-even;

- (b) Secondly, the planning regime, which requires potential entrants to demonstrate a local “need”, implies that new crematoria are more likely to be approved in areas with sufficiently large demand, poorly served by existing crematoria. The planning regime is further discussed in Appendices A and C;
- (c) Finally, crematoria play a role as a community facility that was traditionally and is still often provided by a local authority for a community. This has been noted by a private provider who, in an internal document, states: “It is usual to have only one crematorium serving a given area. The reason for this is that the industry was largely planned and built by municipalities, who constructed their single facility within a defined district to service perceived local demand.”

5.35 Furthermore, both economic incentives and planning restrictions may lead new crematoria to locate relatively far from existing crematoria (while remaining relatively close to the demand). A new entrant, in order to ensure that it covers the high fixed costs of entry and operation, will have the incentive to avoid as much as possible any head-to-head competition with the existing crematoria. As such, it will prefer to locate its facilities far from existing crematoria to ensure it will have a large uncontested demand for its cremation services. As we explain in Appendix C, some evidence indicates that providers do not consider it viable in many cases to open too close to an existing crematorium, and the requirement to meet the planning process “qualitative” need test may reinforce the preference of new entrants to locate far from existing crematoria.

5.36 Finally, the fact that there is likely to be only a small number of crematoria in any local area and crematoria may tend to locate far apart from each other, combined with the strong customer preference to choose the closer crematorium, means that the number of customers for which crematoria may “genuinely” compete (ie those customers who are broadly equidistant from each crematorium and, as such, potentially indifferent) is likely to be limited.

### ***Summary of underlying characteristics of the crematoria services market***

5.37 On the one hand, customers rarely shop around for crematoria. They tend to choose the closest crematorium or a crematorium with which they have had personal experience. Only a very small number of customers choose a crematorium based on quality, and even fewer

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<sup>232</sup> Given that consumers tend to choose crematoria based on location (due to proximity or personal experience), the main way in which crematoria can compete is by locating themselves closer to potential consumers than their rivals. New crematoria will therefore locate in areas where they can capture a sufficient level of demand. This implies that prior to entry existing crematoria were serving consumers over a wide area and likely to be conducting a large number of cremations. We have found that new crematoria tend to enter where existing crematoria are conducting a large number of cremations (and this is supported by the fact that potential entrants have to prove ‘need’ for a new crematorium).



based on price. As such, demand appears to be relatively unresponsive to the price or quality offered by a crematorium, reducing a crematorium's incentives to compete for customers over these dimensions. Furthermore, customers do not tend to seek advice from their funeral director when making a choice of crematorium.

- 5.38 On the other hand, due to the presence of economies of scale arising from high fixed costs and planning restrictions, only a small number of crematoria can operate in any local area. Profitable entry will only occur where demand is high and profits at existing crematoria are well above break even, with new crematoria likely to locate relatively far from existing crematoria in order to reduce any head-to-head competition for customers and ensure to cover their fixed costs (noting that, with a largely fixed overall demand, new crematoria cannot materially grow the market and will mainly attract customers from existing crematoria based on their proximity).
- 5.39 Taken together, these factors imply that competitive constraints on crematoria will generally be very weak and, as a result, we would expect crematoria to have a high degree of market power and to be able to charge prices well above costs (or set quality absent strong competitive pressure). Nevertheless, we would expect crematoria to compete relatively more strongly on price and quality in areas where they are located close to one another, as in this case a larger number of customers may choose between them based on factors other than proximity.
- 5.40 In the next sections we seek to test whether this is the case by analysing prices, competition on quality and response to entry.

## **Assessment of competition between crematoria**

- 5.41 Having established that, in general, the underlying characteristics of the crematoria services market are not conducive to effective competition, we have examined whether there is nevertheless evidence of actual competition between suppliers, the extent to which this competition has resulted in lower prices and/or better quality, and the extent to which the entry of new crematoria has increased competition in the past.

### ***Competition over price***

- 5.42 We first consider how crematoria providers set prices, followed by an assessment of the extent to which prices and the proximity to other crematoria are related.

#### ***Price setting and price increase decisions***

- 5.43 A private crematorium operator has told us that it plans each year to increase fees [X]. Dignity's forecasts assume a [X]% revenue increase per year in the crematoria services segment, and an analyst report by Investec (dated 19 January 2018) notes that due to a lack of competition in cremation Dignity should be able to continue making price increases of 4-5% per year in cremation fees. Westerleigh's plans include a forecast price increase of [X]% per annum up to 2025. As we will further discuss in section 6, we note that, based

on an analysis of Cremation Society data, in practice the average fees of private providers do tend to increase by a fixed amount each year, with Dignity and Westerleigh both making relatively consistent increases in their average basic cremation fee<sup>233</sup> of between 6-8% per year for the last eight years.

- 5.44 Whilst private crematoria increase their fees consistently on an average basis, they have also told us that they will have regard to the fees being charged by other crematoria in the surrounding area, to ensure that the fees they charge are broadly 'in line.' A private provider stated that in aiming for an overall revenue target, they will adjust price rises to take account of other crematoria in the area.
- 5.45 Local authorities are constrained by regulation in how they set fees to a different extent depending on the nation in which they are located, as explained in paragraph 2.54, with local authorities in England, Wales and Northern Ireland being required to set prices on a cost recovery basis.
- 5.46 In practice, local authorities have told us that they tend to increase fees by a set percentage each year, broadly following a measure of inflation. Similarly to private providers, local authorities have also told us that they generally benchmark their fees each year on neighbouring local authority and private crematoria to ensure that they are 'in line' with other providers. It was noted that, where fees are significantly cheaper than at neighbouring crematoria, or cremation fees more generally, local authorities may make larger increases to their cremation fee. Local authorities have noted that whilst private crematorium operators may be able to increase fees by relatively large amounts with the aim of benefitting their shareholders, local authorities have to balance a wider set of objectives (for example, their role in providing cremations as a public service, and councillors, who often make the final decision on fees, being aware of public sensitivities around fees and charges).
- 5.47 Some local authorities think about the cost recovery obligation over a wider range of services than just crematoria provision. For example, many local authorities recover costs over the whole of their bereavement services (and use crematoria revenues to cross-subsidise more costly cemetery services). Other local authorities use crematoria revenues over a wider range of services, such as their environmental health or parks services, or use surplus revenue to fund other council services or budget deficits.
- 5.48 The price-setting behaviour of crematorium operators, particularly private operators and, to a lesser extent, local authorities, indicates that in general they are able to increase their prices by a set amount year-on-year in order to meet income targets.

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<sup>233</sup>Total fee revenue increases will differ as this will include reduced fee cremations and will reflect the different volumes of cremations conducted at crematoria with different fees (the average fee increase above is an unweighted average increase of all basic cremation fees charged by each provider).

## *Prices and proximity of other crematoria*

- 5.49 Respondents to our Statement of Scope have told us that where crematoria do not have alternatives nearby, prices tend to be higher.<sup>234</sup> We have conducted three pieces of analysis to assess the extent to which prices and proximity to other crematoria are related: examining instances where crematoria are particularly close to one another; examining instances where crematoria have no rivals within a 60-minute drive; assessing the competitive conditions faced by the most expensive and cheapest Dignity crematoria.
- 5.50 We have considered areas where two competing crematoria are located particularly close to one another, potentially providing a stronger constraint on one another, in order to understand whether their cremation fees are lower than in other areas.
- 5.51 An example of such a situation is Brighton, where there is a local authority crematorium (Woodvale) next door to a privately-operated crematorium (Downs, operated by Dignity). A funeral director active in the South East of England noted that competition between the two crematoria in Brighton resulted in low fees.<sup>235</sup> In addition to Brighton, we have identified three other areas in which there are crematoria under different ownership that are located within a 10-minute drive time. Of eleven crematoria (across these four areas), cremation fees at nine are below the national average.<sup>236</sup>
- 5.52 We have also considered the 16 crematoria in the UK that have no alternative crematorium within a 60-minute drive time, thus potentially facing particularly weak, or no, competitive constraints, to understand whether their cremation fees are higher relative to other areas.<sup>237</sup> We found that these crematoria charge a large range of fees, with one charging the lowest cremation fee in the UK and one charging the highest cremation fee.<sup>238</sup>
- 5.53 Finally, we have considered evidence relating to how Dignity sets fees across its crematoria. As Dignity is the single largest crematorium operator and has a wide range of fees, this analysis may provide some insights into the extent to which local competitive conditions may affect prices, while controlling for some of the differences between crematoria as we use information from a single provider.

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<sup>234</sup> For example, [Citizen's Advice Scotland](#) and [Beyond](#).

<sup>235</sup> [CPJ Field response to CMA Statement of Scope](#). Both crematoria in Brighton charged a cremation fee of £633 in 2018, among the cheaper crematoria in the UK.

<sup>236</sup> There are four areas in which crematoria under different ownership are located around a 10-minute cortege speed drive away from one another: Burnley/Accrington, Brighton, North London and East London. In all of these areas all of the crematoria (except two) were pricing below the national average in 2017, in some cases significantly below. For example, the national average cremation fee in 2017 was £737, and in Brighton the two crematoria (one of which is a Dignity crematorium) were charging £600 and £620, whilst in North London four crematoria (owned by Hendon LA and Islington LA and two by the London Cremation Company) were charging between £590-£670. In Burnley and Accrington, the fees were £672 and £625 respectively, and in East London the fees ranged from £720 and £864.

<sup>237</sup> However, as noted above, we are not controlling for factors such as the level of demand. Crematoria without a competitor in a 60-minute drive time, particularly those in isolated or rural areas, may face particularly low levels of demand.

<sup>238</sup> Data only available for 15 of the 16 crematoria.

**Table 2: Dignity high and low-price crematoria, 2017**

	<b>Nine most expensive Dignity crematoria</b>	<b>Nine least expensive Dignity crematoria</b>
Average cremation fee	£999 <sup>239</sup>	£705 <sup>240</sup>
Average fee of closest crematorium	£772	£690
Average drive-time to the closest crematorium	34 minutes <sup>241</sup>	18 minutes
Average CAGR,* 2014-2017	6%	5%
Number with no other crematoria within 30-minute drive time	6 out of 9	1 out of 9
Number with a Dignity crematorium within 30-minute drive time	1	0

Source: CMA analysis of Cremation Society data and ArcGIS mapping software

Note: \* compound annual growth rate.

- 5.54 As the table shows, we found that Dignity's most expensive crematoria are, on average, nearly twice as far away from the closest alternative crematorium compared with its cheapest crematoria and more likely to have fewer competitors (in particular, two thirds have no alternative crematoria within 30 minutes). The average price differential between the cheapest and most expensive Dignity crematoria is nearly £300, while the CAGR of fees has been higher among the more expensive crematoria at 6% compared with 5% for the cheapest crematoria.
- 5.55 We have considered whether common ownership of other crematoria nearby may also explain the higher prices at Dignity's most expensive crematoria relative to Dignity's cheapest crematoria. We found that this does not appear to be the case: there is only one expensive Dignity crematorium that has another Dignity crematorium within a 30-minute drive time (and no cheap Dignity crematorium that has another Dignity crematorium within a 30-minute drive).
- 5.56 We note that in assessing the evidence on the degree of competition (in terms of the number of competitors that a crematorium faces and the drive time to its closest competitor) and prices as above, we have not controlled for certain factors (such as demand, costs and quality) and, as such, the analysis does not enable us to identify any causal relationship between the degree of competition and the level of fees (to the extent that one exists). Notwithstanding this, the evidence set out above is consistent with the view that crematoria tend to charge relatively higher prices where they face fewer competitors and competitors are further away (ie when any head-to-head competition is less intense). We note that, as discussed above, price competition between crematoria appears in any event very weak. In addition, as we will discuss in section 6, prices may be related to other factors. For example, prices appear to be strongly related to the ownership of the crematorium, with private operators charging higher fees than local authorities on average and all of the 20 most expensive crematoria being private (19 of these are Dignity crematoria).

<sup>239</sup> All nine crematoria charged a fee of £999 in 2017, compared to a national average of £737.

<sup>240</sup> The nine crematoria charged between £600 and £803 in 2017, compared to a national average of £737.

<sup>241</sup> Based on 8 crematoria. The remaining high-price Dignity crematorium did not have an alternative within a 100-minute cortege speed drive time so was excluded.

## ***Competition over quality***

- 5.57 Private providers have told us that they differentiate themselves from each other and local authority crematoria by the quality of the service that they provide, particularly in terms of slot length, quality and age of buildings, and availability of visual and streaming facilities. Private providers have also told us that they are ‘at the very top of the market standards-wise,’ and aim for the bereaved to experience ‘the highest possible standards of quality’. We note that local authority crematoria vary greatly on measures of quality, with some telling us that they offer a comparable service to private providers. When considering why private providers and local authorities aim to provide a high-quality service it is important to note that crematorium operators have told us that they want to offer a high-quality service and improve their standards, not necessarily to compete or win customers, but because they understand the importance of this to the friends and family of the deceased. We note that providing a service that people want and value is part of the competitive process. We have therefore considered the extent to which crematoria are differentiated and compete over quality-related factors.
- 5.58 As a starting point, and as discussed above, we note that the demand faced by each crematorium appears relatively unresponsive to quality (as well as price) measures, but that quality (particularly in terms of buildings/gardens) does appear to be a relatively more important factor than price in the decision of which crematorium to use. We note that one of the most important reasons given by customers for the choice of crematorium (when they have a choice) is their previous experience of attending a service at the crematorium. Whilst this implies familiarity is important, it could also suggest that customers have some knowledge of the quality of the crematorium through experience. Nevertheless, as explained above, customers rarely compare different crematoria, suggesting that, while quality may be a differentiating factor between crematoria, the incentives to compete over quality to attract customers may be limited.

### ***Slot lengths***

- 5.59 Slot lengths range from 20 minutes to 90 minutes with a significant degree of differentiation across crematoria both between providers and within the same provider (discussed in paragraph 5.14). Individual crematoria do not typically offer a ‘menu’ of slot lengths to customers (ie all slots are the same length, although customers can purchase double slots/additional time if they wish to have a longer service). The following discussion focuses on the extent to which crematoria compete over slot length (in particular, whether slot length is set to meet customer demand, or whether it is set by reference to the available level of capacity).
- 5.60 Private providers have told us that their longer slots relative to other crematoria provide a higher quality service. Dignity notes that longer slots help avoid a ‘conveyor belt’ feeling that customers dislike. This view is based on consumer research Dignity commissioned which found that around half of their respondents felt that having enough time during the service and enough time after the service to pay respects was important. The CMA consumer research found that most customers did not feel rushed by the crematorium,

while Dignity's research did find that just over one third of respondents considered that their service experience made them feel like they were on a 'conveyor belt' (driven mainly by seeing other mourners from later services waiting to go in).<sup>242</sup> This view was also noted, to some extent, in our consumer research which found that a small number of customers disliked how crematoria felt like 'conveyor belts' for funerals as services were scheduled close to one another.

- 5.61 However, Dignity told us that customers do not necessarily value the amount of time in the chapel, but instead value privacy. This can be achieved with appropriately designed chapels/crematoria.<sup>243</sup> Furthermore, Dignity told us that from a customer perspective, 40-minute service slots are quite long for a cremation service, allowing enough time for music, hymns and readings. Dignity also indicated that customers are not really aware of quality differences between crematoria (although if asked they consider quality important) and that customers' expectation is that all crematoria offer similar levels of quality. Dignity's report 'Cost, Quality, Seclusion and Time' recommends that the minimum length of a booking slot should be 45 minutes.<sup>244</sup>
- 5.62 The CMA consumer research confirmed that among those organising funerals there was very little awareness that different crematoria might offer different slot lengths. In some circumstances customers chose earlier slots to reduce the price of the cremation, but other customers preferred to choose slots that were convenient for mourners attending the service. The CMA consumer survey made similar findings, in that it found very little evidence of people choosing a crematorium on the basis of the choice of slot length (one respondent out of 76).<sup>245</sup>
- 5.63 Considering how crematoria set their slot length, a private provider [X] told us that they aim to offer 1-hour slots at their crematoria wherever possible, but the slot length depends on the level of expected demand relative to capacity. Busier crematoria have to offer shorter slots in order to meet demand without excessive waiting times, while newer smaller crematoria, carrying out a low number of cremations, are generally able to offer longer slots.<sup>246</sup> An expert [X] notes this point by stating that "shorter slots are the result of

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<sup>242</sup> Page 13 of "Cost, Quality, Seclusion and Time," Dignity. Dignity's research was based on an online panel. Typically we consider that online panels may be subject to sample bias and may not be sufficiently robust (see: [Good practice in the design and presentation of customer survey evidence in merger cases](#)). As such we place limited weight on this evidence but note that generally its findings align with comments that we have received in the course of our market study.

<sup>243</sup> By having a 'one way' flow through the crematorium (families leave through a different door to the entry, to avoid meeting the next set of mourners).

<sup>244</sup> Page 3, Dignity: "Cost, Quality, Seclusion and Time."

<sup>245</sup> The CMA consumer survey found that relatively more people chose the crematorium based on slot availability (10 respondents out of 76) and the choice of days and times (five respondents out of 76). Base: all who compared crematoria or all who had a choice but did not compare (76).

<sup>246</sup> We have examined data on crematoria that have reported offering longer or shorter slot lengths in 2018 compared with 2014, and have attempted to assess whether crematoria that lose volumes over this time period extended their slot length, and whether those dealing with increasing volumes reduced their slot length. Only five crematoria reported reducing their slot length, and these did not, on average, appear to significantly increase volumes compared to those crematoria who did not change their slot length. We note that without an understanding of their underlying capacity at the start of the period examined, it is hard to understand whether the increased volumes caused pressures on the crematorium capacity. It is possible that both before and at the end of the period examined the crematoria had sufficient capacity to meet demand and did not, therefore, need to reduce slot length. We found that there were 49 crematoria reporting that they had increased their slot length. Of these, some crematoria were losing significant volumes over the time period considered (in some cases nearly a half of cremations) and as such lengthening slots

overwhelming demand.” Furthermore, an internal document [§] suggests that longer slot lengths can be used to provide ex-post justification for the high fees that they charge.

- 5.64 In summary, the evidence indicates that: crematoria do not tend to offer a choice of slot lengths to customers, and the length of slot is likely to be determined by the available capacity of the crematorium. As such, slot length appears to be more driven by supplier considerations, than being a response to customer needs. We have found that other quality-related factors are considered relatively more important than slot length by customers (particularly in terms of buildings/gardens); and longer slots, on their own, are not necessarily associated with a higher quality service (other aspects such as the crematorium/chapel design may be more relevant to limit the “conveyor-belt feeling” customers dislike).<sup>247</sup>

### *Other elements of quality*

- 5.65 Crematoria differ in the age and standard of their buildings and the facilities that they offer (for example, the ability to display visual tributes or stream services online for those who cannot attend). Local authority crematoria are, on average, older than private crematoria (60 years for local authority crematoria compared with 33 years for private crematoria).<sup>248</sup> A lower proportion of local authority crematoria offer visual tributes or streaming facilities compared with private crematoria. In relation to visual tributes [50-60] [§]% of private crematoria offer these facilities compared with [40-50] [§]% for local authorities, and in relation to live streaming [50-60] [§]% of private crematoria offer these facilities compared with [30-40] [§]% for local authorities. However, the evidence we have seen indicates these factors are not an important driver of choice, with only six respondents to the CMA consumer survey identifying the buildings/gardens as an important factor in their choice, and four respondents (out of 76 in total) identifying the facilities available as important to their choice.<sup>249</sup> Other important aspects of quality are difficult to assess, and we note expert comments in a private provider’s internal documents that states “the real mark of quality in a crematorium is the human service they provide.”
- 5.66 Crematoria based in newer purpose-built buildings or offering a wider range of facilities (for example, visual tributes) are likely to provide a better service in some respects compared to crematoria that do not. We have received comments from crematoria that offer, for example, older facilities, that their service is likely to be of lower quality than others. However, as with slot length, we have seen limited evidence that crematoria compete to win customers on these factors, or that these factors are important to customers when choosing a crematorium.

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may have been a response to this, but others saw increased volumes. Overall, crematoria that increased their slot length saw almost no growth in volumes over this period, compared to increasing volumes at those crematoria who either did not change their slot length or reduced it.

<sup>247</sup> Given customers are not given a choice of slot lengths at the crematorium they chose, and that the choice of crematorium is driven mainly by other factors, it is not possible to infer the extent to which customers “prefer” longer slots, everything else equal.

<sup>248</sup> CMA analysis of [ICCM Directory of Crematoria](#).

<sup>249</sup> [CMA consumer survey](#). Base: all who compared crematoria or all who had a choice but did not compare (76).

5.67 Finally, we have also considered whether the length of time that a family has to wait between death and cremation could be a factor on which crematoria compete. Data supplied to the CMA by two crematorium operators show a degree of variation in the average time between death and the cremation service across crematoria, with families at some crematoria having an average wait time of around 10 days, and others with a wait time of up to 24 days. We have considered whether longer wait times appear likely to be caused by limited capacity at crematoria, or in contrast are likely to be due to external factors outside the control of crematoria (eg waiting for a coroner's report, waiting for the correct paperwork to be completed by the funeral director, or families waiting for a time that they prefer/can be together). We did not find a clear relationship between capacity and wait times – there are crematoria with relatively low capacity utilisation that have short waiting times and crematoria with similar levels of capacity utilisation where the wait time is very long (five weeks).<sup>250</sup> This suggests that the wait time may be the result of external factors outside the control of crematoria and, as such, is unlikely to be a meaningful measure of quality over which crematoria can compete.

### ***Entry and competition***

- 5.68 We now assess whether in the past, entry in a local area has increased the level of competition in that area, and as a consequence, whether we may expect that future entry will increase the level of competition between crematorium operators. The evidence and analysis relating to this section can be found in Appendix C.
- 5.69 We have been told that significant barriers to entry exist when opening a new crematorium. The barriers to entry mentioned include the sunk cost of planning and constructing a new crematorium, identifying suitable locations (both in terms of the availability of appropriate sites and the viability of operating a crematorium) and planning regulations. We have also been told that, as a result of these barriers to entry, particularly the planning application process, entry can take between two and 10 years (where there is a complicated planning process including appeals).
- 5.70 Despite these high barriers to entry, new crematoria have opened and there are plans for further entry. Between 1 January 2008 and the present day<sup>251</sup> 46 crematoria have opened in the UK.<sup>252</sup> Whilst both local authorities and private providers plan to open new crematoria (albeit to different degrees), we have heard the scope for new entry is limited by the lack of available sites and the limited number of local areas where the construction of a new crematorium would be economically viable. Given the limited scope for new entry, and against the backdrop of a gradual increase in the number of deaths from 607,000 in 2017 to 630,000 in 2026,<sup>253</sup> it seems unlikely that new entrants will significantly increase the overall level of competition across the crematoria services sector. We discuss below

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<sup>250</sup> Based on comparing average waiting times between cremation and death and capacity utilisation for Dignity and Westerleigh crematoria.

<sup>251</sup> 31 July 2018.

<sup>252</sup> Three of these crematoria were replacements for older crematoria that had closed.

<sup>253</sup> [Principal projection - UK summary](#). Whilst we have not seen forecasts for the proportion of deceased being cremated, we note that this has also been increasing over time.



whether, to the extent that there is entry in a local area, this could be expected to lead to a competitive response.

- 5.71 We have analysed how existing crematoria respond to entry and found that there is little or no competitive response from them. We have been told that as customers choose crematoria primarily on the basis of location, when a new crematorium opens there is little existing crematoria can do to compete against the new crematorium for the customers for whom the new crematorium is closest. We looked at 29 instances of entry between 2009 and 2016 and considered how the volumes and prices of existing crematoria near to the entrant changed before and after entry. We found that although existing crematoria tend to lose volumes following entry, they do not respond by cutting prices. Given the evidence supplied by private crematorium operators, and our analysis, we consider that the entry of new crematoria does not lead to a significant competitive response from existing crematoria or to any material change in the way that existing crematoria behave.

### ***Summary of the assessment of competition between crematoria***

- 5.72 We have considered the extent to which crematoria compete with one another. We have found limited evidence of competition between crematoria over price and quality. We did find instances of lower prices where crematoria are located close to one another but consider there are only a small number of instances where this occurs. It is also not clear the extent to which these lower prices are competitive, given our findings that private operators in particular, and to a lesser extent, local authorities, are able to increase their prices by a set amount year-on-year in order to meet income targets.
- 5.73 Crematoria differ in the length of slots that they provide, the facilities that they provide and the age and standard of their buildings. However, we have seen limited evidence that these factors are important to customers and, in relation to slot length, this appears likely to relate more to the capacity available at the crematorium than to competition against other crematoria to attract customers.
- 5.74 We have found that there is limited scope for profitable entry by new crematoria in any given local area and, even where entry does occur, it does not appear to lead to a significant competitive response from existing crematoria.

### **Interim conclusions on competition between crematoria**

- 5.75 Crematoria face a largely fixed level of overall demand, essentially driven by the death rate. Customers have a strong preference for using a local crematorium and demand faced by individual crematoria appears relatively inelastic to price and quality measures. That is, most customers are unlikely to use an alternative crematorium in the event of a price increase, or quality reduction. Furthermore, there are many instances in which crematoria do not have many or any competitors within a reasonable drive time. This means that in many cases, whilst there will be some customers for whom there is a genuine choice between two crematoria as they are located between crematoria at similar distances from them, these customers are likely to be a small proportion of a crematorium's customers. As

such, crematoria do not have strong incentives to reduce their prices or improve their offerings to attract new customers.

- 5.76 We have seen that, while crematoria benchmark fees against neighbouring crematoria, crematorium operators, particularly private operators and, to a lesser extent, local authorities, are able to increase their prices by a set amount year-on-year [X]. In addition, we found evidence consistent with the view that crematoria tend to charge relatively higher prices where they face fewer competitors and competitors are further away than where competitive constraints are stronger.
- 5.77 Against the backdrop of gradually increasing demand for cremation services, entry has been occurring, despite the existence of high barriers to entry. However, the scope for new profitable entry in any given local area is limited and, in any event, where entry does occur we have limited evidence of existing crematoria providing a competitive response, by for example, cutting their prices. Evidence from entrants suggests that, to achieve a high volume of cremations and cover their fixed costs, they choose to serve areas where demand is poorly served by incumbents so to avoid any head to head competition. As such, they will therefore not provide a strong constraint in entering. The planning regime, which requires crematorium operators to prove need (either to mitigate concerns around building on the Green Belt, or to lessen the risk of a successful appeal against a planning approval) helps reinforce the incentive for new crematoria to open in locations away from existing crematoria. As such, we do not consider it likely that new entry will significantly increase the level of competition between crematoria providers, even if planning restrictions were to be relaxed. It is likely that even if entry were easier, there would likely remain a limited number of crematoria in each local area.
- 5.78 We consider that the above factors mean that crematoria have a high degree of market power. The extent to which crematoria may exercise this market power may differ. However, we consider that the incentives of crematoria to compete are muted, and crematoria are more likely to increase prices (or set quality independently of any significant competitive pressure) than compete for a small number of customers who have a genuine choice between alternative crematoria.

## 6. Outcomes

- 6.1 Evaluating outcomes of the competitive process in their different forms in a market – eg prices and profitability, levels of innovation, product range and quality – helps the CMA determine whether there are competition problems and, if so, the extent to which customers may be harmed by them. Prices and margins are among the more observable and measurable outcomes and an analysis of these may be useful in quantifying the extent and nature of competition and can be helpful in measuring customer detriment.<sup>254</sup> In particular, persistent strategies of increasing prices, combined with stable and relatively high profit margins, may be indicative of weak competitive constraints. They can also give a sense of the level of harm that customers have been suffering as a result. We note that some respondents to our Statement of Scope have identified rising prices and profit margins as symptoms of competition problems in the funerals industry.<sup>255</sup>
- 6.2 In this section we consider the pricing patterns that have characterised this industry, the pricing strategies of the larger suppliers and the profit margins that have been achieved by them. We also set out the evidence we have received about quality standards in this industry.
- 6.3 In the course of this study, we have received evidence from customers of practices that appear to exploit their position of vulnerability, in particular:
- (a) People not being provided with sufficient information about the cost of funeral services before committing themselves to a funeral provider. In addition, there is evidence of unexpected costs being levied (example: for use of a chapel).
  - (b) People not being provided with enough information on which to make an informed decision (for instance, inadequate pricing information/told not to worry about the price and then presenting them with a large bill) or given inaccurate information (for instance, about the amount of financial assistance available to people on low incomes).
  - (c) Restrictions on people's ability to switch, in particular through the request for large deposits and the imposition of large charges for collection / storage in circumstances where a customer wishes to switch to another funeral director.
- 6.4 We have not been able to investigate the specific issues identified in paragraph 6.3 above within the context of this market study but note that the above practices are illustrative of a market that is not functioning well.

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<sup>254</sup> [Market investigations guidelines](#), CC3 paragraphs 103 and 104.

<sup>255</sup> See for example: [Quaker Social Action response to CMA statement of scope](#).

## Potential impact of lack of effective competition on pricing

### *Funerals and funeral director services*

#### *Price trends*

- 6.5 This is a very fragmented industry with suppliers offering differentiated services. Therefore, we have not, in this phase, sought market-wide pricing data, as we would have been unable, within our statutory deadline, to obtain reliable and comparable data series. Our views draw, therefore, upon publicly available reports, a review of the internal documents of the largest suppliers, an analysis of the revenues of Co-op and Dignity over time, pricing information from a comparison website and comments made by 18 independent funeral directors in telephone interviews.
- 6.6 The increasing price of funerals is well-documented and summarised in the Background section of this report (paragraph 2.14) and Appendix D. The publicly available analysis indicates that the 'basic' cost of a funeral has increased by almost 6% annually in the 14 years to 2018. Funeral price inflation appears to have been more muted in recent years,<sup>256</sup> with this more recent trend having been driven partly by increased competitive pressure in the supply of low-cost funerals. There is evidence, as noted in paragraph 6.9, that price inflation for other funerals, purchased by the large majority of customers, has remained relatively high and may not have been lower than before (or not much).
- 6.7 It appears to be fairly well known that price rises well in excess of general inflation were a core part of Dignity's strategy for a considerable period of time. An analyst report of March 2018 notes that Dignity's business risk profile was historically considered satisfactory due to its strong reputation, successful acquisitions and price increases to maintain market share.<sup>257</sup> When challenged by a customer about increases in its prices in the six years to October 2017, Dignity responded: "It has been the Board's policy, over the last six years to increase funeral prices by circa 7% per annum." A competitor of Dignity [X] noted [X] that a policy of 7% price rises had been in place at Dignity since 2002 (the year it was created through a management buyout). This competitor commented that [X]. Long-term growth in average revenue per funeral (as reported in Dignity's annual report) is broadly consistent with this, although is slightly lower (at 5% in the 10 years to 2017), possibly because of customers buying fewer extras to try to keep costs down (see paragraph 2.15). Dignity's own management told their Board in late 2017: "For over 15 years we have pursued a policy that holding the line in our pricing was more important to us than the degree of volume erosion we suffered as a result. This was built on the observation that clients were likely to rely heavily on previous experience and recommendation when choosing a funeral director."

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<sup>256</sup> For instance, the Sunlife report: [Cost of Dying Report 2018](#) indicates that the nominal average cost of a 'basic' funeral increased at a rate of 4.3% per year between 2013-2018 compared to 6.3% between 2008-2013. They define a 'basic' funeral to include the funeral director fees, the cremation or burial fees, doctor fees and minister/celebrant fees.

<sup>257</sup> S&P Global Ratings, 22 March 2018. [X].

- 6.8 Co-op took the decision to follow Dignity's lead and increased its prices by a similar annual rate, noting that only 8% of customers shopped around. [X]. Co-op reappraised its strategy in late 2015 and, in the past three years, its approach has included reducing the price of its simple funeral packages (see paragraph 4.65(a)).
- 6.9 We have calculated the average revenue per funeral (excluding disbursements) across branches for the two largest funeral directors for each of the 5 years to 2017.
- (a) We derived from this the annual increase in the average revenue each year, as well as the CAGR<sup>258</sup> over the whole 5 year period. The analysis is set out in Appendix D. This shows that over the past 5 years, in the case of Dignity, the average revenue per funeral increased at a substantially greater rate than CPI every year. For Co-op, the rate of increase in the average revenue per funeral exceeded the CPI rate on average over the period, with annual increase rates being significantly higher than the CPI rate at the start of the period and lower than the CPI rate in the last two years.
- (b) We also looked at simple and standard funerals separately. The analysis is set out in Appendix D. This showed that, for both companies, the average revenue per standard funeral increased at a rate that significantly exceeded CPI every year. For simple funerals, the average revenue increased by less than CPI (or declined) in the most recent 1 or 2 years. However, the rate of increase in the average revenue per simple funeral still exceeded CPI on average over the whole 5 year period.<sup>259</sup> We note that while the annual rate of revenue increase was lower in more recent years than in earlier years with regard to simple funerals, this was less evident for standard funerals (and, as we noted, the rate of increase for these remained significantly above CPI in every year).
- 6.10 Funeral Partner Services has also implemented price rises that were well above inflation. Justification provided to us for these price rises included: re-investment in the business or addressing legacy pricing positions out of line with local markets.
- 6.11 The evidence we have received from independent funeral directors, albeit from a small sample, indicates that these types of company have not necessarily followed the lead of the larger firms: while some told us that they had typically implemented annual price rises, others told us they had not. Their varied approaches to pricing are illustrated by the following responses to a question about whether they had implemented significant changes to their prices in recent years:
- a) "Not really. Like the stock that we have, the coffins, the fittings for coffins, our memorials, all our suppliers put their costs up each year, so we have to follow suit slightly. Sometimes, not every year, but if there are dramatic increases with the stock, obviously we have to reflect that in our prices, to increase them a wee bit." [X].

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<sup>258</sup> Compound annual growth rate.

<sup>259</sup> Co-op told us that it has held its prices on simple and standard funerals for the past 16 months and it has reduced the prices of its simple funerals since 2016. [X].

- b) “We are way cheaper than most other funeral directors in [X]. So, we could, in fact, increase our prices and still get the business, but [X] has this sense that he does not want to be greedy and we make a comfortable living.” [X].
- c) “We raised our prices a bit and we just did some fine tweaking, because we actually found it was a negative factor at that point because we found that some people thought we were too cheap, so either we were making shortcuts or we were adding things on later.” [X].
- d) “We did put our prices up. I am just wondering what they were; I think it was £1,500. I cannot remember; around about that. We found that, again, because a lot of funeral directors will get out a lot of funerals in one day and again it is not about giving the family time, we needed to make sure that, because we were doing so few a week and because we are giving so much time of ourselves, we did need to increase our prices a little bit.” [X].
- e) “I will be quite honest with you, I looked at my professional charges sheet here this morning before your call and I noticed the date on the bottom was April 2015. I went downstairs and I said, “Have you got the most recent one of this?” and they said, “It is”. So, our prices have not changed since April 2015 in [X]. They have in [X] and they have in [X] a little bit, but they were new starts. [X] has another funeral director two doors away, so it was very competitive. We had to be keen on price to get people to come in through the door ... so they are gradually coming back into line.” [X].
- f) “We gave the staff a pay rise last year of 3 per cent, so we put the prices up 3 per cent. The coffins went up about the same. So, everything got 3 per cent put on it overall just to cover that. The previous year, I think, was something similar. It depends also if I think, “I have paid a fortune for this new car” - well, not a new car but we buy decent second-hand - and may put the prices up of the vehicles a little bit more, which we did last time around. It is to do with keeping the standard up, really.” [X].
- g) “We have tended to base them around inflation, to be honest. We look at the inflation figures and, because by far our biggest cost is our staff, we try to give an inflationary wage rise every year. Just the way the economics works, let us say inflation is 2 per cent, if we give a 2 per cent wage rise we would need to have a 2 per cent price rise to pay for that.” [X].

6.12 However, given the scale of the average funeral price inflation that has been reported (see paragraph 2.14) and the relatively limited UK market share of the largest suppliers, it must be the case that a proportion of the smaller operators have also implemented some above-inflation price rises.

### *Potential drivers of price rises*

6.13 Internal documents indicate that some funeral directors have applied annual blanket price rises as a matter of policy for a considerable number of years. Funeral directors have identified a number of factors to explain funeral price rises, including: increased

personalisation, improvements in quality, increased operating costs resulting from delays between death and cremation and increased disbursement costs. These arguments are not supported by the evidence we have seen, as set out in paragraphs 6.15 to 6.25 below.

- 6.14 By way of preamble, we note that, in competitive markets, there are two types of cost increases that may be passed on to customers as price increases: industry-level costs affecting all competitors to a similar extent and firm-level costs that result in a competitive advantage, eg because customers value the aspects of the company's service or products that are associated with the higher cost. One would expect costs associated with firm-level inefficiencies to result in lower profit margins rather than price increases.

#### *Increased personalisation*

- 6.15 Arguments have been made that the increased personalisation of funerals (ie bespoke requirements above and beyond the core of a funeral package) has driven price rises. This argument is not supported by the evidence, which suggests that funeral inflation has been driven by increased prices for core elements rather than significantly higher spending on optional aspects:

- (a) SunLife trend analysis (see paragraph 2.15) shows that expenditure on the optional aspects of a funeral has declined in real terms and accounts for a lower proportion of overall costs than it did 10 years ago. If personalisation was a driver of overall costs, one would expect to see an increase in expenditure on optional extras, not the core elements of the funeral package.
- (b) A significant increase in personalisation (that led to customers purchasing more funeral elements/services) would have resulted in the average revenue per funeral increasing more rapidly than funeral prices. This does not appear to have been the case. For instance, the annual price rises applied by Dignity and Co-op [X].
- (c) A funeral director's price benchmarking analysis shows significant price rises on the core elements of funerals between 2014 and 2017. This has nothing to do with personalisation.
- (d) The CMA consumer research shows that when it comes to keeping costs down, the funeral director services are perceived as being fixed and non-negotiable. Where cost is an issue, people will seek to make savings on the optional elements of a funeral, ie the elements that would personalise the funeral. This is consistent with SunLife's long-term trends.
- (e) The CMA consumer research also implies that personalisation involves options such as taking a slightly different route to the crematorium, casual clothes for the deceased, running a service centred on a celebration of life or asking the mourners not to wear black. None of these examples would result in significant increases in the costs of funeral directors. Although we have heard of examples of unusual and expensive requests (eg the use of white stallions), we have no reason to believe that this is in any way a growing trend.

## Quality

- 6.16 Dignity, in particular, has sought to justify its past large price rises on the basis of quality improvements. However, this is not supported by the evidence:
- a) Internal documents of Dignity, [REDACTED], show that quality improvements (as measured by capex expenditure) have not been commensurate with the price increases implemented post-acquisition.<sup>260</sup>
  - b) More generally, Dignity has increased prices [REDACTED] not by reference to quality improvements.

## Operating costs

- 6.17 Our review of financial information and internal documents of the large funeral directors did not identify any significant operating cost pressures in recent years in the normal course of business.<sup>261</sup> The main costs of the business are labour costs and we have not seen evidence of significant pressure on wages.<sup>262</sup> The second biggest cost item relates to retail property, which experienced low inflationary pressures. Retail rents on average have been stable over the 10 years to 2016 and rates have increased at a rate broadly similar but below inflation.<sup>263</sup> In addition, we are not aware of any regulatory changes that could have pushed funeral directors' costs up.
- 6.18 This is consistent with the evidence we have received from smaller funeral directors. Their views, as set out in paragraph 6.11, imply that industry-level cost inflation has been in line with the general economy.
- 6.19 With regard to their own business overall, Funeral Partners said that increases in prices reflected increases in direct or indirect costs. The average annual increase in average net funeral revenues was 5% between 2013 and 2017, while total costs per funeral increased by approximately 4% per annum. We note that total costs fluctuated significantly year-on-year, with a sharp increase in premises costs from 2016 onwards (when a large acquisition was made) and employee costs in 2017. Therefore, the historic cost trend may not reflect the ongoing costs of the business and may be distorted by one-off activities.
- 6.20 Co-op's rationale for a new business plan in 2015 included a statement that the business was seen [REDACTED], as well as Co-op losing market share. We consider that such costs would not generally be passed on as price rises to customers in competitive markets. Further, Co-op also stated [REDACTED]. There does not therefore appear to be evidence of cost pressures in the run up to the business plan implementation. We note that Co-op's historic increase

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<sup>260</sup> Dignity submitted it invests significantly across its funeral homes, but this is not informative of whether capex is commensurate with price increases.

<sup>261</sup> We note that the larger companies have acquired or opened a large number of new branches in recent years.

<sup>262</sup> For example, it has not been characterised by labour/skills shortages and is not included in the UK government list of shortage occupations. See [Skilled Shortage Sensible](#).

<sup>263</sup> [Property Data Report 2017](#), page 14.



in average funeral revenue in 2013-2017 was [REDACTED]% per annum,<sup>264</sup> which is higher than CPI of [REDACTED]% per annum over the same period.

- 6.21 We also reviewed documents related to funeral director acquisitions by [REDACTED], [REDACTED] and [REDACTED] since 2015. [REDACTED].
- 6.22 Looking ahead, Co-op's latest forecast (2018 to 2022) assumes [REDACTED]%- [REDACTED]% inflation for pay costs and [REDACTED]% for other costs. These numbers are [REDACTED]. They are, however, well below recent examples of pricing policies eg Co-op increased its average price by 7% in 2017. While Dignity's 2018 transformation plan also includes some cost savings, internal documents indicate that the plan was an attempt to reverse market share decline [REDACTED].
- 6.23 In relation to the argument that has been made that funeral director operating costs have increased due to the longer waiting time between death and cremation, we note that we have not seen any supporting evidence and it is not clear to us that the costs of providing the core elements of a funeral (eg collection and transport of the body, paper work, hearse, organisation of the funeral etc) would be materially affected by the fact that the body is in the funeral director's care for longer. To the extent that the cost of storage and number of viewings have increased as a result of the longer waiting time, we note that such costs account for a very small proportion of the total cost of a funeral, and therefore even if they have increased significantly, this would not have a material impact on overall funeral prices.<sup>265</sup>
- 6.24 Based on the above evidence, our current view is that operating cost pressures in the provision of funeral director services have been in line with general cost inflation in the UK and cannot justify the above-inflation price rises that have characterised the supply of funeral director services.

### *Disbursement costs*

- 6.25 Based on our analysis of the data provided to us by Dignity and Co-op, average disbursements per funeral increased by [REDACTED]% per year in the 5-year period to 2017. While this is higher than the annual increase in Co-op's average revenue per funeral over the same period, it is considerably lower than the increase in Dignity's average revenue per funeral. This implies that, in the case of Co-op, disbursements contributed more than funeral director's fees to funeral price inflation, whereas in the case of Dignity, the latter has been the main driver.

### *Price differentials*

- 6.26 In competitive markets, price differentials between suppliers can reflect differences between their respective offers (for instance, a higher price may reflect a higher quality). Price differentials between suppliers in different local areas can also reflect local demand-

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<sup>264</sup> This was the compound annual growth rate (CAGR) over the period.

<sup>265</sup> Based on the breakdown of costs of a large funeral director. [REDACTED].

side factors (such as, for instance, differences in household incomes affecting the type of funeral purchased) or local supply-side factors (such as for instance differences in costs between areas). When price differentials are large and cannot be (fully) explained by such demand and supply-side factors, this can indicate that suppliers face weak constraints when setting their prices.

- 6.27 As discussed below (see paragraph 6.34), on average, independent funeral directors have been pricing their services at a level that is significantly lower than some of the large funeral directors. Insight into what might cause these differences comes from the internal documents of some large funeral directors: their pricing policies appear to take into account their ability to achieve revenue growth at the overall business level by more than compensating for the small loss of volume resulting from a price rise in one local area, by expanding into another (primarily through acquisition but also potentially through organic growth). Most independent funeral directors do not have this option, as they are small family businesses with potentially limited access to fund (or limited appetite) for expansion outside of their traditional area of operation.
- 6.28 A consequence of this is that large funeral directors are likely to be less averse to the risk of losing volumes in a given area following a significant increase in prices, than an independent funeral director would be. We note, however, that we have not been able to test this hypothesis empirically.
- 6.29 Different pricing strategies may also reflect varying abilities to test different price points in the marketplace. Large funeral directors may have more opportunities to experiment with different pricing strategies across their branches (as illustrated by Dignity's recent price trials) and, as a result, have more complete information than independent funeral directors on the effects of price changes. This may enable large funeral directors to better understand the profit-maximising price level they can charge.
- 6.30 In other words, it may be that some of the independent funeral directors charge prices that are below the profit-maximising level. This is consistent with what some independent funeral directors have told us about their approach to pricing (see for example paragraph 6.11b).
- 6.31 We acknowledge that a pricing strategy can be unique to the particular circumstances of the business adopting it and can vary over time. Caution should therefore be applied in seeking to generalise the above observations.
- 6.32 Against this background, we have assessed the size of price differentials and evidence on potential drivers.

#### *Price differentials between local areas*

- 6.33 We have analysed the average revenue per funeral (excluding disbursements) by branch of the two largest funeral directors (see appendix D, paragraphs 16 to 19) and found that there are significant variations in the average revenue per funeral between branches in different areas of operation.

## *Price differentials between suppliers*

- 6.34 Based on the range of evidence that we have reviewed, there are large price differences between different operators. In particular, Dignity appears to be consistently the most expensive funeral director:
- (a) Dignity has typically been more expensive than Co-op on average over at least the past 5 years and evidence implies that this differential has increased. Estimates of the size of this differential vary depending on the source of evidence and the type of funeral that is being compared.<sup>266</sup>
  - (b) The evidence consistently indicates that Dignity and Co-op have both been significantly more expensive than the majority of independent funeral directors both for standard and simple funerals. Historically, internal documents estimate that the average price differential between Dignity and independents ranges between £[§] and £[§], with Co-op being around £[§] cheaper than Dignity. Our analysis of simple funeral price data indicates that Co-op's simple funeral package was more expensive than those offered by around 75% of independent funeral directors in 2017.<sup>267</sup> As we further discuss below, our analysis of Royal London 2017 Cost Index for simple funerals shows that in 2017 at least one independent funeral director was more expensive than Co-op in 63% of areas where Co-op was present (and more expensive than Dignity in 12% of areas where Dignity was present).<sup>268</sup> Other evidence is consistent with a quarter of independent funeral directors being more expensive than Co-op for simple and standard funerals and one piece of research implies that there are some (albeit a relatively small proportion of) independent funeral directors who charge a higher price than Dignity for a standard funeral.
- 6.35 The Royal London Cost Index 2017 reports the considerable variation in funeral director's prices for simple funerals within local areas.<sup>269</sup> We have conducted further analysis of the data used in the Royal London 2017 report to understand the extent of the price differences and the underlying drivers.
- 6.36 We note that this analysis presents some limitations: the price data relates to simple funerals, and there may be discrepancies in what this includes; the dataset does not cover the whole of the UK (but a sample of 283 areas) or all funeral directors in each area; and the boundaries of each local area may not correspond with what we would normally regard as an economic market. Finally, as we have used Royal London's 2017 dataset, the data does not reflect recent changes in pricing policy. To address this, we have carried out some analysis amending the dataset with the price changes implemented by Co-op (reducing the simple funeral price in Scotland in 2017 or in England and Wales in 2018)

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<sup>266</sup> For instance: whether the comparison was implied to be between an average funeral cost; a specific package; a simple funeral or a standard funeral. [§].

<sup>267</sup> CMA analysis of a comparison website's 2017 simple funeral price data.

<sup>268</sup> CMA analysis of analysis submitted by Royal London (based on a subset of a comparison website 2017 simple funeral price data).

<sup>269</sup> Royal London's analysis of funeral director's price differences within areas is based on a comparison website's simple funeral price data.

and Dignity (in early 2018), but these adjustments do not take into account possible price responses by independents in 2018, and therefore any conclusions drawn from this analysis should be treated with caution.

- 6.37 The main results of our analysis are set out below. In the rest of this section, we will refer to “price” to indicate the funeral director’s price for a simple funeral.
- 6.38 Significant price differentials between the highest and the lowest priced funeral director within each area seem to characterise a large proportion of the areas sampled by Royal London. In approximately half of all local areas, for example, the cheapest funeral is at least 50% cheaper than the most expensive funeral. The average within-area price differential is £1,337.
- 6.39 The large price differentials are often driven by Dignity’s high price. Dignity offered the most expensive funeral in each of the 43 areas with the largest price differentials and in 87% of the 217 areas in which it was present. Dignity, Co-op or Regional Co-ops were the most expensive in 82% of the local areas covered in the Royal London Report.<sup>270</sup>
- 6.40 Price differentials within areas are larger in areas where Dignity is present, but they are material elsewhere. Compared with an average price differential of £1,337, the average price differential in areas where Dignity was present was £[X], whereas in areas where Dignity was not present, it was £[X]. Significant price differentials therefore appear to be a general characteristic of this sector rather than being solely a ‘Dignity’ issue.
- 6.41 We estimate that the price reductions implemented by Dignity and Co-op in 2017/2018 have to an extent reduced within-area price differentials but, due to material price variation between independents, significant within-area price differentials remain a characteristic of this sector in 2018.<sup>271</sup> For example, we estimated that in approximately half of all local areas, the cheapest funeral is at least 42% cheaper than the most expensive funeral. The average within-area price differential remains significant at £933. As a final point, we note that Dignity’s and Co-op’s price reductions apply to their simple funerals and would not affect price differentials on the majority of funerals sold, which, as set out above, are substantial.
- 6.42 Finally, there was some evidence suggesting that Dignity could have operated as a price leader over independent funeral directors with regard to simple funerals. In 2017, the average price differential between independent funeral directors in areas where Dignity was present was £881, whereas in areas where Dignity was not present, it was £693. Therefore, some independents may have followed Dignity’s lead in setting higher prices in

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<sup>270</sup> The areas where regional Co-ops and Co-op are most expensive are generally only areas where Dignity was not present (Co-op or Regional Co-ops are the highest priced provider in only five areas where Dignity is present).

<sup>271</sup> We note that when we adjust the 2017 data to reflect the recent reductions in Dignity’s and Co-op’s simple funeral prices, independents drive price differentials in the majority of areas (although this exercise clearly does not take into account possible price responses by independents in 2018). In particular, both Dignity and Co-op’s prices are lower than the highest price independent in 64% of areas. However, both Dignity’s and Co-op’s prices are still higher than the lowest price independent in 96% of areas.

these local areas, which implies that Dignity faced only weak constraints on its price-setting behaviour from independent funeral directors.

#### *Potential drivers of price differentials between local areas and suppliers*

- 6.43 We considered whether price variations between branches were driven by: the mix of funerals supplied; local demographics; or local demand for optional services. Although there are limitations to our analysis (see Appendix D), the analysis implies that the wide price differentials could not be fully explained either by differences in the mix of funerals (ie between simple, standard etc) sold by different funeral director branches, or differences in the income levels of the local population.
- 6.44 We also considered the extent to which the large price differentials between suppliers may be explained by differences in the way different funeral directors operate their business, in particular in terms of the level of service quality they provide, branding and cost.

#### *Service quality*

- 6.45 The CMA consumer research has shown that consumers value quality, particularly the personal relationship and emotional support provided by a funeral director (see paragraph 3.30). We have not seen any evidence that higher-priced operators are providing substantially higher levels of service quality in this respect. There is some evidence that some consumers perceive the large funeral directors (some of which appear to charge more) as being less caring and personal than independent funeral directors. Evidence was mixed on the extent to which such perceptions impact customers' choice of funeral director. For instance, the CMA consumer research found that some respondents preferred to use an independent funeral director because they assumed that their service would be more personalised and less profit-driven, but a few liked the idea of using a large, well-established, national brand they trusted. On the other hand, we saw third party evidence that such customer perceptions exist but do not influence their choice. Conversely, evidence from a funeral director's internal documents suggests that: "Overall consumer and media perception is that all funeral directors are the same". Most funeral directors that we spoke to described their service quality as being high.
- 6.46 There is some evidence that tangible aspects of service quality, eg presentation of the premises and staff, quality of the vehicle fleet, vary across funeral directors.<sup>272</sup> However, as indicated in paragraph 4.20, the presentation and look and feel of premises appear to be an important factor in the choice of funeral director for only a very small proportion of customers.
- 6.47 Dignity submitted that it invested significantly to improve quality at funeral branches it acquired. However, our analysis of its acquisitions in the last 3 years found that it

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<sup>272</sup> Based on competitor monitoring carried out by a funeral director [X] representations by several funeral directors that price variation can reflect quality variation.

consistently raised prices [✂] but in only some cases this was accompanied by a substantial capital investment.

- 6.48 Overall, the evidence above indicates that the large price differentials between suppliers are not necessarily driven by differences in the quality of the service they provide.

### *Branding*

- 6.49 Local branding is important in this sector, as customers shop locally, and personal experience and reputation of a particular local brand are important drivers of customer choice. This is illustrated by the fact that most funeral director branches continue to be operated under their local brand following acquisition by a large funeral director. Nevertheless, there is a growing trend towards regional or national branding.
- 6.50 Certain brands can drive price differentials if they, for instance, communicate a reputation for higher service quality or otherwise attract customers who are loyal to a particular brand. However, whilst important, branding seems unlikely to be a strong driver of the price differentials we have seen between Dignity, Co-op and other suppliers. Principally, this is because:
- a) To the extent that larger funeral directors such as Dignity operate strong local brands, so do some independent funeral directors. However, there is little customer awareness of the Dignity national brand, even among previous customers.
  - b) Based on the evidence we have seen, it appears to us that Dignity routinely implements significant price rises at acquired funeral directors while retaining the local brands.
  - c) As discussed in paragraph 6.45, there was mixed evidence on the extent to which customer perceptions of large funeral directors and independent funeral directors may differ and influence their choice of funeral director.

### *Costs*

- 6.51 We have been told that large funeral directors incur higher costs than independent funeral directors and that this explains their higher prices. These arguments related both to costs that are directly associated with their offering (eg vehicle fleet and premises) and with the scale of their operation (eg regulatory compliance, corporate overheads).
- 6.52 We consider these two categories of costs in turn:
- (a) To the extent that customers value nicer vehicle fleets and premises, a price differential reflecting such costs might be justified. However, we have seen limited evidence that these aspects are important to customers when they choose their funeral director (see discussion in paragraphs 6.45 to 6.48)

(b) Even if some general operating costs may be higher for large funeral director firms, some could also be lower (eg as a result of sharing infrastructure; greater purchasing power and potentially paying lower funeral director salaries) so the overall impact of scale on costs is unclear. In any case, in a competitive market, one would not expect firms to be able to pass costs resulting from inefficiencies on to customers for a persistent period of time, as this would result in the loss of customers to more efficient rivals.

6.53 In any event, we have seen compelling evidence that the differentials between the prices of the standard funerals of some large funeral directors and others in the market are likely to exceed cost differentials between them significantly. For instance, an internal document from one large funeral director indicates that price differences between itself and independent funeral directors more than fully compensate for any cost differentials. Similarly, [REDACTED].” Although some of these documents were produced three years ago, the assessment contained within them remains valid for standard funerals, as the price of these options has continued to increase significantly in the recent past.

6.54 Therefore, the picture that emerges is that, overall, cost differentials do not explain the large price differentials between funeral directors, although they may contribute to them to the extent that certain costs relate to investments that may be valued by customers.

## **Crematoria**

### *Price trends*

6.55 We conducted an analysis of cremation fees using data published by the Cremation Society. Further details are provided in Appendix E. We have found that average cremation fees have increased substantially. The price rises have been more pronounced for private crematoria than for local authority crematoria.

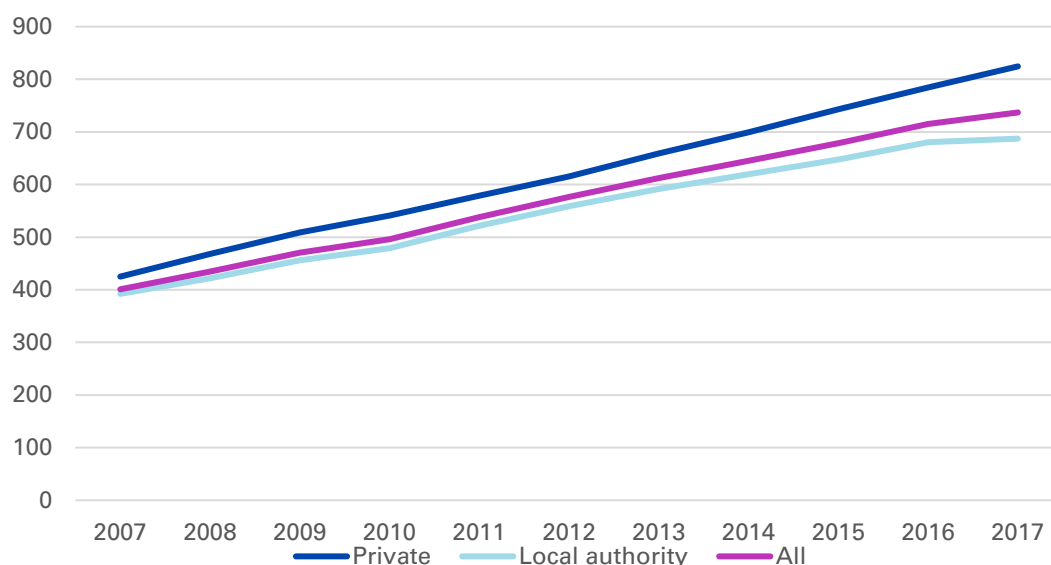
6.56 Figure 7 shows that average cremation fees increased by 84% in the ten years to 2017,<sup>273</sup> about 3.2 times more than CPI,<sup>274</sup> with private providers increasing their fees more than local authorities (an increase of 94% in the average private provider fee compared to an increase of 75% in the average local authority fee).

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<sup>273</sup> In nominal terms.

<sup>274</sup> CPI increased by about 26% in total over the same period.

**Figure 7: Average basic cremation fees, £, UK, 2007-2017**



Source: CMA analysis of Cremation Society data. We have included the basic cremation fee for all crematoria that were already open or opened in that year and excluded the Isle of Man and Channel Islands. For these reasons our numbers are slightly different from those published by the Cremation Society. Although data for 2018 is now available we have not included these fees as they do not include fees for all crematoria opening during 2018.

6.57 The industry averages mask a wide range of fee increases during this time. The large differentials in the rates of fee increases by individual local authorities (ranging from 33% to 140%) indicate that certain pricing policies have not been cost-reflective, in a context where crematoria are likely to face similar cost increases (a full discussion follows). Some smaller private providers such as the London Cremation Company have also carried out relatively smaller price increases (in some cases less than 50%) over the period 2007-2017.

6.58 The average fee charged by the larger private crematorium operators has increased by between 6% and 8% year-on-year in recent years, and with higher increases before that.<sup>275</sup> These increases are shown in Table 3 along with the increase in the CPI.

**Table 3: Increase on the previous year's average fee and the CPI**

	2008	2009	2010	% increase on previous year						
				2011	2012	2013	2014	2015	2016	2017
Dignity	13	10	7	7	7	8	7	7	6	7
Westerleigh	9	9	7	7	8	7	7	6	6	7
CPI	3.5	2.2	3.2	4.5	2.9	2.5	1.5	0.0	0.7	2.7

Source: CMA analysis of Cremation Society and ONS data

6.59 Table 4 shows that, on average, among private operators, Dignity charges the highest average basic cremation fee followed by Westerleigh and Memoria, whose fees are also above the national average. Local authorities charge on average the lowest basic cremation fees, but we note that some have been charging fees comparable to those charged by Dignity and Westerleigh.

<sup>275</sup> Local authorities have, on average, made smaller and more variable increases in fees with average annual increases ranging from 1 to 9%.



**Table 4: Average basic cremation fees by provider, 2017**

Operator	Average basic cremation fee, 2017
Dignity	£886
Westerleigh	£818
Memoria	£786
National Average	<b>£737</b>
Independent	£735
London Cremation Company	£726
Local Authorities	£687

Source: CMA analysis of Cremation Society data

- 6.60 Private crematorium operators have argued that the higher fees they charge are justified by the higher quality of the service they offer, but the evidence we have seen shows that crematoria with longer slots/more facilities do not necessarily charge higher prices.
- 6.61 We have also considered crematoria with particularly high and low fees. The highest cremation fee in 2017 was set at £999. The 20 highest cremation fees range between £936 and £999 – well above the national average of £737. In total, 19 of the 20 most expensive crematoria are Dignity's – the other one is owned by an independent private company. We did not find any evidence that the most expensive crematoria were clustered in any particular part of the UK.
- 6.62 The 20 lowest cremation fees ranged from £364 to £599 in 2017, well below the national average of £737. 18 of the 20 cheapest crematoria are owned by local authorities, with the other two being owned by independent private companies. The cheapest crematorium is in Belfast, which is the only crematorium in Northern Ireland.

### *Potential cost drivers*

- 6.63 Large price rises are not on their own necessarily indicative of competition concerns, if they are clearly driven by industry-wide commensurately large cost pressures. However, even if prices and costs have both been increasing at similar rates, we may have competition concerns if there is a significant difference between prices and costs.
- 6.64 Crematorium operators have identified a number of factors as key drivers of increasing cremation fees, the impact of which we consider below. In relation to costs that may drive increasing fees:
- (a) **Environmental regulations:** crematorium operators have identified two key regulations that have increased costs: the introduction of the Environmental Protection Act (EPA) in the 1990s and the Process Guidance notes issued by DEFRA in 2004 and 2012 relating to abatement of mercury and other chemicals.<sup>276,277</sup> The EPA required crematoria to improve their emissions performance, which in some instances required cremators to be replaced and crematorium chimneys to be increased in

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<sup>276</sup> [Secretary of State's Guidance for Crematoria](#) and [Statutory Guidance for Crematoria](#)

<sup>277</sup> See the responses to the CMA statement of scope from FBCA, [Dignity](#) and [Westerleigh](#).

height. All crematoria had to make these changes by 1997.<sup>278</sup> The regulations in relation to the abatement of mercury and other chemicals required that crematorium operators abated (ie removed) 50% of their emissions by 2012. We have been told that the abatement equipment is large, and its installation usually involves demolishing and replacing existing cremators, and potentially leads to construction works to reconfigure the crematorium. The cost of complying with mercury abatement regulations across the crematorium sector has been estimated to be £300 million.<sup>279</sup> We have also been told that in addition to the one-off costs of installing mercury abatement measures there are ongoing servicing, consumables and energy costs related to the mercury abatement equipment.

- (b) **Maintenance and refurbishment:** Crematorium operators have also identified the cost of maintaining and refurbishing crematoria as a driver of increased fees, which is particularly relevant in relation to older crematoria (we note that local authority crematoria tend to be older).
- (c) **Variable costs:** We have been told that the direct costs of operating a crematorium are very low.<sup>280</sup> Crematoria have identified gas, electricity and staffing costs as major variable costs in operating a crematorium. Crematorium operators have noted that these costs are increasing.
- (d) **Quality:** Private crematoria have argued that increasing fees are a result of providing better quality facilities and services. In particular, one private crematorium operator has noted the investments in new, high-quality crematoria made by private sector providers has resulted in higher prices.

In relation to other factors that may explain increasing fees:

- (a) **Entry:** A private crematorium operator has argued that the opening of new crematoria will reduce volumes at neighbouring crematoria, which, as a result, will have to increase their fees to cover their (fixed) costs (we note that in a competitive market we would expect to see existing firms decreasing prices to maintain volumes in response to entry in order to cover fixed costs).
- (b) **Local authority funding:** Private crematorium operators and respondents to our Statement of Scope have argued that reductions in local authority funding may have led to increasing fees. We have outlined in section 5 evidence on how local authorities set fees.

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<sup>278</sup> We note that a decade passed between the deadline for complying with the EPA and the start of our price analysis and, as such, it is unclear the extent to which these changes drove price increases in the period 2008-2017. These costs would only be relevant in the 2008-2017 period if they were originally capitalised and therefore seen in a depreciation charge.

<sup>279</sup> [X]. Estimate provided by a private operator, derived from a DEFRA's consultation on abatement from 2006.

<sup>280</sup> [X]. The private crematorium operator however noted that, based on its accounting structure, some key direct costs (eg gas costs, cremator costs and consumables) are classified as overheads.

- 6.65 We considered the extent to which the increasing costs highlighted above can explain price rises.
- 6.66 First, cost increases relating to regulation and input costs are likely to apply equally to both private and local authority crematoria. However, there is a wide variation in the price increases made, with the larger private providers (and some local authorities) making larger price increases. We have noted in paragraph 6.56 that certain local authorities and smaller private providers have kept price increases relatively low over the last ten years.
- 6.67 Second, from our review of the operating costs and plans of the two largest private operators, increases in the cremation fee in each year did not appear to follow the same trend as cost increases (including those relating to quality improvements).<sup>281,282</sup> One provider [X] commented that crematoria prices have increased steadily above general inflation. The most recent long-term projections made by this provider assume a [X]. However, another private provider broadly expects prices and costs to increase by the same amount (although not necessarily at all crematoria - in a recent acquisition it expects revenues to rise faster than costs).
- 6.68 In relation to price increases following entry, we have considered the extent to which existing crematoria lose significant volumes and how the fees at these crematoria respond. As noted in section 5, we did not find evidence that existing crematoria respond to entry by cutting prices to maintain volumes. We also did not find evidence that those eight crematoria that suffered the largest losses in volume<sup>283</sup> after entry consistently increased prices significantly. Indeed, only three out of the eight crematoria increased prices faster than the average price increase across all crematoria for a comparable time period.<sup>284</sup>
- 6.69 Finally, considering the way that private providers and local authorities set prices, we have found that there is limited reference to the costs they face. For example, as noted in section 5, a private provider told us that they set fees in order to meet revenue targets, whilst local authorities set cremation fees by a measure of inflation or to subsidise other council services.
- 6.70 Overall it appears that there is wide variation in how industry-wide cost increases have been reflected in price increases and that price increases are set only with limited reference to cost pressures. This evidence indicates that price increases are unlikely to be solely attributable to increasing costs.

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<sup>281</sup> For example, [X].

<sup>282</sup> We did not collect detailed information from local authorities in relation to the relationship between costs and price increases, focusing our analysis on larger private providers.

<sup>283</sup> We looked at all 17 instances of entry between 2009 and 2013 and compared the volumes at existing crematoria both prior to entry and five years after entry. We used a five-year measure as we wanted to identify those existing crematoria where the loss of volume after entry persisted. We found that five years after entry, only eight existing crematoria lost more than 20% of their volume compared to the year prior to entry. The other crematoria lost volumes, but to a lesser degree.

<sup>284</sup> We calculated the price increase of the existing crematoria between the year prior to entry, and five years after entry (where the year of entry was counted as one year). We compared this to the price increase across all crematoria over the same time period.

## ***Summary of impact of lack of effective competition on pricing***

### ***Funeral pricing***

- 6.71 The provision of funeral director services has been characterised by significant and persistent price inflation for a considerable period of time. The evidence indicates this was not driven by cost pressures (such as an increase in personalisation, quality, disbursement costs, or operating costs), but rather by the pricing strategies of some funeral directors (including, but not limited to, some of the larger operators).
- 6.72 There are also large price differentials between funeral directors. Dignity has consistently been among the most expensive funeral directors and Co-op more expensive than a large proportion of independents. The industry is very fragmented, however, and a material proportion of independents price higher than Co-op (and a smaller proportion price higher than Dignity). These large price differentials cannot be explained by differences in factors such as service quality, branding or operating costs, although costs differentials may contribute to price differentials to the extent that certain costs relate to investments that may be valued by customers.
- 6.73 Similarly, significant price differences between branches located in different local areas do not appear to be fully explained by variations in local factors such as the mix of funerals sold or household income.

### ***Crematoria pricing***

- 6.74 There has been a significant increase in cremation fees over the last 10 years, both by private providers and some local authorities, but we do not consider it likely that increasing costs account for all of the increase in prices (noting that a number of regulatory events have increased the costs that crematoria face).
- 6.75 The most expensive crematoria in the UK are run by private providers, in particular Dignity, but we have also identified that some local authorities charge cremation fees that are comparable to those of private providers (albeit not the highest). We have found no evidence that the most expensive crematoria are concentrated in a particular part of the UK.
- 6.76 This evidence indicates that crematoria are increasing prices faster than costs and are able to do this due to the weak competitive constraints that we have identified.

## Potential impact of lack of effective competition on quality

### *Funeral directors*

#### *Consumer complaints*

- 6.77 As discussed in paragraphs 3.29 to 3.31, service quality is important to consumers and our consumer research has shown that people particularly value the personal relationship and support provided by a funeral director. For most respondents in our consumer research, quality of service was defined as ‘going above and beyond’ to support people emotionally and helping them to achieve a meaningful farewell.<sup>285</sup>
- 6.78 The vast majority of respondents in our consumer research had no complaints to make about the funeral director they used. Research into quality and standards carried out by Dignity found that consumers are satisfied with the service they receive from funeral directors, with only 4% expressing dissatisfaction;<sup>286</sup> and data we obtained from the trade associations shows that they receive low numbers of complaints each year (between 1 and 200), in comparison to the number of deaths in the UK each year (around 600,000).
- 6.79 We note above (see paragraph 4.20) that it is difficult for consumers who wish to compare funeral directors against certain aspects of quality, since consumers may rely on comparing those aspects that are visible, such as front of house premises. Other aspects of service – such as care of the deceased – are generally not visible, and it has been argued, not an aspect of quality that customers wish to engage with.<sup>287</sup>
- 6.80 Our consumer research shows that most respondents assumed that, to operate as a funeral director, the company had to meet certain industry standards. No one enquired about the nature and quality of funeral directors’ mortuaries when choosing a funeral director, or took this into consideration, again assuming that funeral directors had to meet industry standards. Dignity’s research also notes that consumers’ satisfaction is “in part based on the assumption of common standards or regulation, training and consistent quality.”
- 6.81 While we acknowledge that people appear to be generally satisfied with the service they have received, and complaint numbers are low, we recognise there is an argument that concerns may be under-reported, or that poor practice ‘behind the scenes’ may not be observed, and therefore not reported, as observed by The Good Funeral Guide in its response to our Statement of Scope.<sup>288</sup>

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<sup>285</sup> CMA consumer research, paragraph 1.4.19.

<sup>286</sup> Time to talk about quality and standards.

<sup>287</sup> The Co-op response to CMA statement of scope.

<sup>288</sup> The Good Funeral Guide.

## *Aspects of quality that are not visible to consumers*

6.82 We have received limited evidence about aspects of quality that are not observable, eg how the deceased is cared for behind the scene. Two professionals with direct access to ‘back of house’ facilities in the industry highlighted perceived failings in the standards of mortuary, preparation and refrigeration facilities. We also note that the Inspector of Funeral Directors in Scotland has observed some instances of “departures from common or good practice in relation to care of the deceased, record keeping, training and experience of staff, identity checks, authorisation and permissions.”<sup>289</sup>

## ***Crematoria services***

6.83 We have received limited evidence that a lack of competition between crematoria resulted in lower quality in terms of facilities offered. However, we received one complaint from a funeral director that in an area where both crematoria were owned by the same provider quality standards were low, with limited investment in the crematoria and poor customer service being offered. The Good Funeral Guide noted in its response to our Statement of Scope that where choice exists private crematoria seek to gain market share and offer better facilities and longer service times.<sup>290</sup>

6.84 As explained elsewhere in this report (see paragraphs 5.57 to 5.67), we have limited evidence that competition on quality occurs. However, this is not to say that we have identified any material issues with the level of quality offered even in the absence of any significant competitive constraints on crematoria.

## ***Summary of impact of lack of effective competition on quality***

6.85 Based on the evidence we have received in the course of our study, we have not been able to reach a view on whether competition issues in relation to either the supply of funeral director services or crematoria services may be having a negative impact on quality. However, given the lack of engagement of consumers with the process of buying a funeral, we consider that consumer surveys and consumer complaints do not provide a reliable source of evidence.

6.86 We recognise that there is anecdotal evidence that standards of care for the deceased may be inconsistent among funeral directors, but it is not clear whether this is a matter that customers would be concerned about if they had some awareness of this issue and, if so, the extent to which this would materially inform their decision-making.

6.87 We are keen to obtain more evidence on this issue.

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<sup>289</sup> [Inspector of Funeral Directors annual report 2017-2018.](#)

<sup>290</sup> [Good Funeral Guide response to CMA Statement of Scope.](#)

## Profit margin analysis

- 6.88 This section summarises our initial analysis of the financial performance of the key players in the UK funerals industry, ie the companies with the largest share of funerals by volume: Dignity, Co-op and Funeral Partners. These are also the only companies with a national network of funeral homes.<sup>291</sup>
- 6.89 The measure of profits we used to analyse the performance of these companies is EBITDA (Earnings before interest, tax, depreciation and amortisation). This is a well understood metric that allows us to compare performance irrespective of:
- (a) the age of the assets that companies have;
  - (b) whether companies grew organically or acquired businesses as amortisation of any acquired goodwill is excluded;
  - (c) how business growth is financed.
- 6.90 We also note that EBITDA is commonly used by the main players in the sector when assessing acquisitions.

## Comparison with international benchmarks

- 6.91 We compared the level of EBITDA margins that Dignity, Co-op and Funeral Partners have been earning with international companies where we considered there was sufficient similarity between the businesses.
- 6.92 We selected the following comparison points: Service Corporation in the US, InvoCare in Australia, OGF in France, Memora in the Iberian Peninsula, Ahorn AG in Germany and Park Lawn Corporation in Canada.<sup>292</sup> All of these companies are large providers of funeral services and market leaders in their countries of operation. Service Corporation and InvoCare were originally part of the same group of companies as Dignity. Berenberg, one of the stockbrokers who cover Dignity's performance, also considers Service Corporation and InvoCare to be part of the relevant peer group for comparative performance.
- 6.93 We compared the EBITDA margins of these companies with those of Dignity, Co-op and Funeral Partners. It appears that margins for the international companies have been around 19-26% over the period 2014 to 2017 (with margins for Ahorn AG and Park Lawn Corporation significantly lower at 6-13%). The level of margins for Funeral Partners and Co-op was at the higher end of international benchmarks in 2014 and 2017, with higher margins in the intervening years.

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<sup>291</sup> We obtained some financial information from small funeral directors but could not draw any conclusion, as the sample was small and no common theme emerged from our analysis.

<sup>292</sup> Selected benchmarks are large funeral providers with scale and operations similar to Dignity. We also tried to obtain financial information for other large funeral companies but this was not available.

6.94 Dignity's profit margins have been 36-38% in all years, so more than 10% higher than international benchmarks. While some differences in margins are likely to be due to the different mix of crematoria, funeral and associated services in different companies, Dignity's margin appears to have been significantly higher than both international benchmarks and larger UK companies in the funerals sector.

6.95 **Table 5: EBITDA margins of large international funeral providers**

		2014	2015	2016	2017
Dignity	UK	36%	37%	38%	38%
Co-op	UK	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Funeral Partners	UK	25%	28%	34%	26%
Service Corporation	US	25%	23%	22%	23%
InvoCare	Australia	25%	25%	25%	26%
OGF	France	24%	24%	22%	24%
Memora	Spain	4%	21%	19%	n/a
Park Lawn Corporation	Canada	13%	6%	10%	12%
Ahorn AG	Germany	8%	10%	9%	n/a

Source: Annual reports

Note: \* OGF year end is 31 March. Assumed to be comparable with the previous December year end for other companies (eg 31 March 2018 with December 2017).

6.96 Note that the comparison above is for Dignity's overall margin (including crematoria) as segmental results for the comparator companies are not available, apart from Service Corporation. Service Corporation Funerals division had EBITDA margins of 26-28% over the same period, Dignity's EBITDA margin for funerals was 40-41% so the resulting gap between Dignity and international benchmarks was at least 12 percentage points.

6.97 However, the latest business plan that Dignity provided to us assumes that margins will fall in [REDACTED] before increasing in future years, indicating that the results after the recent funeral price adjustment is bringing Dignity's margins more in line with international comparators for the next [REDACTED] (but expected to rise progressively thereafter and be back to [REDACTED] by [REDACTED]).

## Dignity's performance

6.98 Dignity's profit margins have been stable over the last 10 years with an EBITDA margin of 36-38%. As noted above, these margins are high compared to international benchmarks. The margins were persistent despite a fall in volumes and were driven by revenue growth of 7% per annum.

6.99 Dignity's business model for its funeral director services business has involved acquiring trading funeral director businesses, retaining the brand and introducing a new pricing strategy. The new acquisitions provided the necessary volume growth and compensated for the volume erosion resulting from their policy of increasing prices by 7%. This strategy was highly successful, delivering high stable profits and revenue growth (7% annual growth between 2008 and 2017). Its effectiveness was predicated on the demand-side issues that we have described in section 4, paragraphs 4.8 to 4.20, as illustrated by the comment made by the CEO of Dignity to his Board in late 2017 (quoted at paragraph 6.7).



- 6.100 We reviewed documents related to Dignity's recent acquisitions, namely 37 funeral director businesses acquired since 1 January 2015. The review highlighted that Dignity's strategy following acquisition was broadly consistent and followed the same pattern:
- (a) The strategy included increasing funeral prices [X]. The increases ranged from [X]% [X] to [X]%, with an average increase of [X]%. We have not observed any instances where Dignity reduced funeral prices in the first year of acquisition.
  - (b) When modelling performance of the acquired businesses, Dignity assumed [X]% price growth and [X]% cost inflation ([X]% for salaries in some cases) per annum over 10 years. Thus, the forecasts assume ongoing increases in profitability with a resulting EBITDA margin of [X]%.
    - (c) The pricing policies did not appear to be closely related to capital expenditure required, [X].
- 6.101 Co-op commented that Dignity's higher profitability was largely due to an average price per funeral being £300 higher than Co-op's in 2017, as well as Dignity's cost per funeral being £[X] lower. Dignity's internal documents indicate that it considered that while it [X], historically these were 'more than fully compensated' by pricing at a premium of £[X] - £[X] compared with the independents. Dignity also estimated a £[X] premium over Co-op's prices, leading to an up to [X] percentage points superior EBITDA margin.
- 6.102 Dignity has recently developed new forecasts for its business which take account of its new pricing structure. The latest forecast, which underpinned Dignity's 1 August 2018 presentation to analysts and investors, assumes that the EBITDA margin for the business will fall to a level closer to (but still higher than) international benchmarks [X]% in [X], [X]% in [X]) before increasing again to [X]% in [X] and continuing the upward trajectory to c. [X]. The underlying EBITDA margins (before transition and central costs) in Dignity's funeral services segment are expected to fall from [X]% in 2017 to [X]% [X], then increasing back to its 2017 level by [X] and [X]% in [X] (the level at which it is expected to stabilise). The drop in margins in 2018 is largely due to an assumed [X]% drop in the volumes and revenues from traditional funerals. In [X] staff cost savings result in higher margins. Improvement in margins between [X] is driven by an annual increase in funeral services revenues of [X]%, largely due to an assumed [X]% pa volume growth [X]. Costs increase by [X]. Dignity has told us that it continues to develop its strategy and that these forecasts may therefore change.
- 6.103 Some recent broker reports expect Dignity's margins to decrease, but they also note the general health of the business. For example, Berenberg stated 'With management now examining various new pricing and service options, we see a risk that it is forced to moderate its pricing to chase lower-margin business. Clearly, however, with EBIT [earnings before interest and tax] margins of over 30%, Dignity still has significant scope to flex pricing, maintain very healthy margins, and drive strong cash generation.'
- 6.104 Following the announcement of Dignity's price drop in January, Investec said: 'We believe the new strategy effectively resets the base revenues and profits for Dignity. Yet we feel

that the longer term dynamics of the funeral market are unchanged and believe the new pricing strategy should enable Dignity to maintain market share over the longer term.’ S&P global ratings estimate the three-year weighted-average EBITDA margin following the price cut to be about 32%.

- 6.105 Following Dignity’s 6 month results announcement on 1 August 2018, Investec said that ‘Dignity remains a strong company in a solid market with sufficient scale and cash generation to adapt to market changes.’ Analysts at Peel Hunt said: ‘Our initial view is that the actions being taken should stabilise the business’.<sup>293</sup> Panmure Gordon commented that the underlying number of deaths was the main driver of the ‘strong’ results while also commenting that the underlying cash flow was ‘impressive’.

### **Co-op’s performance**

- 6.106 Co-op’s EBITDA margins have been below Dignity’s for the last 5 years but at the higher end of international comparator margins. Co-op also considered its own profitability to be high, [X].”
- 6.107 Although [X] has embarked on a new strategy (see paragraph 2.31), its forecasts show that [X].

### **Funeral Partners performance**

- 6.108 A review of Funeral Partners’ EBITDA margins shows that they have been at the higher end of international benchmarks since 2014, as noted above.
- 6.109 Similar to Dignity, Funeral Partners’ performance in recent years has been driven principally by acquisitions. Funeral Partners’ review of acquisitions over the period 2011 to 2016 in December 2016 showed that while average funeral revenue was up [X]%, volumes decreased by [X]%. EBITDA increased as cost reductions and average revenue increases more than offset volume shortfall. We also reviewed documents related to Funeral Partners’ acquisitions since 1 January 2015. The documents showed that Funeral Partners planned to increase prices in the first year post-acquisition on average by [X]% (the lowest increase was [X]%, the highest increase [X]%). Prices were assumed to grow by [X]% pa in subsequent years with EBITDA margins also growing.
- 6.110 [X].

### **Summary of profit margin analysis**

- 6.111 Our initial review of financial performance shows that:

a) The EBITDA margins of Dignity are well above international benchmarks.

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<sup>293</sup> Evening Standard article, ‘[funerals firm Dignity rises from the ashes with turnaround plan](#)’, dated 1 August 2018.

- b) The EBITDA margins of Co-op and Funeral Partners are at the higher end of international benchmarks, with Co-op viewing its own profitability as particularly high due to the price inelasticity of its customers.
- c) The persistently high margins that have been achieved appear to have been driven by price increases.

## **Interim conclusions on outcomes**

- 6.112 It seems clear that the extreme vulnerability of customers has been a major factor in enabling suppliers to charge high prices in the sector for the past 15 years, rather than underlying cost pressures, and it appears to us that Dignity's pricing policies have acted as the engine of these price rises, with others in the market appearing to follow its lead. This is true in relation to funeral director services and, to a lesser extent, crematoria services.
- 6.113 The most expensive crematoria in the UK are run by private providers, in particular Dignity, but we have also identified that some local authorities charge cremation fees comparable to private providers (albeit not the highest).
- 6.114 In addition to large annual price increases, the supply of funeral director services is characterised by large price differentials between suppliers, including within local areas. Such wide price differences appear hard to explain on the basis of cost, range, quality and brand differences between suppliers.
- 6.115 The yearly high price rises implemented by the major suppliers have directly boosted their profit margins for a persistent period of time. The EBITDA margins of Dignity have been well above international benchmarks, while those of Co-op and Funeral Partners are at the higher end of them.
- 6.116 When considering these profit margins alongside long-term policies of large price rises unrelated to underlying cost pressures, it seems clear to us that this is a market that is not functioning well, to the detriment of vulnerable consumers.

## **7. Market study: interim conclusions**

- 7.1 As explained throughout this report, people are extremely vulnerable when they are faced with the daunting task of organising a funeral for a loved one under significant time pressures and often without previous experience of doing so. Because of these exceptionally difficult circumstances, they are not able to exercise some of the most basic commercial judgements that customers typically display in more normal circumstances.
- 7.2 Yet, the commercial activities of those who provide funeral services to the bereaved are largely unregulated. Funeral directors are not obliged by law to maintain minimum quality standards and there are no controls of price levels. The prices of privately owned crematoria are similarly unregulated.
- 7.3 The evidence we have collected from the larger private providers indicates that for a considerable number of years they have implemented consistently large annual price increases, without reference to underlying operating cost pressures.
- 7.4 With regard to funeral directors, we believe that operating cost inflation has broadly been in line with the wider economy. We've seen compelling evidence that the above-inflation price increases implemented by the large funeral directors have been driven by broader strategic aims (eg cross-subsidising various corporate activities), rather than factors directly related to providing services to the bereaved. We are not persuaded by the argument we heard from one of them that its higher prices were justified by better quality of service: where there was evidence of targeted quality improvements, they were largely outweighed by the standard large price increases implemented by the company as a matter of policy.
- 7.5 In addition to large annual price increases, the funeral director services sector is characterised by large price differentials between suppliers, including within local areas. Such wide price differences appear hard to explain on the basis of cost, range, quality and brand differences between suppliers.
- 7.6 The profit margins achieved by the largest suppliers in the industry have been high by international standards, with Dignity's in particular having been well above those of equivalent businesses operating in some other major countries. Although Dignity's profit margin has recently fallen, it is still higher than international benchmarks and is expected by the company to recover in the foreseeable future. Together with the large suppliers' pricing policies, these profit margins are symptomatic of a market that is not working well for consumers. Although the large funeral directors' prices are, on average, well above those of the independent funeral directors, it is clear that others in the sector have also implemented some large price rises. But we have also heard from smaller, local funeral directors who have sought to keep their prices low.
- 7.7 The large operators of private crematoria have similarly implemented average price rises, which have consistently been between 6 and 8% every year for the past 8 years (and higher in the previous years). The prices charged by the three largest private operators are

above the national average, the 20 most expensive crematoria are private ones and Dignity operates 19 of them. We have seen evidence that meeting shareholder expectations has been the main factor underlying these large annual price rises for at least one supplier and, based on the evidence we have obtained so far, we do not believe that industry cost pressures (including regulations relating to emissions) can fully explain such levels of price inflation.

- 7.8 The situation is more complex for local authority crematoria: in England, Northern Ireland and Wales, local authorities can charge for discretionary services (the category of services to which crematoria belong) on a cost recovery basis only, while in Scotland they may charge such fees as the local authority sees fit. However, it is not uncommon for crematoria to be used to cross-subsidise other activities (eg the maintenance of cemeteries) within their portfolio of discretionary services. Consequently, and in the face of reductions in central government funding, some local authorities have also implemented large fee increases at their crematoria, although on average price rises have been lower than those implemented by private crematoria and the cheapest crematoria remain local authority ones.
- 7.9 It seems clear that the extreme vulnerability of customers, and the resulting lack of engagement, has been a major factor in softening funeral directors' and crematoria's incentives to compete and enabling them to charge high prices. But there are other factors at play:
- a) In the case of funeral directors, competition has been further hampered by lack of transparency about prices, quality and range. Although the trade associations have codes of practice that deal with such issues, they do not mandate the display of prices online. Less than 40% of funeral directors post some form of pricing online, but even those are not easily comparable. Moreover, while the trade associations carry out inspections of their members' premises, they do not make their findings public (including where any poor practice or breaches are identified).
  - b) In the case of crematoria, the generally weak incentive to compete in the context of a largely fixed overall level of demand, is exacerbated by large fixed costs of entry and operation, as well as planning restrictions, which means that in many parts of the UK, there is and there will be a limited number of crematoria in close proximity.
  - c) In addition, as private operators have become involved in crematoria services, economic incentives have changed. What was historically a community service predominately offered by a local authority is now increasingly a commercial enterprise, focused on providing revenue growth and high returns to shareholders and investors.
- 7.10 Much has been written in recent months about how the industry is changing, it is claimed because of the increasing price sensitivity of customers. It is clear that the large funeral directors have implemented new pricing strategies in response to the increased awareness of funeral poverty and related media and political pressure, as well as to counteract (actual or expected) volume losses that may result from increased competition from lower cost

suppliers. This has involved launching low-cost offers, including so-called 'simple funerals' and 'direct cremations'.

7.11 However, we do not believe that the drivers behind the considerable price rises seen in the past 15 years have fundamentally changed, and this is supported by the plans of the large funeral directors.

- (a) First, our research does not support the assertion that customers are generally becoming more price sensitive. To the extent that Dignity in particular has experienced more significant volume losses than others in the sector in recent years, we consider that this is likely to be because, following years of price increases well in excess of inflation, its standard funeral services have simply become unaffordable for a proportion of people. We nevertheless recognise that a small proportion of customers shop around for a funeral, and that the internet is increasingly playing a role (albeit currently a very limited one) in facilitating this process.
- (b) Second, neither Co-op nor Dignity currently expects lower-cost options such as simple funerals and/or direct cremation to become mainstream, and in the context of an iterative conversation with their customer about the components of the funeral, which the funeral director largely controls, funeral directors can (and some do) target different packages at different customers. For some funeral directors, low-cost options (and their headline prices) appear to be seen as a marketing tool and they regard direct cremation as a source of incremental income rather than an alternative offering for their main customer base. This is particularly the case for direct cremation services, which are marketed only on the internet by certain funeral directors.
- (c) Third, the evidence we have seen indicates that the prices of standard funerals, which are purchased by the vast majority of people, are not significantly constrained either by the price of simple funerals or direct cremations. Many people looking to organise a funeral may be unaware of lower-cost options or are not prepared to accept the restrictions imposed by such options.
- (d) Fourth, as the increased level of competition in the supply of simple funerals was at least partly prompted by political and media pressure, given the above dynamics, we consider it likely that when such pressures recede, so will the intensity of competition currently seen in the sector.
- (e) Fifth, we are not persuaded that competition in the supply of low-cost funerals is effective, as evidenced by the significant price differentials between simple funeral options offered by different suppliers located in the same local areas.

7.12 In contrast, private crematoria have not been altering their pricing strategies and evidence shows they continue to plan on the basis of consistently high annual price rises, which appear to be driven by the need to meet shareholder and investor expectations in terms of profit and growth, rather than any future cost pressures at the crematorium level.

- 7.13 We therefore consider that there are reasonable grounds for suspecting that the markets for funeral director services and crematoria services are not functioning as well as they should be, as illustrated by the long-term pricing policies of the larger suppliers and the associated high profit margins. We anticipate continuing high price increases in relation to crematoria services. Even if the average cost of funeral director services remains at current levels in the short-term (as the evidence we have seen indicates), we consider that this level is well above what could be expected in a well-functioning market. We also expect that those who are either unaware of low-cost options or do not consider them to be acceptable, ie the vast majority of people, will experience further price rises in the medium term.

## 8. The case for a market investigation reference

- 8.1 Market investigations are more detailed examinations of whether there is an adverse effect on competition (AEC) in the market(s) for the goods or services being referred. If any AECs are identified, we must decide what remedial action, if any, is appropriate. Following a market investigation, a wide range of legally enforceable remedies are available, aimed at making the market(s) more competitive in the future.<sup>294</sup>
- 8.2 We may decide to make a market investigation reference (MIR) when the findings of a market study give rise to reasonable grounds for suspecting that a feature or combination of features of a market or markets in the UK prevents, restricts or distorts competition, and a market investigation reference appears to be an appropriate and proportionate response.<sup>295</sup>
- 8.3 The publication of a market study notice triggers the following statutory time limits regarding a possible MIR:
- (a) where the CMA proposes to make an MIR, it must publish notice of its proposed decision and begin the process of consulting relevant persons within six months of publication of the market study notice.<sup>296</sup>
  - (b) where the CMA does not propose to make an MIR, but has received (non-frivolous) representations in response to a market study notice arguing that a reference should be made, it must, within six months of publication of the market study notice, publish notice of its proposed decision and begin the process of consulting relevant persons.<sup>297</sup>
  - (c) where the CMA has decided not to make an MIR and no representations have been made in response to a market study notice arguing that a reference should be made, it must publish notice of its decision not to make a reference within six months of publication of the market study notice.<sup>298</sup>
- 8.4 In response to our market study notice published on 1 June 2018, Kensington & Chelsea Citizens Advice and an individual argued that a market investigation reference should be made. In addition, Which? argued that high prices and rising funeral costs, considerably above the rate of inflation, warranted a full examination of the market.<sup>299</sup>
- 8.5 We are required to decide by 30 November 2018 whether to begin the process of consulting on making an MIR.

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<sup>294</sup> [Section 131](#) of the Enterprise Act 2002 (EA02) sets out the power of the CMA to make references, and section 138 sets out the power of the CMA to take remedial action following a reference.

<sup>295</sup> [Section 131](#) (2) of the EA02 sets out what is to be construed as a feature for the purposes of Part 4 of EA02.

<sup>296</sup> [Section 131B](#)(1) of EA02.

<sup>297</sup> [Section 131B](#)(1) of EA02.

<sup>298</sup> [Section 131B](#)(2) and (3) of EA02.

<sup>299</sup> See responses to the CMA statement of scope from [Kensington & Chelsea Citizens Advice](#), [Which?](#) and the [summary of responses from individuals](#).



- 8.6 For the reasons set out in sections 1 to 7 of this report, our current view is that the markets for funeral director services at the point of need and crematoria services are not working well and that this has resulted in significant detriment for customers, as illustrated in particular by the significant price rises that have been implemented as a matter of policy by large suppliers for a number of years and by the persistent high profit margins that have been achieved by them, as a result.
- 8.7 In this chapter we set out our proposed decision as to whether to make an MIR in relation to the supply of services by funeral directors at the point of need and the supply of crematoria services (in both cases in the UK).
- 8.8 We first set out the legal framework that the CMA uses when deciding to exercise its discretion as to whether to make an MIR before assessing the present case against the four criteria set out as part of that framework.

## The legal framework

- 8.9 As set out above, the reference test is a ‘reasonable grounds to suspect’ test and does not require the CMA to have concluded that there are, in fact, features of a market which prevent, restrict or distort competition.<sup>300</sup>
- 8.10 Where the reference test is met, the CMA can exercise its discretion, to make an MIR. In our guidance on making MIRs, we set out four criteria which help to guide our exercise of that discretion:
- a) The scale of the suspected problem is such that a reference would be an appropriate response.
  - b) There is a reasonable chance that appropriate remedies would be available.
  - c) It would not be more appropriate to address the concerns through undertakings in lieu of a reference (UILs)
  - d) It would not be more appropriate to address the competition problems through alternative powers available to the CMA or through the powers of sectoral regulators.<sup>301</sup>
- 8.11 In considering these factors, we recognise that an MIR leads to significant costs, both to the CMA itself (and the public purse) and to the parties involved.

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<sup>300</sup> This point was made clear by the [Competition Appeal Tribunal in \*Association of Convenience Stores v OFT\*](#), [2005] CAT 36, paragraph 7.

<sup>301</sup> [Guidance about the making of references under Part 4 of the Enterprise Act](#), OFT 511, paragraph 2.1.

## The reference test

### *The markets*

- 8.12 In making an MIR, the CMA must specify the goods or services for whose supply or acquisition competition is adversely affected. This will require some consideration of the definition of the relevant market (or markets) and will usually comprise two dimensions: the product dimension and the geographic dimension.<sup>302</sup> We set this out below. However, as stated in the guidance on the making of MIRs, the CMA is not obliged to provide a precise definition of the market or markets to which any MIR relates and we have not done so as part of this study. Rather the CMA has had regard to certain qualitative and quantitative factors in reaching a preliminary view on what the relevant markets are likely to be.
- 8.13 In particular, in relation to geographic market definition, the evidence we have set out in the above sections indicates that the funeral industry operates at a local level and that demand is essentially local. We note that in the context of this market study, we are more interested in the similarities and differences between local markets to the extent that they impact on the prevalence of any of the features that we have identified, rather than the activities of a single supplier or a single local market. We have therefore not attempted to define in a precise manner the boundaries of local geographic markets.

### *Funeral director services*

- 8.14 In relation to the product market, our starting point has been the supply of services by funeral directors<sup>303</sup> (largely through funeral home branches) to customers at the point of need.<sup>304</sup>
- 8.15 Funeral directors combine a range of services: (i) their professional services; (ii) intermediary services (in relation to third party services, such as cremations and burials, also referred to as disbursements); and (iii) discretionary services (eg death notice, memorials, venue hire, flowers, catering etc) (see paragraph 4.2). We consider that all of these services, where provided by funeral directors as part of their offering, are likely to form part of the product market.<sup>305</sup>
- 8.16 We consider that funeral director services in relation to both funerals involving a burial and funerals involving a cremation are likely to form part of the same product market as the services provided by funeral directors are to a large extent the same.

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<sup>302</sup> [Market Investigation References guidance](#), OFT511 paragraphs 4.8 and 4.9.

<sup>303</sup> Based on Royal London [National funeral cost Index 2017](#), 98% of funerals are organised through a funeral director, 2% independently by customers.

<sup>304</sup> Our focus is on funeral director services purchased by individuals who are arranging someone's funeral following their death and which are not covered by pre-paid funeral plan contracts.

<sup>305</sup> We acknowledge that some discretionary services can be purchased from third party suppliers. However, what is discretionary depends on the supplier and on the funeral package, and the extent to which customers do purchase certain discretionary services from third party suppliers, rather than funeral directors, is not clear. At this point, we therefore do not consider it appropriate to attempt to define the boundaries of the product market more precisely.

- 8.17 Funeral directors generally supply a range of funeral options, whether in pre-defined packages or combining individual components in various ways. Furthermore, a number of funeral directors have recently started offering funeral options that do not include a funeral service, such as direct cremation (see paragraph 4.3).
- 8.18 Based on the evidence we have received, on the demand side it appears to us that funeral options involving a funeral service, and alternatives such as direct cremation are substantially different propositions that seem to attract different customer groups. On the supply side, the evidence shows that it is relatively easy for funeral directors to start offering direct cremations alongside their other funeral options and a number have done so in recent years (although direct cremations still account for a very small proportion of their business). As such, we consider that all funeral options provided by funeral directors are likely to form part of the same product market. Nevertheless, we recognise that these options are differentiated and the lines between some of them may be blurred. In addition, we recognise that direct cremations are also offered by specialist providers (see paragraphs 2.39 and 2.40) (typically online and with no network of funeral home branches). The boundaries of the product market are therefore not clear cut. We have considered the constraints of the various alternative offerings (by funeral directors) on each other (particularly of lower cost options on more expensive options) in our assessment of competition issues in this sector and the identification of market features.
- 8.19 Finally, there is some evidence that the online channel is growing in importance for some funeral directors. Comparison websites have also emerged. As discussed in section 4, the evidence indicates that customers may go online to find information about their funeral director (eg telephone number), but they rarely use the internet to compare or choose their funeral director. This suggests that online is a support to the branch channel and both are considered as part of the funeral director's offering. The extent to which the presence of comparison websites is constraining funeral directors' services has been considered in our competitive assessment (section 4) and is a factor that we have taken into account in identifying market features.
- 8.20 Therefore, we consider it appropriate to define the product market for the purposes of this market study as the supply of services by funeral directors to customers at the point of need. This includes all the services that form part of the funeral directors' offering, with respect to all their funeral options, including alternatives such as direct cremation.
- 8.21 In relation to geographic market definition, we have found that customers choose their funeral director locally. The CMA consumer research found that they typically choose a funeral director situated within a 10 to 20-minute drive-time. As noted above, funeral directors sell their services largely through their local funeral home branches. Across a sample of 30 funeral director branches, we found that 80% of their business was typically between a 12-minute and 17-minute drive-time from the branch. We received a variety of other evidence relating to the size of catchment areas that we consider is broadly consistent with this analysis. For instance, independent funeral directors estimated that catchment areas for their branches ranged from 5 to 15 miles in urban areas and 10-30 miles in rural areas.

- 8.22 Therefore, we consider it appropriate for the purposes of this market study and any MIR, to define geographic markets to be local.
- 8.23 In conclusion, we consider the appropriate market for the purpose of this market study and any MIR, to be the supply of services by funeral directors at the point of need in local areas.

### *Crematoria services*

- 8.24 In relation to the product market, we have first considered the extent to which burials, the other major type of funeral, can be regarded as a close substitute for cremations.
- 8.25 We have found that people organising a funeral do not typically choose between a burial and a cremation at the point of purchase. Our consumer research found that those who organise a funeral respect the wishes of the deceased when doing so, and that there is rarely the option for them to choose between burial and cremation as the deceased would have normally made that choice in advance.<sup>306</sup> Faith/tradition may also dictate the type of funeral to be carried out.<sup>307</sup> In addition, given the large price differential between burials and cremations, a small increase in the cremation price is unlikely to lead people to switch to a burial.<sup>308</sup> Therefore, it does not appear likely that a significant proportion of customers would switch from a cremation to a burial in response to a small increase in the cremation price at the point of purchase.<sup>309</sup> We therefore consider that burials are not a close substitute for cremations.
- 8.26 Furthermore, we have considered whether additional services provided by crematoria, in particular on the day of the funeral or as follow-up sales (such as organists, hospitality, memorials etc), should be part of the same product market as the main services provided (ie the venue for the funeral service and the cremation of the body). Based on the evidence we have seen, it appears that these additional services are typically provided by the crematorium as optional add-ons to its main services (or by third parties associated with the crematorium, in the case of memorials) and appear to account for a limited proportion of the crematorium revenue. As such, we consider it appropriate to include all services provided by crematoria in the same product market and the appropriate product market for the purposes of this market study to be the supply of crematoria services.
- 8.27 In relation to the geographic market, we have found that customers tend to choose a crematorium locally, within a certain travel time (typically 20 to 30 minutes by car) of the deceased's address. The CMA's analysis of the largest crematorium operators' revenue

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<sup>306</sup> Paragraphs 1.4.1, 1.4.6 and 1.4.8, [CMA consumer research](#).

<sup>307</sup> There are a number of groups for whom burial is not an alternative to cremation. For example, cremation is mandated in Hinduism.

<sup>308</sup> Royal London estimates the average cost of a burial to be £4,267 compared to £3,247 for a cremation. Source: Royal London [National funeral cost index 2018](#)

<sup>309</sup> We have also briefly considered whether there may be some scope for suppliers of burial grounds to switch to the supply of cremation services in response to price increases in cremation, but discarded it as very unlikely given that the development of crematoria is highly regulated, and as such switching is not possible in the short term.

data showed that 80% of a crematorium's revenue is derived from funeral directors up to 35 minutes away from the crematorium, further supporting a local market definition.<sup>310</sup>

- 8.28 Crematoria operators have supported these findings, stating, for example, that customers tend to go to the crematorium which is geographically closest to them.<sup>311</sup> Furthermore, as we have noted in section 5, customers are relatively unresponsive to changes in price or quality, suggesting that they would be unlikely to travel further than their closest crematorium in the event of a small price increase.
- 8.29 We therefore consider for the purposes of this market study and any MIR, the appropriate geographic market to be local.
- 8.30 In conclusion we consider the appropriate market for the purposes of this market study and any MIR, to be the supply of crematoria services in local areas.

### ***The features in those markets***

#### ***Funeral director services***

- 8.31 Based on the evidence and our analysis set out in section 4, our provisional view is that there are reasonable grounds for suspecting that one or more of the following features or combination of features prevents, restricts or distorts competition in the supply of services by funeral directors at the point of need in local areas:
- (a) Customers' vulnerability and difficulty in engaging at the point of need ( paragraphs 3.3, 4.8 to 4.12, and Appendix B).
  - (b) Customers' unresponsiveness to measures of price and quality: they largely choose a funeral director on the basis of recommendation or personal experience ( paragraphs 4.13 to 4.18).
  - (c) Customers' inability to assess certain aspects of quality and the value for money of all options offered given funerals are an infrequent purchase and customers are often inexperienced ( paragraph 4.19).
  - (d) Lack of transparency: reluctance of firms to publish/disclose clear prices (including online), or to provide comprehensive information on quality and range (paragraphs 4.21 to 4.25).

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<sup>310</sup> The CMA asked Dignity and Westerleigh for information relating to the funeral directors who used each of their crematoria in 2017 and the revenue that they derived from these funeral directors. We calculated the drive times from each funeral director to the crematorium and used a factor of 0.6 for cortege drive times. We calculated catchment areas based on 80% of revenues for each crematorium to derive an average catchment area of 34 minutes. For many crematoria we had incomplete data and were unable to calculate drive times for revenues from funeral directors making up an average of 7% of each crematorium's revenue. We also had insufficient data to calculate catchments for 5 crematoria. The average catchment area is based on 65 crematoria.

<sup>311</sup> [Dignity response to CMA Statement of Scope](#).

- (e) Point-of-sale advantage: ability of suppliers to largely control the decision-making process leading to the sale and its outcome (paragraphs 4.26 to 4.29).
- (f) Ineffective self-regulation in respect of information transparency: no mandatory publication of online prices, absence of publication of inspection reports (paragraphs 4.82 to 4.91).

8.32 The CMA notes that while the geographic markets for the provision of such services are considered to be local in scope, the nature of the features identified and the outcomes we have observed (as discussed in particular in section 6) is such that the CMA currently has reasonable grounds to suspect that competition is prevented, restricted or distorted in relation to the supply of funeral director services to customers at the point of need across the whole of the UK.

### *Crematoria services*

8.33 Based on the evidence and our analysis set out in section 5, our provisional view is that there are reasonable grounds for suspecting that one or more of the following features or combination of features prevents, restricts or distorts competition in the supply of crematoria services in local areas:

- a) Customers' vulnerability and difficulty in engaging at the point of need ( paragraphs 3.3, 4.8 to 4.12, and Appendix B).
- b) Customers' unresponsiveness to measures of price or quality: they largely choose a crematorium on the basis of location or personal experience (paragraphs 5.20 to 5.31).
- c) Low numbers of crematoria providers in local areas (paragraphs 5.31 and 5.32).
- d) High barriers to entry arising from the planning regime and high fixed costs, which limit the number of crematoria in each local area (paragraph 5.34).

8.34 The CMA notes that while the geographic markets for the provision of such services are considered to be local in scope, the nature of the features identified and the outcomes we have observed (as discussed in particular in section 6) is such that the CMA currently has reasonable grounds to suspect that competition is prevented, restricted or distorted in relation to the supply of crematoria services across the whole of the UK

### ***Provisional conclusion on the 'reference test'***

8.35 For the reasons set out above and in sections 1 to 7 of this report, the CMA's provisional view, is that there are reasonable grounds to suspect that one or more features (alone or in combination) in relation to both the supply of services by funeral directors at the point of need and the supply of crematoria services prevent, restrict or distort competition in the UK and that the reference test is met. Based on the evidence set out in section 6, the CMA also has reasonable grounds to suspect that any adverse effect on competition resulting from the features that it has identified may lead to significant customer harm.

- 8.36 The CMA provisionally considers that it is appropriate to refer both the supply of services by funeral directors at the point of need and the supply of crematoria services for a single in-depth market investigation, to reflect certain important similarities in the issues identified, including:
- (a) Some of the features, particularly in relation to the demand side, are common to both sets of services;
  - (b) The services are closely related; and
  - (c) There is a degree of overlap in terms of the entities that have or are operating in relation to both areas.
- 8.37 Having reached this provisional view, we now go on to consider the factors relevant to the exercise of the CMA's discretion to make a MIR.

## Views on the appropriateness of a reference

### *First criterion: scale of the suspected problem*

- 8.38 The CMA recognises that an MIR may impose a burden on the businesses concerned and, in addition, requires a significant commitment by the CMA itself. It will only make an MIR when it has reasonable grounds to suspect that the adverse effects on competition of features of a market are significant<sup>312</sup>.
- 8.39 In determining the scale of the suspected problem, our guidance identifies three factors of particular significance:
- a) the size of the market;
  - b) the proportion of the market affected by the features; and
  - c) the persistence of those features.<sup>313</sup>

### *Funeral director services*

#### *The size of the market*

- 8.40 We estimate the value of funeral director services relating to funerals (excluding disbursements) at the point of need in the UK to be approximately £1.3 billion, for a total of approximately 475,000 funerals conducted in 2017.<sup>314</sup>

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<sup>312</sup> [Guidance about the making of references under Part 4 of the Enterprise Act](#), OFT 511, paragraph 2.27.

<sup>313</sup> [Guidance about the making of references under Part 4 of the Enterprise Act](#), OFT 511, paragraph 2.28.

<sup>314</sup> The market size was estimated using information on the number of funerals and the average revenue per funeral (actual figures were only available for the large funeral directors, while for the others we have made estimates based on internal

- 8.41 Royal London estimates that 98% of funerals are organised through a funeral director (and only 2% independently by customers), suggesting that the services provided by funeral directors are essential for customers who need to organise a funeral. In addition, we note that the purchase of these services cannot be delayed and the value of each transaction is high (see paragraph 2.6).

*The proportion of the market affected by the features*

- 8.42 For the reasons set out above, we consider that the features of the supply of services by funeral directors at the point of need in the UK, namely lack of customer engagement, relative unresponsiveness of customers to price and quality measures and lack of transparency by funeral directors, mean that the competitive constraints on funeral directors are generally weak.
- 8.43 Our investigation to date has not identified any reasons to believe that those features do not apply generally across all funeral directors, although we recognise that the extent to which different funeral directors will exercise any market power may vary between different funeral directors. As explained in section 6, there is strong evidence that Dignity and Co-op in particular have been exercising their market power through high price increases, applied across their entire operations. Both have also pursued expansion strategies aimed at increasing geographic coverage and, according to their own calculations, their respective branch networks reach over 70% of the population. Therefore, taking into account the actions of Dignity and Co-op alone, it appears to us that the features we have identified have had an impact on a significant proportion of the UK population.
- 8.44 The evidence also indicates that there have been market-wide price increases and there is wide variation in the prices charged by independent funeral directors, with a material proportion charging prices as high as Dignity or Co-op.
- 8.45 We also recognise that the funeral directors' offering is differentiated and there has been an increase in the competitive pressure in relation to low-cost/simple funerals. However, the wide variation in simple funeral prices observed within local areas suggests that some funeral directors may be exercising a degree of market power in relation to simple funerals. In any event, we estimate that low-cost funerals account for 20% to 30% of all funerals sold and the evidence we have seen suggests that this proportion is unlikely to increase substantially going forward.

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documents). We estimated the total number of at need funerals by using the total number of deaths in 2017 and deducting prepaid funerals (16% of funerals) and direct funerals conducted by specialist providers (estimated to be 8% of funerals). We assumed that the proportion of direct cremations conducted by funeral directors was very small (this is based on [38]). As a result, we note that the market size estimate excluding direct cremations conducted by funeral directors does not materially change. As a sensitivity, we estimated the market size if prepaid funerals accounted for 25% of all funerals, which would be £1.1 billion. We have seen mixed evidence on the proportion of funerals carried out by funeral directors that are direct funerals. As a sensitivity, consistent with footnote 141, we estimated the market size assuming that 7% of at need funerals carried out by funeral directors are direct funerals. On this basis, the market size would decline only slightly (it would remain approximately £1.3 billion).



- 8.46 We therefore consider that a significant proportion of the supply of services by funeral directors at the point of need in local areas are affected by the features we have identified, which appear to apply to most of the UK.

### *The persistence of those features*

- 8.47 The features we have identified, particularly on the demand-side, have been a characteristic of the sector for a substantial period of time, and we have seen no evidence to suggest that this is likely to change in the future. These features have also enabled funeral directors to exercise market power for many years (see for example paragraph 6.7).
- 8.48 As explained in paragraphs 4.96 to 4.100, we do not consider that the current increased level of competition relating to low-cost funeral options is indicative of a fundamental shift in the way the sector operates.
- 8.49 Despite previous investigations (as outlined in paragraphs 2.52 and 2.53, and Annex A) and repeated calls over the years for the industry to change its practices,<sup>315</sup> little progress has been made and self-regulation has failed to deliver desirable outcomes. We have no evidence that the position is likely to materially change in the short to medium term.
- 8.50 We note that policy and regulatory developments in Scotland may address some, but not all, of the features we have identified. In particular, the introduction of an inspection regime has the potential to address people's inability to assess certain aspects of quality. However, as regards transparency, we note that the Scottish Government's draft guidance to bring about greater transparency will not be enforceable. Further, as the Scottish Government states in its Policy Memorandum to the Burial and Cremation (Scotland) Bill, competition law and consumer protection are reserved matters, and it is therefore limited in what it can do to influence costs.<sup>316</sup> We have not been made aware of any policy or regulatory developments relevant to other parts of the UK.

## *Crematoria services*

### *The size of the market*

- 8.51 In 2017, cremation fees totalling an estimated £340m<sup>317</sup> were charged for a total of 466,072 cremations across the UK.<sup>318</sup> Therefore, in value terms, this market is of

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<sup>315</sup> Including following the Work and Pensions Committee's inquiry into bereavement benefits, and through the Fair Funerals Campaign.

<sup>316</sup> [Burial and Cremation \(Scotland\) Bill](#) Policy Memorandum.

<sup>317</sup> This may be an overstatement as it multiplies the number of cremations at a crematorium by the cremation fee at the crematorium, and sums this for all crematoria. Some cremations will be conducted at a reduced fee, reducing this number. However, some cremations will be more expensive than the standard fee (weekend and extended services). Furthermore, this market size is an estimate based on cremation fees only and does not include the sale of optional services either on the day of the service or after the service (eg memorials).

<sup>318</sup> This number is smaller than the 467,748 reported by the Cremation Society as the Cremation Society includes the Channel Isles and Isle of Man.

moderate size. However, cremation services are essential to those who purchase them and transactions cannot be delayed.<sup>319</sup>

### *The proportion of the market affected by the features*

- 8.52 We have found that the underlying characteristics of the crematoria services market, namely a demand relatively unresponsive to price and quality measures and a small number of existing and potential crematoria in any local area due to the presence of economies of scale and planning restrictions, mean that competitive constraints on crematoria are generally weak. As a result, we would expect that crematoria generally have a high degree of market power when they set their prices or quality levels.
- 8.53 Crematoria are likely to hold more market power when they face fewer competitors. We have found that there is a significant proportion of crematoria that have a limited number of alternative crematoria within a 30, 45 and 60-minute drive time. For example, two-thirds of crematoria have one or no alternative crematorium within a 30-minute drive time. We have found that crematoria in rural areas face even fewer alternative crematoria.
- 8.54 The features we have identified apply equally to the private sector as they do to local authorities, although we accept that some local authorities may not have the same incentives to profit maximise as private providers. However, we have found that there has been a significant increase in cremation fees over the last 10 years both by private providers and some local authorities. On the other hand, we have found that private crematoria are the most expensive and that some local authorities' crematoria charge comparable fees to private providers (even if not the highest).
- 8.55 We therefore consider that a significant proportion of the supply of crematoria services in local areas is affected by the features we have identified, which appear to apply to most of the UK.

### *The persistence of those features*

- 8.56 The features we have identified are unlikely to be short-lived: it is clear from our analysis that there are underlying characteristics of the crematoria services market, both on the demand-side and on the supply-side, that allow crematoria to exercise market power. We have no evidence that these characteristics will change. Our analysis of entry suggests that there are limited prospects for entry given high barriers to entry, and we note that where entry does occur it does not appear to significantly increase the level of competition between crematoria.
- 8.57 We note the recent and planned regulatory changes taking place in Scotland, such as the establishment of the Inspector of Crematoria and the Burial and Cremation (Scotland) Act 2016. Our current view is that these changes are unlikely to remedy the features identified

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<sup>319</sup> The market is expected to grow slightly, based on an increased number of deaths (to 630,000 in 2026) Whilst we have not seen forecasts for the proportion of deceased being cremated, we note that this has also been gradually increasing over time.

given that they appear to focus on improving procedures and record keeping. Furthermore, any changes will apply to Scotland only.

### *Conclusions on first criterion*

- 8.58 We estimate that together the supply of funeral director services at the point of need and for crematoria services in local areas amount to over £1.6bn in revenue. The features we have identified apply to the whole of the UK and affect at least a significant proportion of the markets.
- 8.59 We also consider that these features are unlikely to be short-lived, although we note that new legislation in Scotland may go some way towards mitigating the effect of some of them.
- 8.60 Finally, in deciding whether an MIR is justified, we consider it highly relevant that the purchase of products and services relating to a funeral can neither be avoided nor delayed; that customers are extremely vulnerable at the point of purchase; and that those on the lowest incomes appear to be disproportionately affected by high prices.

### ***Second criterion: availability of appropriate remedies through an MIR***

- 8.61 The availability of remedies and the prospective value of a market investigation is part of the CMA's assessment when considering whether to make an MIR. However, it is not for 'Phase 1' market studies to determine which remedies would or would not be appropriate for the CMA to consider in a 'Phase 2' market investigation, following the detailed analysis that is properly undertaken at Phase 2.
- 8.62 We have provisionally concluded above that the markets for services by funeral directors at the point of need and for crematoria services are not functioning as they should and that, as a consequence, a significant number of vulnerable consumers are suffering harm. It seems clear from the information we have seen that the high price inflation that has characterised this sector is to a large extent the result of the exercise of market power by some suppliers.
- 8.63 In our view, the aim of any package of remedies to tackle these problems should be to reset the market such that people organising a funeral can be assured of a good quality service at a reasonable cost, while recognising that a funeral is a highly personal occasion, the arrangement of which entails much more than just a commercial interaction with a crematorium or funeral director.
- 8.64 We set out below why we believe that there is a reasonable chance of appropriate remedies being available through an MIR by virtue of the CMA's wide-ranging powers to accept undertakings or impose an Order, as well as to make recommendations. We set out our current thinking as to the types of remedies that a market investigation could consider in the following paragraphs.

- 8.65 Based on our current understanding of the markets for services by funeral directors at the point of need and for crematoria services, we consider that a strategy for achieving materially better outcomes is likely to need action in all such markets, comprising, at least, the following components:
- (a) Helping people make good choices about funeral arrangements: that is, interventions that will help people with the initial selection of a funeral director and to get a good deal from whoever they choose.
  - (b) Ensuring that there are affordable options easily available for people who want or need them: that is, interventions which ensure that people can easily find a funeral locally at an affordable price.
  - (c) Enabling people to have justified confidence in the quality of service they will receive from a funeral director: that is, interventions that will help people judge the quality of service offered by funeral directors.
  - (d) Constraining the pricing power of crematoria: that is, interventions that will constrain crematoria's ability to exploit their market power.
- 8.66 Accordingly, at this stage we consider that if one or more adverse effects of competition are identified following any MIR<sup>320</sup>, then a package of carefully considered remedies is likely to be appropriate, with any such package needing to be carefully considered in the round. As further discussed below, at this stage the CMA considers that it may be appropriate for any such remedy package to include measures that the CMA could apply directly through the use of its powers under Schedule 8 to the Enterprise Act 2002 and which may not be achieved as effectively or proportionately through recommendations to third parties. An in-depth investigation by the CMA would enable the design of one or more remedies to be considered in detail to ensure their effectiveness and proportionality, both individually and collectively, and whether implemented by the CMA directly or through recommendations to third parties. We set out below the actions we currently consider may be needed in relation to the markets for funeral director services and crematoria services respectively.

#### *Funeral director services*

- 8.67 If the CMA were to find one or more adverse effects on competition following an investigation, we have identified a number of measures that the CMA could apply directly which could be effective in addressing some or all of the features above and / or the resulting consumer detriment, and which may not be achieved as effectively or proportionately through recommendations to third parties. A non-exhaustive list of potential remedies is set out below.

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<sup>320</sup> [Section 138 of the EA02](#).

- *Transparency remedies*

- 8.68 First, a variety of transparency remedies could be considered to encourage and help customers to shop around and compare funeral directors on the basis of price and the quality and nature of the service they offer.
- 8.69 We appreciate that, immediately following a bereavement, many people find it difficult to shop around. However, the cost of a funeral represents a substantial purchase for families, and we have found large variations in the price offered by different funeral directors. There is also great scope to improve transparency. While we are under no illusion as to the challenges of achieving better market outcomes using transparency remedies alone, measures targeted at making it easier for people to find a fair deal for funerals are likely to form an important part of any remedy package. The CMA's order-making powers provide a clear legal basis for this form of direct action and no other regulator, government body or industry association have equivalent powers to intervene directly without legislation.
- 8.70 As an example of the type of transparency remedy that might be considered, funeral directors could be required to make their price lists available online and set out their price lists according to a standardised format, and / or to distinguish clearly between the price for those elements of a funeral which are:
- essential (eg bringing the deceased into the care of the funeral home, preparing and storing the body, completing necessary paperwork etc);
  - optional (eg embalming, viewing the deceased in the chapel of rest, limousines, flowers etc); and
  - third party costs (eg burial or cremation charges, etc)
- in addition to quoting package prices.
- 8.71 There may also be scope to do more to support people to understand how to procure and organise a funeral, both in the days immediately after a bereavement, and to plan for future funeral arrangements for themselves or their relatives in advance of the point of need. For example, hospitals, hospices, care homes and registrars might be required to make information about local funeral directors (including price lists in a standard format) available to patients or the deceased's family. The 'what to do after someone dies' page on GOV.UK could be amended to include a recommendation that consumers compare prices of at least two or three funeral directors if possible. We could also consider whether there are organisations, for example, local authorities or hospices, which could either negotiate funeral packages with funeral directors that could be used by relatives arranging a funeral and / or offer their existing arrangements with funeral directors to families. There would be challenges to overcome with such arrangements, eg whether the quality of funerals on offer would be acceptable, and whether there would be organisations with the expertise, resources and incentives necessary to perform such a role.

- *Changes to the regulatory framework*

8.72 Second, the CMA could recommend changes to the regulatory framework governing funeral directors. In particular, the CMA could make a recommendation to government<sup>321</sup> that a statutory code of practice be drawn up for England, Wales and Northern Ireland<sup>322</sup> and that funeral directors be licensed. This would help ensure that the quality of service provided by a funeral director for activities that happen ‘behind the curtain’ (ie how the body of the deceased is stored and handled), is appropriately regulated. Regulating quality would in turn help people make meaningful comparisons between funeral directors, as people need reassurance that all funeral directors are adhering to a minimum level of quality standards when providing their services.

- *Establishment of a regulatory body*

8.73 Third, the CMA could recommend to government that a funerals regulator be established. It could be part of its role to actively monitor the levels of service being provided, for example, to inspect premises on a regular basis to ensure adherence to the standards set out in the code, with the prospect that a funeral director who persistently fails to meet the standards could lose the licence to operate.

8.74 A funerals regulator could also play a role in constraining the prices of funerals. Given the difficult circumstances in which many people make decisions about funerals, and the resulting weak competitive constraints faced by some suppliers, our current view is that transparency measures alone may not be sufficient to address the harm that we have identified and that there may be a need for more direct intervention in relation to pricing. A regulator could design, implement and enforce some form of safeguard price regulation which could, for example, control the core elements of a funeral or provide protection for the most vulnerable customers.

- *CMA-led price regulation*

8.75 Fourth, the CMA could design and implement a price regulation mechanism for an initial period pending the setting up by government of a funerals regulator (see above). Such an interim price control, which could be made subject to a ‘sunset clause’, might be limited to controlling the core elements of a funeral, or be designed to provide protection for the most vulnerable customers. The CMA’s order-making powers provide a clear legal basis for this form of action, albeit we consider at this stage that establishing a specialist regulator could be a more appropriate long-term option.

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<sup>321</sup> In this remedies section, where we use the term ‘government’ we are referring to any of the UK government and devolved administrations, unless specified.

<sup>322</sup> The Scottish Government is already preparing to issue its own code of practice.

## *Crematoria*

8.76 Similarly, it is reasonable to expect that there are a number of measures that the CMA could apply directly in respect of crematoria and that might address some or all of the features above, and which may not be achieved as effectively or proportionately through recommendations to third parties. A non-exhaustive list of potential remedies could, for example, include the following measures.

- *Establishment of sectoral regulator or price regulation*

8.77 First, as with funeral directors, the CMA could make a recommendation to government that a specialist sectoral regulator be established – or that the remit of the funerals regulator be extended to cover privately-owned crematoria. This regulator could design, implement and enforce some form of price regulation to tackle the market power currently exerted by some crematoria. As with funeral directors, the CMA could design and implement a price regulation mechanism applicable to privately owned crematoria for an interim period, which could be subject to a sunset clause pending the setting up by government of a specialist sectoral regulator. The CMA's order-making powers provide a clear legal basis for this form of interim action.<sup>323</sup>

- *Guidance to local authorities*

8.78 Second, the CMA could make a recommendation to government that guidance be issued to local authorities in England, Wales and Northern Ireland on how the rules limiting prices at local authority-owned crematoria to full cost recovery should be applied, and what services may and may not be included in the basket for cost recovery. Scottish Government could also be asked to consider introducing a similar rule in Scotland, limiting prices at Scottish crematoria to full cost recovery.

- *Changes to the planning system*

8.79 Third, changes could be recommended to the planning system to support greater competition and a better deal for consumers. For example:

- a) Rather than rely on private companies to identify where new-build crematoria are needed and apply to the local authority for planning permission, local authorities (or private companies) could identify areas where a new crematorium would be appropriate and the local authority could issue a tender for the construction and operation of the crematorium for an agreed franchise period. Part of the tender would involve prospective operators setting out their planned pricing, and this would be taken into account in deciding the outcome of the tender.

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<sup>323</sup> As an alternative to setting up a national crematoria regulator, the CMA could recommend to government that all existing and newbuild crematoria which are not owned by local authorities must be licensed by their local authority. The terms of the licence could include a power for the local authority to regulate prices, such that local authorities would become the regulator of crematoria within the local authority area.

8.80 We could also take a look at the planning requirements set out in the 1902 Act and the wider planning regime. However, it may be that relaxing the provisions of the 1902 Act would not achieve a material reduction in barriers to entry, as planning permission to build a crematorium close to housing or a public highway may, in practice, be unlikely to be forthcoming.

- *Other possible remedies*

8.81 Fourth, the divestment of assets or operations is one possible remedy that might be imposed following a market investigation. While we do not currently foresee that any structural remedies are likely to be required in the funeral director sector, at this stage we cannot rule out the possibility that a small number of divestitures might be necessary where two or more crematoria in a given area are owned by the same operator.

8.82 Fifth, in line with the tender idea for new-build, we could consider whether existing local authority-owned crematoria could be put out for tender to facilitate competition for the market.

8.83 There may be other remedies which might be considered to address the problem. For example, it might be possible to introduce an element of 'intra-crematorium' competition in a small number of areas, whereby larger crematoria with two chapels and two or more crematoria could be required to be operated by different, competing operators. We note that this could be particularly complex to achieve in practice and would only be feasible for the largest crematoria.

8.84 In the event of an MIR being made, the assessment and design of any remedies would, of course, be the subject of detailed consideration by the CMA in order to evaluate their effectiveness and assess their proportionality. This is particularly important in the case of complex regulatory remedies, such as those set out above, where the specific design of any such remedy is critical and the costs of introducing any regulatory regime will need to be taken fully into account. In this context, the in-depth Phase 2 remedies process, in itself, may be valuable to determine the extent to which effective remedies are likely to be available and, if so, to ensure that remedies are designed in an appropriate manner.

*Provisional conclusion on the second criterion: availability of appropriate remedies through an MIR*

8.85 There is a wide price disparity between funeral directors and between crematorium operators that does not appear fully justified in terms of different quality of service, and some prices appear to have risen year on year out of line with any increase in underlying costs. We think it is possible to improve on the current situation. The CMA considers that there would be merit in a thorough, independent and expert analysis of the suspected problems, and their causes, and of the remedy options available to achieve better outcomes for people arranging funerals.



8.86 For the reasons set out above, the CMA provisionally considers that appropriate remedies are likely to be available and that a market investigation reference is appropriate.

***Third criterion: the availability of undertakings in lieu of a reference***

8.87 The CMA has the power under section 154 of the Enterprise Act 2002 to accept undertakings in lieu of a reference (UILs) instead of making an MIR. Before doing so, the CMA is obliged to: ‘have regard to the need to achieve as comprehensive a solution as is reasonable and practicable to the adverse effect on competition concerned and any detrimental effects on customers so far as resulting from the adverse effect on competition’.<sup>324</sup> As the CMA’s guidance notes, such UILs are ‘unlikely to be common’. The guidance also refers to the significant practical difficulties associated with negotiating UILs with several parties, where the adverse effects have not been comprehensively analysed.<sup>325</sup>

8.88 We note that in the course of the market study so far, we have not received any representations to suggest that UILs would be appropriate in this case. We appreciate that an MIR would not be cost free, either for parties or for the CMA. However, given the very large number of parties with whom UILs would have to be negotiated, and the nature and range of the remedies that we currently consider may need to be put in place to address the adverse effects on competition that the CMA provisionally suspects are present in the markets, we are currently not confident that UILs offered at this stage would provide as comprehensive a solution as is reasonable and practicable to the adverse effect on competition, but we will of course consider any undertakings offered.

***Provisional conclusion on the third criterion: the availability of undertakings in lieu***

8.89 For the reasons set out above, the CMA provisionally considers that it cannot be confident that UILs could provide as comprehensive a solution as is reasonable and practicable to the features that the CMA reasonably suspects may prevent, restrict or distort competition in the markets for services by funeral directors at the point of need and crematoria services.

***Fourth criterion: alternative powers available to the CMA or to sectoral regulators***

8.90 Finally, we have considered whether alternative powers are likely to be available to the CMA or others and, if so, whether it would be more appropriate to use those to address the features we have identified (paragraphs 8.31 and 8.33).<sup>326</sup>

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<sup>324</sup> Section 154(3) of the EA02.

<sup>325</sup> Guidance about the making of references under Part 4 of the Enterprise Act, OFT 511, paragraph 2.21.

<sup>326</sup> This is in addition to the discussion set out above in relation to the second criterion (see paragraphs 8.61 to 8.89 above, where we refer to a number of potential remedies that the CMA could seek if one or more adverse effects on competition are identified following an MIR.

- 8.91 First, we have considered the CMA's powers in relation to competition law prohibitions on anticompetitive agreements or abuse of a dominant position and in relation to consumer law, before considering the powers available to other regulators.<sup>327</sup>
- 8.92 The CMA has not identified any grounds to suggest that it would either be possible or more appropriate to address one or more of the features or their effects using its competition or consumer powers. In particular, the CMA notes that:
- (a) the features of concern are broader than the issue of firm conduct which those powers are used to address and instead relate to the overall functioning of the market;
  - (b) there are a number of widespread demand side features; and
  - (c) the markets are comprised of a large number of different businesses and local geographic markets.
- 8.93 As described in the industry background section, there is no sector regulator for the funeral industry and no regulator with concurrent competition or consumer powers. While local trading standards do have consumer enforcement powers, the considerations set out in the previous paragraph equally apply.

*Provisional conclusion on the fourth criterion: alternative powers available to the CMA or to sectoral regulators*

- 8.94 In light of the foregoing, the CMA provisionally concludes that it would not be more appropriate for it or another regulator to address the identified features using alternative powers to an MIR.

***Provisional conclusion on the appropriateness of a reference***

- 8.95 For the reasons set out above, the CMA provisionally concludes that it is appropriate to exercise its discretion to make an MIR.

**Provisional Conclusion**

- 8.96 In light of the foregoing, the CMA therefore proposes to make an 'ordinary'<sup>328</sup> MIR within the meaning of section 131(6) of the Enterprise Act 2002 in respect of the supply of services by funeral directors at the point of need and the supply of crematoria services (in both cases within the UK).

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<sup>327</sup> The Chapter I and Chapter II prohibitions contained in sections 2 and 18, respectively, of the Competition Act 1998 and in their counterparts in EU law, Articles 101 and 102 of the Treaty on the Functioning of the European Union.

<sup>328</sup> As opposed to a cross market reference.

## 9. Consultation

- 9.1 The CMA considers that this interim report identifies significant concerns about the effectiveness of competition in relation to the supply of services by funeral directors at the point of need and the supply of crematoria services in the UK.
- 9.2 As set out in section 8, where the CMA has published a market study notice, it is incumbent on the CMA to consider whether it is appropriate to make a market investigation reference (MIR). Where the CMA proposes to make a MIR, it must consult on that proposed decision.
- 9.3 The CMA may make a MIR where:
- (a) The CMA has reasonable grounds to suspect that any feature or combination of features of a market in the UK for goods or services prevents, restricts, or distorts competition in the connection with the supply or acquisition of any goods or services in the UK or a part of the UK (the reference test); and
  - (b) The CMA considers it is appropriate to exercise its discretion to make a MIR.
- 9.4 As set out in section 8 the CMA has provisionally concluded that the reference test is met and that it would be appropriate to make a reference in relation to both the supply of services by funeral directors at the point of need and the supply of crematoria services in the UK.
- 9.5 Accordingly, the CMA is now commencing a period of consultation in relation to its proposal to make such a reference. We attach at Appendix F draft terms of reference. We would welcome respondents' comments on that draft.
- 9.6 The CMA welcomes representations from interested parties on the provisional decision set out in this document. The CMA wishes to stress the importance of the consultation process in assisting the CMA's decision making and urges interested parties to engage with the consultation. Respondents may wish to reply in relation to the supply of services by funeral directors at the point of need, in relation to the supply of crematoria services, or both. In doing so, respondents may wish to consider the following questions:
- Do you consider that the CMA's analysis is correct with respect to the suspected features of concern in the supply of:
    - services by funeral directors at the point of need (see paragraph 8.31); and
    - crematoria services (see paragraph 8.33)?
  - Do you consider that the CMA's analysis is correct with respect to the reference test being met in relation to the supply of:
    - services by funeral directors at the point of need (see paragraphs 8.12 to 8.37); and

- crematoria services (see paragraphs 8.12 to 8.37)?

- Do you agree with the CMA's proposal to exercise its discretion to make a reference in relation to the supply of services by funeral directors at the point of need and the supply of crematoria services (see paragraphs 8.38 to 8.96)?
- Do you consider the proposed scope of the reference, as set out in the draft terms of the reference in Appendix F, would be sufficient to enable any adverse effect on competition (or any resulting or likely detrimental effects on consumers) caused by the features referred to in paragraphs 8.31 and 8.33 to be effectively and comprehensively remedied?
- Do you consider that the features which the CMA has identified that may prevent, restrict or distort competition are capable of being effectively and comprehensively remedied by UILs (undertakings in lieu of a MIR)?
- Do you have any views on our current thinking on the types of remedies that an MIR could consider (see paragraphs 8.66 to 8.86 above)? Are there other measures we should consider?

9.7 The CMA would particularly welcome any specific evidence from respondents in support of their views.

9.8 In addition to the above, the CMA would also welcome evidence and views on the following matters:

- (a) Quality of care of the deceased: we have received anecdotal evidence that there may be varying standards of care being applied by funeral directors and would like to understand how widespread such issues may be. We would therefore like to hear from people who have witnessed standards of care which they considered to be unacceptably low.
- (b) Issues specific to religious groups that are not covered in this report: we have focused our work on the transactional aspects of funerals involving funeral directors and crematoria. We believe that the issues we have identified in relation to those specific aspects would essentially be similar across all faiths (to the extent that the way they organise funerals involves transactions with funeral directors or crematoria). We are keen to find out whether we may have overlooked any issue of relevance and will seek to engage actively with the representatives of the major faiths.

9.9 Such comments should be provided no later than **5pm on 4 January 2019** to:

Funerals market study team  
Competition and Markets Authority  
Victoria House  
37 Southampton Row

London  
WC1B 4AD

Email: [funerals@cma.gov.uk](mailto:funerals@cma.gov.uk)

- 9.10 Our intention is to publish on the CMA's website an aggregated and anonymised summary of submissions from individuals, although if you prefer, you can indicate that you would prefer for your response to be published in full.
- 9.11 We intend to publish all responses from businesses and other organisations on the CMA's website, except those responses marked as confidential. Respondents may request that their response be kept confidential. If you would like your response to remain confidential, clearly mark it to that effect and include the reasons for confidentiality. Please restrict any confidential material to the appendices to your response.
- 9.12 We will redact, summarise or aggregate information in published reports where this is appropriate to ensure transparency whilst protecting legitimate consumer or business interests. While the information you provide will primarily be used for the purposes of the market study (and particularly in relation to whether a reference should be made, and if so in what form), where appropriate we may also use information you provide in relation to the CMA's other functions. For example, we may use the information you provide in connection with enforcement action using our consumer or competition enforcement powers, or we may share your information with another enforcement authority (such as local Trading Standards Services) or with another regulator for them to consider whether action is necessary.
- 9.13 Personal data received in the course of this consultation will be processed in accordance with our obligations under the General Data Protection Regulation, the Data Protection Act 2018 and other legislation designed to protect individual privacy.
- 9.14 Our use of all information received (including personal data) is subject to Part 9 of the Enterprise Act 2002 and the Freedom of Information Act 2000. Further information on the CMA's obligations under this legislation can be found in the CMA guidance: 'Transparency and disclosure: statement of CMA's policy and approach (CMA6).'<sup>329</sup>
- 9.15 Following careful consideration of the responses to this consultation, the CMA will publish a final decision on whether or not to make a MIR in respect of either or both of the supply of funeral services at the point of need by funeral directors and the supply of cremation services by crematoria. The CMA is required to publish its final decision no later than 31 May 2019.

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<sup>329</sup> See [Transparency and disclosure](#): Statement of the CMA's policy and approach, CMA6.