

4 January 2019



SUBMISSION BY THE CO-OPERATIVE GROUP

Response to the CMA's Consultation on its Interim Report in relation to the Funerals Market Study

Executive Summary

- We welcome the CMA's provisional decision to refer the markets for funeral services at the point of need and crematoria services for in-depth investigation. We will work closely with the CMA to help protect families and ensure that they have access to high standard of funeral care at an affordable price.
- Co-op has been making changes to help consumers understand and engage fully in assessing and responding to information about the options, prices and quality considerations when selecting a funeral director and arranging a funeral, but this has not been consistent across the industry and there is more to be done.
- The quality of service provided to consumers and the standard of care for their loved one is very inconsistent across the industry, with some funeral directors focussing on low prices at the expense of the quality of service and standard of care they offer. We recognise that securing a rounded picture of quality in the industry will not be straightforward and we have made some suggestions as to how this might be approached.
- Although we recognise that there is more to be done, it is important that the CMA recognises that the at-need funeral services market is not static and there is already a significant level of competition, innovation and disruption that is taking place in the at-need funeral services market, which should not be underplayed.
- Co-op has made a long-term commitment to doing right by our members, clients and the community, which has led the way on our business strategy. The improvements we have made, including in relation to our low-cost options, are not changes that we would wish to or could readily reverse.
- We believe it would be appropriate for the scope of the CMA's Terms of Reference for a market investigation to extend to the delivery of pre-need funerals at the point of redemption, as well as at-need funerals, to ensure that any potential remedies targeted at improving quality of service and standard of care in delivering a funeral can apply across the industry.

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- We welcome the CMA's provisional findings as regards crematoria services and encourage the CMA to carry out more in-depth economic analysis into the parameters of competition between crematoria, the impact of a lack of effective competition on pricing and profit margin analysis.

Introduction

- 1.1 The Co-operative Group (the Co-op) is one of the world's largest consumer co-operatives. We're member-owned, with over 4 million members, and have a clear purpose of championing a better way of doing business. Our Co-op Funeral and Life Planning business provided approximately 65,000 at-need funerals in 2018, and, as at 2 January 2019, we had 1,053 active funeral homes in our estate. Our aim is to provide good quality products and services at an affordable price.
- 1.2 Co-op welcomes the CMA's provisional decision to refer the markets for funeral services at the point of need and crematoria services for in-depth investigation. We will work closely with the CMA to help protect families and ensure that they have access to high standards of funeral care at an affordable price.
- 1.3 The CMA has rightly identified a number of concerns in relation to how these markets operate, in particular consumers understandably find it difficult to engage at the point at which they purchase and, flowing from that, there are challenges in assessing and responding to information about quality and price. While some have been making changes to help consumers, this has not been consistent across the industry and more remains to be done.
- 1.4 It has also rightly identified the extent of market power in the hands of crematoria and we fully support the CMA's proposal to look in depth at potential issues in that market, with a view to intervening to improve the competitive dynamics and protect consumers in the crematoria services market for the benefit of consumers.
- 1.5 In the last few years, we have worked hard to do better for our clients. We have expanded and improved our low-cost options, with the re-launch of our Simple funeral package in 2016 and the launch of our Cremation Without Ceremony option in May 2018. We reduced the price of our Simple funeral package in September 2018 and the price is now 15% lower than when we re-launched it in 2016. We have also led the way to make our products and services more transparent and easier to understand. Most recently, we have been developing a new online pricing tool to give more transparency to our clients online in a way that is accessible to them, which we will be launching soon.
- 1.6 We have also recently completed a three year re-branding programme of all of our private name funeral homes in Great Britain to ensure that it is clear that they are owned by us, so that our clients understand who they are contracting with.
- 1.7 The dynamics of the at-need funeral services market have changed in recent years, in a number of important ways. The growth of the pre-need sector is also significantly impacting the dynamics of the at-need market and the activities of funeral directors as a substantial proportion of consumers now have the benefit of a pre-need plan and the redemption of those plans becomes a much more important driver of the businesses of funeral directors.
- 1.8 At the same time, the market has seen the entry of over 500 new funeral directors in the last five years. Given that there are no licensing requirements for funeral directors and the industry is largely unregulated, with no compulsory professional qualifications or training and no quality

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and service standards prescribed by law, we believe that many funeral directors are not focussing sufficiently on the quality of service they are providing to consumers and standard of care for the deceased.

- 1.9 We have been making significant changes to our business since 2015 to ensure that our clients are receiving value for money with a high level of quality of service and standard of care for their loved ones. These changes to the market dynamics and to our business choices to drive lower priced alternatives have impacted our revenues and profit considerably over the past 3 years.
- 1.10 Whilst there is clearly more to be done, in particular to deliver quality, as well as value, we do believe that we and the industry have experienced a permanent step change.

2 Engaging with Consumers

Visibility of price and product

- 2.1 The CMA's consumer research has shown that many consumers do not shop around and compare funeral directors because they feel it is inappropriate to do so, they do not feel able to do so under the pressure to finalise the arrangements or because of their emotional distress. Consumers are also unlikely to shop around where their loved one is already in the care of a funeral director.
- 2.2 The CMA also observed that the sales practices of funeral directors can limit a client's knowledge of the range of funeral options available, so consumers may end up not choosing the option they would prefer if they had information on all the available options, including their respective prices.
- 2.3 However, consumers clearly do have some awareness of what to expect, with most having a reasonably accurate idea of expected cost. Of the 24% of consumers that the CMA's consumer survey identified as not having a funeral director already known or recommended to them that they intend to use, potentially over half (13%) do search online for some information about the funeral director they use. Our own funeral website receives 2 million hits a year. Improved transparency online does therefore have the potential of influencing those consumers open to making a choice between different funeral directors. Many consumers will also have some previous experience, whether from having organised funerals in the past, or an awareness of marketing of pre-need plans that provide some sense of what a funeral comprises and what it is likely to cost. These give consumers a benchmark for at-need funeral pricing at the point at which they need to arrange an at-need funeral.
- 2.4 Our job is to make it easy for clients, providing them with all the relevant information about our range of funeral options in a way that is accessible, both in our funeral homes and online, without adding to their grief or stress. We ensure that they understand the options and prices at the outset so they are able to make comparisons with other operators (to the extent that those other operators are also transparent) and make informed decisions, without steering to any particular product, but guide them through the decisions. We have done this in a number of ways:
 - (a) We provide training and materials to our client-facing colleagues to support fair and balanced initial conversations with our clients, where we provide at the start of the conversation a clear and full overview of our Funeral Choices packages (including our

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Simple and Cremation Without Ceremony packages) and our pricing, together with client brochures, making it clear what is and is not included with each option;

- (b) We have improved our transparency online, with a comparison table showing what is included for each of our Simple, Traditional, Classic and Cremation Without Ceremony Funeral Options¹;
- (c) We have also been developing a new online pricing tool, which we will be launching soon, which will provide our clients with our prices and an indication of likely third party costs in their local area;
- (d) All of our Funeral Choices packages are available under the Co-op brand and across all of our sales channels, including our Simple and Cremation Without Ceremony packages, so our clients are clear about who they are dealing with and can engage with us in the most convenient way for them; and
- (e) We have recently completed a three year programme of migrating all of our private name homes in Great Britain² to our Co-op 'Pioneer' brand to provide a consistent brand and client journey, to ensure that our clients understand who they are contracting with and what level of quality they can expect at every step.

Visibility of quality

- 2.5 The CMA's consumer research demonstrated that most consumers assume that a funeral director needs to meet certain industry standards in order to operate. However, as the CMA has observed, there are currently no licensing requirements and the industry is largely unregulated. This means the quality of service provided to consumers and the standard of care for their loved one is very inconsistent across the industry, with some funeral directors focussing on low prices at the expense of the quality of service and standard of care they offer. As the CMA has recognised, there are some aspects of a funeral director's service which consumers may not be aware of before the funeral service, or at all.
- 2.6 At Co-op, high levels of quality of service and standards of care are of primary importance to us. We have taken steps to improve our quality of service by developing an end-to-end digital platform for our internal systems to improve client experience through improved consistency and engagement. We will also be investing significantly over the next five years to create an industry leading estate and infrastructure.
- 2.7 We appreciate that accessing accurate information that gives the CMA a view of standards of quality in the industry will not be straightforward. In our view, several complementary ways of seeking this information are likely to be necessary, including:
- (a) Asking detailed factual questions of funeral directors about the deceased's journey in their care, at every stage, including in relation to facilities, personnel and equipment used; and
 - (b) Qualitatively surveying those third parties who have enough regular interaction with funeral directors to have an informed view. That might include hospices, care homes,

¹ <https://www.co-operativefuneralcare.co.uk/arranging-a-funeral/funeral-choices/compare-funeral-choices/>

² Co-op owns approximately 20 private name funeral homes in Northern Ireland which have not been re-branded but their frontages all include a plaque to ensure Co-op's ownership is clearly visible.

coroners, crematoria/burial grounds and doctors who all work regularly with funeral directors and see some element of their "behind the scenes" service.

- 2.8 We encourage the CMA to start gathering this evidence in order to better understand where quality issues arise (front of house and behind the scenes) and also the relationship between price and quality.

First contact with consumers

- 2.9 The CMA observes that once an initial choice of funeral director is made, but potentially prior to a full discussion of costs and options, consumers are already committed to their early choice of funeral director. It has concluded it will not look at the role of coroners, care homes or police removals in relation to this choice as it has identified only a very small proportion of the market that is affected by contracts between such intermediaries and funeral directors. We would note that many such arrangements are likely to be informal rather than formal contractual arrangements and the CMA should, in the course of its market investigation test the extent of such informal referral arrangements.

3 Existing Competition

- 3.1 Although we recognise that there is more to be done, it is important that the CMA recognises that the market is not static and there is already a significant level of competition, innovation and disruption that is taking place in the at-need funeral services market, which should not be underplayed.
- 3.2 Practical experience in the last few years has shown competitive responses in action, for example Dignity responded to our price reductions for our Simple funeral package by introducing its direct cremation option and we have also had to respond to subsequent price cuts by Dignity for simple funerals.
- 3.3 These developments cannot be regarded as fringe activities, relevant to only a small proportion of clients. Simple funerals already constitute 20% of all of our at-need funerals and over 30% of our pre-need clients have chosen a simple funeral. As the CMA recognised, this is the highest proportion of all the national chains and reflects a commitment to presenting Simple funerals, and now Cremation Without Ceremony, as mainstream choices. Pre-need itself constitutes a growing proportion of our funerals, with pre-need plan redemptions currently accounting for approximately one quarter of all the funerals we conduct.
- 3.4 The CMA's interim report notes the extent of new entry into the industry, with most funeral directors reporting that they had seen new entry. However it also discounts the impact of new entry. As the CMA notes in the context of crematoria, the death rate in the UK is more or less constant and the number of funerals conducted is therefore fixed. 500 new entrants must therefore have won some degree of share and therefore exerted competitive pressure on existing funeral directors. The dynamics of local competition and the impact of new entry in particular is something for the CMA to look more closely at in a market investigation.

4 Interaction with the Pre-Need Sector

- 4.1 We have previously explained the importance of the pre-need sector to understanding the dynamics of competition in the at-need sector. As the CMA has acknowledged, there is a growing trend towards pre-need funeral plans, with more consumers opting to purchase a pre-

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need plan so that they can make an informed choice about their own funeral arrangements and the relevant costs, and to take the worry away from their loved ones.

- 4.2 The CMA proposes, in its draft Terms of Reference, to exclude from its definition of the at-need funeral services market the provision of pre-paid funeral plans and services provided pursuant to such plans. It does however accept that the take-up of pre-paid plans may be relevant to the extent it is having an impact on demand for at-need funerals.
- 4.3 Whilst we agree that the provision of pre-paid funeral plans should be excluded from the definition of the at-need funeral services market, we note that HM Treasury's separate investigation is not focussed on the delivery of pre-need funerals at redemption, except in respect of the prudential risk of there being insufficient funds to service the plan. However, whether a funeral purchase is made at the point of need or pre-need, in both cases a funeral will need to be delivered and consumers have certain expectations about the quality of service and standard of care that will be provided by a funeral director when delivering that funeral.
- 4.4 Given that many funeral directors deliver both at-need funerals and redemptions of pre-need plans (in some cases on behalf of a third party that sold the plan) it is important that any CMA remedies targeted at improving funeral directors' quality of service for consumers and standard of care for the deceased apply to both at-need funerals and pre-need redemptions in order to ensure consistency and to avoid perverse or unintended outcomes that might arise from regulating the delivery of some funerals but not others. For that reason, we believe it would be appropriate for the scope of the Terms of Reference to extend to the delivery of pre-need funerals at the point of redemption, as well as at-need funerals, to ensure that any potential remedies targeted at improving quality of service and standard of care in delivering a funeral can apply across the industry.

5 Changes in the Market to Date are for the Long-Term

- 5.1 The CMA's interim report suggests that recent strategies of the large funeral directors in relation to low-cost funerals have been driven, at least partly, by media and government interest in the price of funerals and it has questioned the extent to which their strategies are a long-term commitment in the absence of such external pressures. Further, the CMA does not believe that the drivers behind the price rises seen in the past 15 years have fundamentally changed.
- 5.2 From Co-op's perspective, we have made a long-term commitment to doing right by our members, clients and the community. This commitment has led the way on our business strategy to grow our market share through delivering value for money to our members and clients. We have done this by improving member discounts and rewards, re-launching our Simple funeral package early in 2016 and reducing the price of it in September 2018 as well as launching our Cremation Without Ceremony package in May 2018. Prices of our Traditional and Classic funerals have also not risen in the last 18 months despite rising costs and ongoing investments. We remain committed to ensuring our prices are affordable and accessible. These are public commitments to new products and new ways of presenting information transparently that we would not wish to reverse, and we could not, in any event, readily reverse. We have also invested significantly, and are continuing to do so, in our internal systems and our estate in order ensure that we are providing a consistently high quality of service and standard of care.
- 5.3 The growth of the pre-need sector is also having a long-term impact on the dynamics for the at-need funerals services market. Currently, redemptions of pre-need funeral plans account for 20% of funeral services for Co-op, but over 30% of Co-op's pre-need clients have chosen a

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Simple funeral and we are expecting this figure to grow even further as the market continues to grow. Marketing for pre-need consumers is also relevant to and targeted at at-need consumers. Pricing for pre-need plans is likely to influence at-need pricing as consumers have more visibility of these prices and can benchmark against prices quoted.

- 5.4 As regards Dignity, irrespective of the ambitions or expectations of its shareholders, it is clear that Dignity was forced to react to our price reductions and improved transparency as a result of commercial, rather than simply regulatory pressure. For them, as for us, the steps taken towards new products and further transparency are not matters that can be readily reversed.
- 5.5 Our experience is that the substantial new entry in the industry has had an impact and this requires further exploration in a market investigation.

6 Crematoria

- 6.1 Co-op welcomes the CMA's provisional findings as regards crematoria services. We don't own any crematoria and therefore we deal with crematoria as an intermediary for our clients. We don't apply any margin when we pass on crematoria fees as disbursements to our clients. Given that approximately 80% of funerals that take place nationally are by cremation, rather than by burial, this is a very important issue for our clients and we are fully supportive of the CMA's provisional findings in relation to this market. An inability to manage cremation costs and inflation on those costs has been a real barrier to our ability to offer prices that include third party disbursements and so give clients the cost certainty and clarity that would help them.
- 6.2 We encourage the CMA to carry out more in-depth economic analysis into the parameters of competition between crematoria, the impact of a lack of effective competition on pricing and profit margin analysis. For example:
- (a) Local geographic competition is an area where the CMA has significant experience in a range of other markets. The CMA should build on the evidence presented in the interim report to refine its conclusions on local competition between crematoria. The CMA's interim report suggests that in a limited proportion of local areas where more crematoria are present, prices are lower, which is consistent with local price competition working (at least to some extent) where competitors are present. However, the CMA also reports that incumbents do not respond to new local entry by lowering prices, which would suggest that local price competition is not functioning effectively.
 - (b) The CMA notes in the interim report that high fixed costs for crematoria lead to economies of scale, which limit the number of suppliers that can operate profitably in a particular local market. We encourage the CMA to gather further evidence from market participants in order to test these initial findings and better understand the crematorium business model. In particular the interim report mentions a number of times that there is limited scope for *profitable* new entry by crematoria in local areas. Business model analysis would allow the CMA to test whether this assumption is correct.
 - (c) The CMA also notes that demand for crematoria services is relatively fixed. While this may be true at a local market level, in those areas where there is more than one provider, demand for individual providers is not fixed as they could in principle lose significant business to a rival. The CMA could do further analysis to understand whether it is fixed demand or rather supply side issues such as crematorium capacity during peak times that are most relevant.

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- (d) There is little if anything in the interim report about crematorium profitability. Further analysis by the CMA may confirm our expectation that profitability is high. The CMA may also wish to consider whether there is a relationship between individual crematorium profitability and the number of crematoria in a local market.
- (e) The CMA's survey found that 26% percent of respondents had a choice of crematoria but did not compare their options. The CMA should explore why that choice was not exercised, and what (if anything) could have been done to ensure that a more active choice was made.
- (f) We encourage the CMA to look further at the availability of cremation slots. In practice, fewer hours are affecting quality as they lead to longer intervals between a death and a funeral. If fully informed and provided with choices, there is likely to be demand for a wider range of hours that shorten that interval and also ultimately reduce prices.

7 The potential for remedies at the end of a market investigation

- 7.1 We recognise that the question of phase 2 remedies remains some way away and will need to be specifically designed to address any features of the market that, based on the evidence reviewed in a market investigation, are ultimately identified as adversely affecting competition.
- 7.2 In our view, the intrinsic structural reasons for the market power of crematoria means that there is likely to be a stronger case for intervention in the crematoria market than for at-need funeral services, where ultimately there are many suppliers capable of offering choice to consumers and exercising competitive pressure on each other. As the CMA will already be aware, any remedies will need to be designed with care to ensure that they are proportionate to achieving their intended outcome without any perverse or unintended consequences. We look forward to engaging with the CMA in relation to potential remedies in due course.

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