

## **COMPETITION AND MARKETS AUTHORITY FUNERALS MARKET INVESTIGATION**

### **Summary of hearing with Dignity plc held on Friday, 26 July 2019**

#### **Introduction**

1. Dignity plc (Dignity) said it had three main points to make: that people do not choose Dignity randomly but seek them out; that the funeral business is experiencing massive change; and that crematoria are capital intensive businesses (and the pricing reflects that).
2. On the first point, Dignity noted that two-thirds of their customers had used them before or been recommended by someone who had. Because of this, the price was what they expected or less. Dignity said that people also seek them out for quality, both front of house (seen) and back of house (unseen).
3. On the second, Dignity said significant and rapid change is affecting the market. This is in part a consequence of a significant reduction in religious content and an increase in alternative arrangements (such as direct cremation). Digital was making a big difference too. People are going online and seeking information. Dignity commented that price competition was becoming more vigorous too, expressing some concern that the outcome of the CMA's market investigation could create a race to the bottom in terms of professional standards.
4. On the third, Dignity said that prices in the crematorium market fairly reflects the amount of capital that is invested in it.

#### **Strategy**

5. Responding to a question about the competitive quality of its funeral director business, Dignity said that it believed the quality of its funeral director services was better than [§<].
6. The CMA noted that post-acquisition many of Dignity's acquired businesses' prices have increased. The CMA asked whether this was because the acquired businesses had previously under-priced their services. Dignity said

that might be the case in some instances while noting that they invested heavily in the newly acquired businesses.

7. The CMA asked whether the price increases implemented by Dignity following acquisitions reflected increased in quality.
8. Dignity said that there was a broad range of prices, quality and professionalism in the businesses acquired. Dignity encourage staff to do things the way Dignity would like them to. Physical investment tended to be in the back of house facilities.
9. The CMA said that it knew, from Dignity's own internal documents, that its pricing was higher than the market as a whole and wanted to understand better the relationship between the price charged and the quality of service provided. The CMA further noted that the retention of existing customers implied that they would buy from the same funeral director, regardless of the price/quality equation.
10. Dignity said that price was an important element in achieving a return on its investment and that, in some instances, business volumes would go down post-acquisition (ie some customers would go elsewhere).
11. The CMA noted a change in Dignity's strategy late 2017/early 2018. Dignity said that it was responding mainly to a material deterioration in its volumes in 2016 and 2017. Dignity attributed this to the Co-op competing more aggressively on pricing and broader changes in the market, a consequence of people making different funeral choices. Dignity said that it made material reductions to prices across 2018, in response to these changes. While reducing its profits, this did stabilise volumes.
12. The CMA noted that Dignity's market share had remained stable for a long period of time, including in 2017 and 2018. Dignity said that there was a noticeable change in the underlying market share (net of acquisitions) and that this made it clear that its pricing strategy was not sustainable.
13. The CMA asked Dignity about its acquisition strategy. Dignity confirmed that early in the second half of 2018 it decided to stop making future acquisitions. Dignity said that, in the past, the main way of acquiring new customers was buying the goodwill of well-established businesses. Dignity said it was now looking at acquiring customers in a different way, through digital and other forms of promotion.
14. The CMA asked whether the price sensitivity of customers was new. Dignity said that one of the reasons it had lost volume was new people coming into the market. As there were more alternatives, some people were choosing

these cheaper alternatives. However, others preferred to prioritise a high quality option. Dignity concluded that people were making informed decisions and voting with their feet.

15. Dignity said its online Simplicity product was introduced in response to a fairly small, but rapidly growing demand for a different type of funeral. Dignity stated the features of the product to the CMA. Dignity acknowledged that, if the segment of the market for direct cremations grew, this would shrink the traditional market. Dignity speculated that Simplicity-style funerals, over a period of time, could grow to account for 10-30% of the market.
16. The CMA asked what projections Dignity had made about the impact of lower-price funeral products on its bottom line. Dignity said it had not done detailed projections about the impact on its own business. However, Dignity did choose to be a part of the market and was investing in marketing its Simplicity product line.
17. The CMA asked about the interaction between the pricing of pre-need and at-need services. Dignity explained that the purpose of pre-need was to attract customers who might have gone elsewhere. People compared Dignity prearranged funeral plans with its competitors' products. Dignity said it was moving towards a universal price for its prearranged funerals so that it reflected the price online, as opposed to its previous approach which was a bespoke price arrangement in the branch derived somewhat from the at-need branch pricing. The prearranged funeral price is a combination of what price is being charged in the market today and what Dignity think it will cost to provide the funeral ten years from now.
18. The CMA asked why Dignity substantially cut the cost of its simple funeral in January 2018 to match the Co-op rather than price above it. [3<]. Dignity noted that in late 2018 Co-op reduced its simple funeral price by a further £100. Dignity did not similarly choose to reduce its prices further in response.
19. The CMA asked whether funeral directors are moving towards a single pricing message, leading with the simple funeral price. Dignity said that its own websites would state both the simple funeral price and the full-service funeral price, but that it was fair to say that a lot of people were leading with the cheapest price in their promotional material.
20. Dignity explained that it would like to harmonise prices across its business over time, but that it did not feel able to do that at present given local conditions. In explaining its pricing strategy, Dignity noted that the culture in its businesses had been: "This is what we charge. This is what we will do for you and we will not charge you an additional fee". Dignity said that the culture

it was moving to was to have a lower entry full-service price encapsulating core elements needed for a funeral, then allowing customers the opportunity to add additional services. Dignity said that this tailored approach would help to empower customers to make informed choices about what additional services they wanted.

21. Dignity would roll out its new strategy on a regional basis. It was trialling the current version of the tailored funeral in Northern Ireland, the South West and North London. Initial feedback had been positive from both customers and staff. Dignity noted that the price people were paying for the tailored funeral was lower than the full-service funeral and that this had reduced its overall average income from what it had been historically.

## **Competitive constraints**

22. The CMA asked whether, based on Dignity internal documents, the presence of Dignity within a local area meant that its competitors' prices were higher than if they had not been present. Dignity said that no causal inference could be drawn from the internal documents the CMA was referring to because of the limited sample size. The CMA asked whether Dignity monitored the impact of an acquisition on prices in a local area post-acquisition. Dignity said that while it knew what it charged, it did not have precise information about prices being charged by its local competitors.

## **Sales practices**

23. The CMA asked about Dignity training materials and, specifically, to clarify what the position was on when full price information was first provided to customers. Dignity said that a quotation would initially be given over the telephone and this would be followed up by an email providing more detailed information about the simple funeral and then the full-service funeral, including Dignity's price list. The CMA noted that the information was provided in a 'prices from' format. Dignity said that the email contained links that could be clicked on to provide more detail about prices.
24. The CMA asked about funeral directors' ability to influence the use of crematoria. Dignity said that the majority of families had a view about which crematorium they wanted to use. Sometimes there is a choice and sometimes there was not. Where there was a choice and the family did not have a firm preference, then the funeral director would talk to them about what was available in the local area. The funeral director did not take the decision for the family. Dignity branches were not encouraged to express a preference for Dignity crematoria.

25. The CMA asked whether, from a corporate perspective, there was any benefit in owning both a crematoria business and a funeral director business. Dignity said that it had historically operated its pre-need business, crematoria business and funeral director business as three separate silos, but that it was now trying to make those three businesses work together (because of its Simplicity business).
26. The CMA asked whether Dignity was aware of any funeral directors' block booking peak-time crematoria slots. Dignity said that it had not seen any evidence to suggest that funeral directors, whether Dignity or independent, were block booking peak-time crematoria slots.
27. The CMA asked why Dignity training guidance stated that funeral directors should quote the burial or cremation fee, but not the costs for any other external payment. Dignity said that this was because Dignity knows the fee for the burial or cremation in advance as it was fixed, but it did not know how much other costs might be as they varied depending on what the customer wanted for the funeral in question. Dignity also confirmed that the burial fee or cremation fee were straight pass-through costs (ie Dignity did not add any additional cost onto what was charged to the customer).
28. Dignity said that the funeral director fee might change if the crematorium was further than 20 miles away (an additional mileage charge). CMA asked why crematoria did not appear to discount to encourage funeral directors to work with them. Dignity confirmed that the same crematorium fee was charged to all funeral directors, including Dignity funeral directors. CMA asked whether offering discounts might encourage funeral businesses located further away to use their services. Dignity said that this was not something it had considered.
29. Dignity confirmed that the internal charge for a direct cremation (Simplicity) was the same as the external charge for a direct cremation.
30. The CMA asked about Dignity's motivation for paying commission to staff for selling memorials and pre-paid plans. Dignity said it regarded sales of pre-paid plans as 'win-win' because there were benefits for the client (peace of mind, financial security) and it secured future business for Dignity. Sales of memorials were pre-planned and the client making the purchase was not immediately bereaved (i.e. was not in an emotional/vulnerable state). Dignity said it did not believe it would be right nor did it incentivise sales of at-need funerals as it would not be appropriate to financially incentivise staff in circumstances where the client was immediately bereaved.
31. The CMA asked about the obliqueness of the description of funeral director services on an anonymised bill it had received from a complainant, noting that

it referenced a huge number of activities but did not seem to be transparent about what was provided. Dignity noted that the form of invoice was introduced in late 2013 and was designed to try to provide more information to customers about what the funeral director did as they did not necessarily know what they did.

32. The CMA asked about the marginal cost of operating hearses. Dignity said that the marginal cost was relatively low. The single biggest cost was the capital tied up in the vehicle, but Dignity did not have information about what the cost per journey per funeral was, as it would depend on how many journeys that hearse did.
33. The CMA asked whether consumers might be influenced by the payment terms available for different packages. Dignity said that for the simple funeral they requested disbursements at the time of arranging the funeral and the balance 48 hours before the funeral took place. For a full-service funeral, the invoice was produced seven days after the funeral and was immediately payable.
34. The CMA asked for Dignity's comments, in relation to an anonymised complaint, about a statement made to the complainant by a former senior Dignity employee about it being necessary for there to be a seven per cent price increase to maintain the quality of Dignity's funeral offering. Dignity said that the statement was not worded well.

## Quality

35. The CMA asked whether Dignity's current view was that price was not the current determining factor in overall choice and that customers were 'pretty happy'. Dignity said that it had significantly reduced its prices because the decline in its volumes had shown that its pricing had been in the wrong place. But Dignity considered that the evidence continued to suggest that price was not the number one factor for people and that they chose based on quality. Dignity did though think that customers were more price-sensitive than in the past and that the market was much more competitive than it was.
36. The CMA asked how Dignity's prices had risen in relation to its costs. Dignity said that over the last five-year period (2014-2019) the cost per funeral had increased [~~3~~]% per annum, whilst its revenue per funeral had only increased [~~3~~]% per annum over the same period. Dignity agreed that its historic price increases had been in the range of [~~3~~]% for 15 years or so. Dignity considered that its costs had gone up by a similar amount over the same period. Dignity noted that it did not allocate costs across different types of

funeral or allocate central overheads down to the individual divisions of its business.

37. The CMA asked Dignity to expand on its comments about its policy of purchasing businesses that had been successful and statements made in its submissions to the CMA that the quality of some funeral director businesses, particularly in relation to back of house, was poor. Dignity confirmed that where it acquired businesses whose back of house facilities were not of a suitable standard, that it did invest heavily in improving them. The CMA asked whether it was the case that the businesses with good reputations that Dignity acquired were not of the quality people might think. Dignity said that clients assumed that funeral directors were regulated, but they were not and back of house quality varied, but it generally it expected to have to do work behind the scenes post-acquisition.
38. The CMA asked how quality manifested itself in the competitive process, if quality was not obvious and businesses could have good reputations even though their behind-the-scenes quality might not be so good.
39. Dignity said there were two aspects to quality: the seen quality (how people in the branch dealt with the customer, time given, attentiveness, etc) and the behind-the-scenes that customers did not see (ie the mortuary where the deceased was kept, the facilities used by embalmers). Dignity said that it believed (but could not prove) that where the behind-the-scenes facilities were good and funeral directors were open about what was going on behind the scenes, that staff might behave more professionally.
40. Dignity said that it believed that it operated to a high standard compared to the rest of the industry, while acknowledging that its own standards could be higher and that it was working to improve them further.
41. The CMA asked about instances of failed inspections of Dignity mortuary facilities. Dignity confirmed that it had failed inspections in relation to two acquisitions and that they had closed one site at the point of acquisition for remedial works and then carried out remedial works on the other site when the first could be reopened. Dignity noted that if all 830 of its locations were all looked at forensically that some would not be up to standard, but across the piece you would find good quality facilities. The CMA asked Dignity, based on its experience from acquisitions and the investments it had had to make post-acquisition, to provide it with evidence of poor quality to substantiate its statements made in its submissions to the CMA that quality in the sector was not as good as it should be.

42. Dignity confirmed that inspections of funeral director facilities by outside agencies occurred 'very, very, very rarely'. The driver for Dignity seeking to run high quality back of house facilities was entirely self-generated and not driven by outside agency inspections.
43. The CMA asked why Dignity usually kept the acquired funeral director's name above the door post acquisition. Dignity said that Dignity's name and the local name was on the signage; all the literature in the branch and note paper had Dignity's name, but that it would have paid a lot of money for the goodwill and reputation attached to the local name. While it did not hide the ownership of the branch, it was difficult to promote a funeral business which was why it valued the goodwill of the local name. Dignity did also note that this was changing as more people were looking for a funeral director online which is why Dignity was investing more in digital and putting resources behind the Dignity name.
44. The CMA asked for Dignity's opinion on the ICCM Charter for bereavement and its framework for assessing quality. Dignity said that it did not subscribe to it, preferring its own monitoring of quality, and was therefore unable to comment. The CMA asked about the FBCA inspection process. Dignity noted that the FBCA process was still a work in progress and that it was engaged in the work. Dignity's expectations were that it would be good for the whole industry and would raise standards across crematoria.
45. Dignity said, in talking about its investment in crematoria (both established and new build), that it wanted the offer of its crematoria to be consistent whether it was in Scotland or Cornwall, with the same options to choose from to so that customers could personalise their service.
46. Dignity said that its brand in the crematorium market was not significant because this was more about the local name, and because Dignity had a different brand for its crematorium division. Dignity said that the vast majority of its customers were not Dignity funeral directors, but competing funeral directors. Regarding Dignity crematoria prices, Dignity said that it was in the top segment on price but consistently offered longer services so, on a price per minute basis, Dignity was not at the top. Dignity also noted that some local authorities did not state the additional mandatory fees that were payable, making their fees look lower than the fee that was actually charged. It was also noted that local authority fees were shown in the Directory of Crematoria as a 'from' price in over 80% of cases.
47. Dignity confirmed that it was contemplating a group name change but had not yet determined to do so.

48. The CMA asked about the provision of financial information on the Dignity website noting that the CMA had not found the information aimed at investors, on its consumer facing website. Dignity said that its website was constantly going through iterations and that the PLC's financial information was available and very visible, noting that, as a public company, it could not hide any financial information (and did not seek to do so). It also said, in relation to its website and design, that it was investing in its three distinct consumer-facing brands: Dignity (the funeral director brand), Simplicity (the direct cremation brand), and CMG (the crematoria brand) as distinct, separate businesses.

## **Crematoria competition**

49. Regarding its crematoria business, Dignity said that its Trajectory research had confirmed that one of the key things that 49% cent of people surveyed were looking for was a 45 minute or longer time slot as a desirable feature of a crematorium. Also of importance were professional staff, a well-maintained chapel, value for money, adequate parking and well-kept grounds.
50. The CMA asked about Dignity's crematoria revenue expectations and how these were set. Dignity said that its budgets were set annually. Dignity confirmed that historically cremation price increases had been implemented at approximately [X]%, but noted that in the five-year period since 2014 Dignity's cost per cremation had increased at a compounded rate of [X]% per annum. Dignity said revenue per cremation over this period went up less than the cost per cremation, by [X]% per annum. Dignity noted that the increase in direct unattended cremations had increased volumes and that the price per cremation was, therefore, likely to come down.
51. The CMA asked what customers did when they could not get a slot in the peak 11.00am to 3.00pm window, whether they took an alternate time and date slot or went to a different crematorium instead. Dignity's opinion based on anecdotal evidence was that they would usually take an alternate time and date and generally not move crematorium.
52. The CMA asked how Dignity built up volumes at new crematoria. Dignity said that the opening of a new crematorium would generate a lot of excitement and local funeral directors would all know about the new build. Dignity would engage with the local funeral directors and over time a new crematorium would attract more custom through word of mouth and customers' past experiences, volumes typically reaching a mature level within 5 years. Dignity said it did take time for people to move to a new crematorium, but if it was more convenient and the facilities were fit for purpose, it did get adopted by the local community as they became more familiar with it.

53. With regard to competing for new custom, Dignity said that as choice was driven by the family, incentivising the funeral director to influence choice of one crematorium over another was not a relevant consideration. Dignity's typical response to new competing crematoria was to extend the service time at its own crematoria. Dignity could not recall any instances of having to withdraw price rises because of new entry.
54. Dignity considered that the impact of direct cremations on the market was '...potentially, a game-changer'. It considered that not many more new crematoria would be built because it would not be economically viable to do so at current price levels in all but a small number of places. As such, the market was less likely to be disrupted by new entry (compared to the many new entrants in funeral director services).
55. Dignity added that obtaining planning permission was a financial hurdle, adding that there was an inherent conflict of interest within a local council which ran a local crematorium and also had 100% control of the planning regime.

## **Profitability**

56. CMA noted that Dignity had said that it acquired businesses because it was difficult to set up a funeral director business on the one hand, while the number of funeral directors had increased, according to Dignity, from 4,000 in 2002 to c. 7,000. Dignity said that it was easy to set up as a funeral director but was difficult to do so profitably.
57. Dignity noted that to set up as a funeral director business very little capital was required, no training was required, and no previous experience was required. It however took entrepreneurial zeal and took many years of hard work to establish a profitable business. It was difficult to replicate a 10, 20, or 30-year well-established local business and this was why Dignity's acquisition strategy had been based on buying established and successful businesses. The extent of churn in the funeral director market was also noted during the hearing, with further empirical evidence of this churn submitted by Dignity.
58. Dignity confirmed that its funeral director business had been operating at an EBIT margin of around [X]%, after the allocation of costs, but that the latest projections for 2019 suggested it was now nearer to [X]%. Dignity said it did not know what a sustainable margin might be for its business. This was because pricing was under pressure and Dignity was going through a transformation process at present, further affecting its costs. It was also unclear what would happen to its volumes or what its future marketing spend was likely to be. Marketing spend was expected to grow. Dignity noted that

there might also be some reduction in costs, since it had stopped making acquisitions, but that it was incurring transformation costs as it continued to invest in its business. City expectations of group operating profit over the next three-year period were noted to be 'flattish'.

59. Dignity explained how its pre-paid plans worked, indicating that the amount of money held in trust grew typically by a rate slightly above inflation, so that when the person died that money was available to cover the cost of the funeral at the point of redemption.
60. The CMA noted that the time between death and burial and/or cremation was on average getting longer. Dignity confirmed that, Northern Ireland aside where the funeral was typically held the same week as the death, there was typically a two to three-week delay in the rest of the UK. Dignity noted the completion of cremation documentation in large hospitals, getting an appointment to register the death, and getting the time the family wanted at the local crematorium as factors causing that delay.

## **Remedies**

61. The CMA noted that it had not decided whether it was necessary to have any remedies and, if it was, what these might be. The CMA asked some questions about potential remedies.
62. The CMA asked why Dignity considered a safeguard price cap on a certain package not to be feasible. Dignity said that while you could specify a package the quality elements might not be comparable (eg the vehicle used could be a 'brand new Mercedes Limousine or hearse' or 'a £600 one bought off eBay'). Dignity further suggested that quality was about what the customer could see and what the customer did not see. In its view, a system of licensing and regulation was required to ensure a level playing field, to ensure that customers received the same value in terms of facilities 'behind the scenes'.
63. The CMA asked what standards Dignity thought should be set in such a system. Dignity considered that, compared to the rest of the sector, it was operating at an appropriate level (and that its standard would be above any minimum acceptable industry standard). Dignity said it would be supportive of the introduction of minimum industry standards, noting that its own research had found that people already expected training of staff, supervision of staff and quality of facilities to be consistent across the sector, though mandatory minimum standards are not in fact currently in place across the sector.

64. In relation to prices, Dignity confirmed to the CMA that the price its customers were quoted and what they paid was the same.
65. There was a discussion about the price of crematoria slots, specifically whether people looked at the price of the slot itself or the cost per minute information and how that might impact on their decision-making. Dignity said that the consumer needed to know exactly what they were paying for and what the length of the slot was. Dignity confirmed that 75% of its crematoria offered one hour slots; the remainder offered 45-minute slots. It considered that timeslots should not be mandated to be this length and that, in some circumstances, a 30 minutes time slot could be acceptable to certain customers provided that they were fully aware of what they were paying for. However, in Dignity's own view one hour was best.

### **Concluding comments**

66. Dignity made several concluding points. The first was that customer behaviour was changing, asserting that funerals were not the taboo subject they once were. This was evidenced by people talking more about what they wanted and the increased purchasing of pre-need funeral plans.
67. The second was that more consumers were using the internet to research and arrange their funeral options and that was, in turn, driving increased visibility of options and prices, which was making consumers more price sensitive and more inclined to shop around.
68. Thirdly, consumers increasingly wanted bespoke funeral services tailored to their needs and the range of options open to them was increasing, with non-religious options becoming increasingly popular, meaning that it was the crematorium rather than a church that was the primary place where the service took place. In addition, direct cremations separated the immediate need to cremate a deceased from the remembrance service.
69. Lastly, Dignity wished the CMA to note the passion that Dignity staff had for providing excellent quality of service to meet the needs of customers, noting the changes made to its business practices to reflect changes in consumer behaviour. These included Dignity building out its online presence, developing the Simplicity direct cremation business, decreasing the price of a simply funeral and moving to unbundled prices, and rolling out its transformation programme.