

FUNERALS MARKET INVESTIGATION

Summary of the hearing with Funeral Partners held on Friday 26 July 2019

Background

1. Funeral Partners was founded in 2007. It has a buy-and-build business model; it opens some new branches but generally its growth is through acquisitions. It trades strongly on the local brands it acquires, using the local names, and focusses on having high levels of observable (front-of-house) and unobservable (back-of-house) quality. Funeral Partners considers itself to be a high-quality operator.
2. Funeral Partners said that the market was highly fragmented and very competitive. Funeral Partners said that it competed at a local level and it did not view the larger national funeral providers particularly as its main competitors, but predominantly the independent sector which represented 71% of the market. Competition at the local level helped constrain pricing, and innovation in the market ensured that families had varied choice, in terms of different funeral directors, models and propositions.
3. Funeral Partners recognised that there were some issues in the market, but that these issues were not as a result of a lack of competition. It said it thought that price regulation would be disproportionate and could lead to unintended consequences such as a lack of focus on unobserved quality, which it believed was strongly important. It believed that clients made an assumption that unobserved quality was already regulated and controlled in some way.
4. Funeral Partners commented that the market could improve but that the improvements were already happening. The market is dynamic and changing, with improvements being made to the industry, such as prices being reduced and the trade associations working together. For example, both trade associations already insisted that estimates were provided for a funeral. Funeral Partners said it would be very supportive on the issue of price transparency and the display of like-for-like pricing, both online and in-branch. This would need to be on the basis that there was a consistent level of quality behind the scenes which was supported by legislation. Funeral Partners also

indicated that it would support any government funded campaign about funeral awareness.

5. Funeral Partners noted that the draft Scottish Code of Practice was currently at the consultation stage. The Funeral Service Consumer Standards Review (FSCSR), which included representatives from consumer groups and non-members of the trade associations, were working together with a view to forming recommendations (in relation to a national code of practice, legislation and compliance controls) to submit to the Competition and Markets Authority (CMA) and government.

Pricing and quality

6. The CMA asked whether Funeral Partners set its price and quality standards locally or nationally. Funeral Partners responded that its prices were set regionally but it might adjust them locally, if necessary, to respond to increased price competition. It typically reviewed its prices annually, conducting a benchmarking exercise (mystery shopping) to map local competition and prices.
7. Funeral Partners said that it monitored both the larger funeral providers such as Dignity and the Co-op, which were easier to monitor, and the independents, which made up most of its competitors, but were harder to monitor. Funeral Partners' pricing relative to Dignity and Co-op varied by branch; sometimes Funeral Partners priced between the two and sometimes priced below Co-op.
8. Funeral Partners believed there was a direct correlation between price and quality and said that its view was that its back-of-house quality would be of a similar standard to Dignity. In relation to observed quality, it invested significantly in its people, its fleet and its properties, which it understood were valued by its customers.
9. Funeral Partners put itself forward as a high-quality operator. The CMA asked what Funeral Partners did to measure its own quality, and how it went about setting its own standards. Funeral Partners said that its own standards were based on its experience, what was best practice in the profession. It had published a very strict policy and standards manual and then monitored its standards by management visits and a formal audit process. It also had a risk governance framework within the business so that any issues giving cause for concern were escalated to Board level if necessary. Funeral Partners was also subject to inspections from the National Association of Funeral Directors.

10. Funeral Partners commented that its pricing and profitability enabled it to continue to invest in observable and unobservable quality, both of which were valued by consumers. When asked how investment in back-of-house quality impacted the competitive process when consumers did not see it, Funeral Partners said that poor back-of-house facilities could affect the overall reputation and therefore competitiveness of a business. For example, Funeral Partners submitted that some people saw back-of-house and those people could influence the business's reputation. Doctors saw the back of house, certain faith groups used the washing facilities, and, importantly, employees see back of house. Good staff members typically cared about back of house quality, so having high standards enabled the company to attract and retain the best staff.
11. Competition occurred at a local level and the majority of funerals provided were traditional funerals. The vast majority of families chose funeral directors on the basis of reputation and recommendation, but an increasing number were interested in price and this acted as a constraint. Funeral Partners did not consider that online pricing (for basic funerals) was particularly helpful because the overall price for a traditional funeral was where most of the competition took place.
12. Typically, annual price increases had been implemented across the board, but this year, more than in previous years, Funeral Partners implemented price reductions (in response to local competitive price pressure), along with marginal price increases and standard price increases (to suit local markets and to cover increased costs). Funeral Partners had witnessed a great deal of new entry, either from new funeral directors, or existing businesses opening at another location, and this entry exerted downward price pressure. Funeral Partners had not seen any evidence that the independents followed the lead of the large national chains when it came to pricing.
13. Funeral Partners had looked at unbundling its services and was conducting a small trial in selected branches centred on its basic package with a reduced starting price, in which the bereaved could opt in and out of certain services. This trial, while still in early stages and of smaller size, had resulted in a range of outcomes.
14. In response to a question about Funeral Partners' direct cremation offering, Funeral Partners explained that it had acquired two businesses (one in Keighley and one in North London) whose business models were based on offering low-priced funerals. This was a market in which Funeral Partners struggled, owing to the costs associated with its high-quality back of house standards, and as a result had very low margins. Direct cremation was

available in all of its branches if the client wanted it, but it was not actively promoted.

15. In Funeral Partners' experience (based on direct examples from the businesses it had acquired) there was significant variation in terms of the minimum standards of unobservable quality in the industry. Sometimes the unobservable quality issues identified in its experience related to legislative and physical compliance (eg the lack of a mortuary or refrigeration which were necessary and therefore Funeral Partners invested in and provided).

The market

16. In response to the CMA's question about trends for direct and/or simple funerals in the industry as a whole, Funeral Partners' view was that traditional funerals comprised the majority of funerals and would continue to do so for the foreseeable future, while simple funerals accounted for less than 20 per cent of the market.
17. The increasing use of pre-paid funeral plans acted as a competitive constraint as consumers became more funeral aware; depending on who the plan was taken out with and what the redemption value was, then that could affect the price of the average funeral and was driving average funeral revenue down.
18. There were four national providers (Dignity, Co-op, Memoria and Pure Cremation) and a number of smaller companies operating in the market for direct cremation. Funeral Partners were aware that, in addition to offering direct cremation, Pure Cremation also provided a trade service to funeral directors, and Memoria had an arrangement to provide direct cremation at a particular price to one of the larger players, and they also offered to subcontract this service. Funeral Partners did not actively promote direct cremation, but the service was available, should clients request it, in all of its funeral homes, priced currently at £1500. Those seeking a direct cremation fell into two categories: those who did not want a funeral, and, those who wanted to separate the cremation from the funeral. Funeral Partners noted that more and more crematoria were now offering a reduced price for non-attended funerals before the start of the day.
19. Funeral Partners noted that some local authorities (LAs) had recruited funeral directors to organise low-cost funerals on their behalf. Funeral Partners did not provide this service to LAs and noted that the introduction of these services had not had any observable impact on the market thus far, noting it was relatively early days. Funeral Partners' main concern was that this competition was fair and that families were not being directed to these LA service providers without being aware there were alternatives.

20. The NAFD and the Scottish Government's proposals required that funeral directors offer a simple funeral. As NAFD members, Funeral Partners already provided the option of a simple funeral in all its funeral homes and it was advertised in its price list. Most families had a set idea of the funeral they wanted and offering a simple funeral would not change the outcome of the conversations Funeral Partners had with the bereaved.

Suppliers

21. Funeral Partners said that it negotiated prices with its suppliers, such as coffin manufacturers, but not with crematoria which published their prices. It viewed this part of the cost of a funeral as being somewhat outside of its control, particularly given that crematoria were mainly in local authority ownership. Historically, Funeral Partners had negotiated the price of direct cremations, but crematoria had also moved to publishing these prices.

Acquisitions and profitability

22. When making acquisitions, Funeral Partners said it looked for a business with a very good local reputation and in an area where it would complement its existing business.
23. Funeral Partners generally increased the prices of the businesses it acquired to reflect the investment it was making (for example in back-of-house facilities) and the ongoing commitment to legislative compliance, but sometimes it was necessary to increase prices because the businesses were considered to be under-priced. Funeral Partners comprises a mixture of businesses and so had varying price points.
24. The market for acquisitions was competitive and Funeral Partners competed with Beverly, Fosters, Dignity and the Co-op for new businesses, although Dignity and the Co-op were currently not very active in the market. [X]. Funeral Partners tried to focus on acquiring larger businesses because it was more efficient to do so, but also purchased smaller businesses where these were able to fit into its existing network.
25. The most important considerations in acquiring a business were its scale, reputation and having a good, strong trading name. Funeral Partners' strategy following an acquisition was to retain the trading name and staff team, and, maintain and improve the quality standards of the acquired business. However, in some instances an acquisition could result in a reduction in volumes which could be attributed to a lessening in the drive and focus of the former owners of the business.

26. Funeral Partners had not seen evidence of bereaved families shopping around on price having the impact of undermining the goodwill of its business acquisitions. Funeral Partners said that people were shopping around now, and there was no evidence that increasing price competition would mean that Funeral Partners would need to impair the goodwill of its acquisitions. Funeral Partners believed that if it had to remove its local trading names, and only trade under a national Funeral Partners brand, this would undermine the value of the brands it acquired [§]. Funeral Partners was transparent about the ownership of its funeral homes which was displayed on the front of the premises, in branch information and promotional materials and in its contracts. Funeral Partners was the umbrella brand, which it would like to think could be a kitemark for quality and understood in that way over time.
27. Funeral Partners continually challenged itself to improve its efficiency and its buy-and-build strategy was tailored to that objective. Funeral Partners was not overly profitable [§], but it operated at a level which enabled it to continue to invest. It had invested heavily in recent years and this investment had impacted on its return on capital. Funeral Partners expected this investment would result in increased returns in subsequent years. Funeral Partners noted that the death rate had been lower during 2019 (at around 6 per cent) than it would ordinarily expect, and this had also impacted its profitability. Funeral Partners had measures in place to make savings and efficiencies and had closed a number of loss-making branches this year.

Choice of funeral director/crematoria

28. Funeral Partners said that families were less likely to change funeral director if they contacted the funeral home directly. It was more common for the bereaved to switch funeral directors in instances where the point of contact originated from a hospice or nursing home which might have informal or contractual arrangements with particular funeral directors to provide after-hours care. However, Funeral Partners noted that the bereaved might also be inclined to retain that funeral director unless they had another one in mind. Some hospitals and hospices did not have mortuary facilities and so outsourced these. Small hospitals might have arrangements with funeral directors to provide overflow facilities if their mortuaries were full.
29. In terms of taking the deceased into care, when a customer approached Funeral Partners, it would typically only collect a body from a hospital once the family had made arrangements and entered into a contract. In instances where a death occurred at home or at night time and there was a need to move the deceased, Funeral Partners would collect the deceased without the requirement for there to be any funeral arrangements in place. Typically, there was then an anticipation that the family would choose Funeral Partners as

their funeral director and thus Funeral Partners offer to go and arrange the funeral, or ask if the family wanted to come in and see them. There was a cost associated with moving the deceased, to which Funeral Partners was exposed, especially if another Funeral Director subsequently collected the deceased from them and arranged the funeral.

30. Funeral Partners submitted that some nursing homes or hospices may have informal or contractual arrangements with a local funeral director to provide after-hours care to bring the deceased out of the hospice or care home, or even some smaller hospitals, where those intermediaries did not have sufficient mortuary facilities. In that instance, while the family could choose to go elsewhere, once their loved one was in the care of a funeral director, the family, if they did not have another provider in mind, might find it easier to engage with that funeral director.
31. Much of Funeral Partners' custom was as a result of repeat business. Funeral directors who provided poor quality service could expect to lose business.
32. Funeral Partners' sales policy was one of choice and it offered a range of products to its clients. It believed that upselling was a short-term strategy which would damage a funeral director's reputation, resulting in them becoming less competitive in the long-term. Funeral Partners noted that while families were clearly bereaved there were a large number of consumers who made rational choices about the products and services (either adding or removing elements) they desired. Quite often, clients were accompanied by family members or friends who helped calibrate decision making. In most cases decisions regarding the choice of funeral director were made before the time of need. Funeral Partners used Key Performance Indicators as a means of monitoring any potential upselling, and to check that a business was offering choice.
33. Funeral Partners offered its clients a choice of crematoria where this was available, but in some instances, there was really only one practical choice because there wasn't another crematorium nearby. Funeral Partners found that families had often chosen the crematoria they wished to use and would only consider an alternative if it was too expensive.

Remedies

34. In relation to any potential safeguard cap on a specified product, Funeral Partners said such a cap would not be feasible, but that it largely depended on the design. While recognising that it was difficult to discuss in the abstract, Funeral Partners said it would be concerned to ensure that any specified package had a certain quality standard too – different funeral directors would

have different cost bases for operating their funeral homes and their standards. Funeral Partners further submitted that any safeguard cap would have to define a funeral, which was inherently difficult and in a dynamic market the definition of a funeral could move on.

35. Funeral Partners supported regulatory minimum standards for unobservable quality across the sector. The CMA asked what incentive there would be for firms to have higher standards for unobservable quality than a regulated minimum. Funeral Partners said that many firms, including themselves, already had unobservable quality that is higher than a minimum – it was part of the company ethos and it would always be a company that wanted to do the right thing. Funeral Partners could use that higher standard to win business if it was of value to consumers, it could say that it has higher than the minimum standards on back of house quality, higher than its competitors. It was difficult for Funeral Partners to communicate that point to consumers at the moment when there was no agreed minimum, and consumers expected a minimum already existed.
36. Funeral Partners said that a kitemark system, where quality was measured by gold, silver or bronze above a minimum, could also work and would be something that could be easily understood by customers.
37. Funeral Partners highlighted a concern with price comparison websites because they might only tell you the price side of the equation, not objective quality. Funeral Partners said that if there was a way of measuring and communicating objective quality online, that would go some way to addressing its concerns about price comparison websites.
38. In respect of increasing transparency around choice, Funeral Partners suggested that guidance could be made available to consumers by intermediaries, such as hospitals, doctors, anyone who was dealing with the bereaved at the time of death, which informed consumers that they had the right to shop around and had a choice of funeral director.