Funerals Market Investigation

Crematoria: evidence on competition between crematoria

30 January 2020

This is one of a series of consultative working papers which will be published during the course of the investigation. This paper should be read alongside the Issues Statement published on 8 April 2019 and other working papers published.

These papers do not form the inquiry group's provisional decision report. The group is carrying forward its information-gathering and analysis work and will proceed to prepare its provisional decision report, which is currently scheduled for publication in April/May 2020, taking into consideration responses to the consultation on the Issues Statement and responses to the working papers as well as other submissions made to us.

Parties wishing to comment on this paper should send their comments to Funerals@cma.gov.uk by 27 February 2020.

The Competition and Markets Authority has excluded from this published version of the working paper information which the inquiry group considers should be excluded having regard to the three considerations set out in section 244 of the Enterprise Act 2002 (specified information: considerations relevant to disclosure). The omissions are indicated by [✂]. [Some numbers have been replaced by a range. These are shown in square brackets.] [Non-sensitive wording is also indicated in square brackets.]

Contents

Executive summary

1. This working paper summarises the evidence we have obtained on the extent to which crematoria compete. The evidence is set out as follows:

   (a) The drivers of customer choice, in particular, the extent to which customers choose between crematoria, and the extent to which customers are sensitive to price and quality;

   (b) the extent to which crematoria compete on price;

   (c) the extent to which crematoria compete on quality;

   (d) the degree to which private crematoria operators are able to attract customers to use their crematorium when the customer has a closer, alternative crematorium; and,

   (e) quantitative and qualitative evidence on how crematoria respond to entry.

2. The key highlights for each of these points are as follows.

Drivers of customer choice

3. Family connections and location/proximity are generally the most important factors in choosing a crematorium. Very few customers compare crematoria, and for the few customers who do, the attractiveness of buildings and grounds and location/proximity are the factors most frequently compared on, whilst price and other aspects of quality (such as facilities available) are less important.

Competition on price

4. The evidence that we have seen shows that both private and local authority crematoria operators benchmark their fees with those of local rivals. We have not seen evidence that crematoria use benchmarking to try to undercut rivals on price. Rather, evidence indicates that the benchmarking activity is undertaken to make sure that their fees and fee increases are not ‘out of line’ with others’. Many local authority crematoria appear to set their fee increases with reference to required percentage increases rather than competitors. Furthermore:

   (a) Internal documents and statements from Dignity indicate that their starting point is that they can impose relatively large year-on-year fee increases, and internal documents from Westerleigh indicate that they consistently projected relatively large year-on-year fee increases prior to 2018. Both

providers have implemented average year-on-year increases that have been well above inflation until recently, unless specific local circumstances have prevented this for certain crematoria.

(b) We have seen limited evidence of funeral directors successfully pushing back against fee increases, and no evidence that funeral directors negotiate with crematoria on attended cremation fees.

Competition on quality

5. To assess the arguments made by Dignity, Memoria and Westerleigh that the fact that they attract a high proportion of customers who have a closer alternative crematorium ('out-of-area customers') is evidence of competition over quality, we have considered: the reasons why customers may choose a crematorium that is not their closest; the extent to which Dignity, Westerleigh and Memoria crematoria attract customers from out-of-area; and, evidence as to why certain crematoria are better than others at attracting out-of-area customers.

6. The results from our survey indicate that only a small number of customers choose a crematorium that is not their closest and, when they do so, this is often for reasons unrelated to quality. Submissions from funeral directors and crematoria are consistent in this regard and indicate the importance of factors such as family connections, and the logistics of the funeral (eg the location of the wake), which may mean that customers do not necessarily choose their closest crematorium. The larger private crematoria operators have also identified local factors such as access and "day-to-day associations" for each of their crematoria as reasons for why customers may choose a crematorium that is not their closest.

7. There is a high degree of variation in the proportion of out-of-area customers which different private crematoria attract. We have assessed whether measures of quality, price and capacity constraints are correlated with the proportion of out-of-area customers and found only weak relationships, or relationships contrary to what we might expect.

Responses to entry

8. Our analysis of entry indicates that a new crematorium attracts customers from existing crematoria. Volume losses are larger the closer the new crematorium is to the existing crematorium, which is consistent with what we have observed and been told about customers' preferences for proximity.

9. After the initial migration of customers to the new crematorium, volumes at incumbent crematoria stop declining, and, three years after entry, volumes restart growing year on year at rates similar to those that prevailed before entry. This suggests that, after the initial migration of customers, there is limited ongoing diversion of customers between the incumbent and the new crematorium. Incumbent local authority crematoria do not respond to entry in terms of the prices that they set. However, on average, private crematoria that have experienced entry increase their fees.

10. Finally, incumbent crematoria do not appear to respond to entry by making investments or increasing slot lengths. Decisions around slot lengths and investments appear to be taken independently of competitive conditions.

Drivers of customer choice

11. This section presents the evidence on: the extent to which customers consider they have a choice and do, in fact, choose between two crematoria or more; and the reasons they choose a particular crematorium.

Customer perception of the extent to which they have a choice of crematorium

12. Customers generally use a crematorium local to where the deceased lived and make decisions over a local 'home area.'[1] This area appears to be up to a 30-minute drive. The Market Investigation consumer survey (of at-need customers) found that 83% said the crematorium they used was within 30 minutes of the deceased's address.[2] The Market Study consumer research found that customers tended to travel up to 20-30 minutes to get to a crematorium from the deceased's home (and then on to a local gathering).[3]

13. There is often a limited choice of crematoria over this area (see the working paper Crematoria: market structure and background). The Market Investigation consumer survey found that 47% of consumers felt they had a choice of only one local crematorium.[4]

[1] Research Works report, paragraph 4.2.1.
[2] We did not ask respondents whether this drive time was at 'normal' or 'cortege' speeds (we did not think it was a concept that could easily be understood in the context of an omnibus survey). CMA Market Investigation consumer survey, Tables 341-343, Question C10. Base: all UK adults 18+ who (i) arranged an at need cremation with a 'high street' funeral director or (ii) arranged an attended cremation with an online-only funeral provider or (iii) arranged an at need cremation without a funeral director since J/A/S/O 2017 (n=376).
[3] Research Works report, paragraph 4.2.5.
[4] CMA Market Investigation consumer survey, Tables 308-310, Questions C1 + C2 summary. Base: all UK adults 18+ who (i) arranged an at need cremation with a 'high street' funeral director or (ii) arranged an attended cremation with an online-only funeral provider or (iii) arranged an at need cremation without a funeral director since J/A/S/O 2017 (n=376)

14. Customers may also have a limited choice of crematorium if the deceased has made their wishes relating to which crematorium to use known in advance. A further 10% of customers said that the deceased had made their wishes known in advance in relation to the choice of crematorium.[5]

How customers make decisions

15. We now discuss how those customers who choose between crematoria make their selection.

Who makes the decision – customer or funeral director?

16. The Market Investigation consumer survey found that 82% of customers had an idea of the crematorium that they would use before meeting the funeral director,[6] and, of these, 95% used the crematorium they had originally chosen.[7] Overall, 29% of customers who arranged a cremation with a funeral director received advice from the funeral director about which crematorium to use (although this did not necessarily change their initial plans). These are customers who either did not know which crematorium to use prior to meeting the funeral director, had an idea of the crematorium to use prior to meeting the funeral director but changed their mind, or customers who had an idea prior to meeting the funeral director, received advice but did not change their mind.[8]

17. This is consistent with what the funeral directors we talked to have told us. Co-op told us that: "the customer has generally got a crematoria [sic] in mind" and Dignity said that the majority of families had a view about which crematorium they wanted to use.[9] Funeral Partners found that families had

[5] CMA Market Investigation consumer survey, Tables 308-310, Questions C1 + C2 summary. Base: all UK adults 18+ who (i) arranged an at need cremation with a 'high street' funeral director or (ii) arranged an attended cremation with an online-only funeral provider or (iii) arranged an at need cremation without a funeral director since J/A/S/O 2017 (n=376)
[6] CMA Market Investigation consumer survey, Tables 311-313, Question C3. Base: all UK adults 18+ who (i) arranged an at need cremation with a 'high street' funeral director or (ii) arranged an attended cremation with an online-only funeral provider (n=370)
[7] CMA Market Investigation consumer survey, Tables 314-316, Question C4. Base: all who had an idea of which crematorium/crematoria to use before they contacted the funeral director/funeral provider (n=306). This was the equivalent of 78% of all respondents (CMA Market Investigation consumer survey, additional analysis of data at Questions C3 and C4).
[8] CMA Market Investigation consumer survey, additional analysis of data at Questions C3, C4 and Cnew2. This shows that: 16% of customers (n=60) did not have an idea of the crematorium to use before meeting the funeral director; 3% (n=13) had an idea of the crematorium to use before meeting the funeral director but changed their mind; and 10% (n=38) who had an idea of the crematorium to use before meeting the funeral director and did not change their mind following advice from the funeral director.
[9] Dignity hearing summary, paragraph 24.

often chosen the crematoria they wished to use.[10] The independent funeral directors we spoke to also stated that this was the case.

18. The evidence we have obtained therefore indicates that customers generally know which crematorium they want to use before they meet their chosen funeral director and that generally the funeral director does not play a role in the choice of crematorium for the vast majority of customers.

19. Where customers do not know which crematorium they wish to use (16% of customers), or receive further advice from the funeral director (13%), the funeral director may have a list of local options and talk the customer through this, as indicated by the internal documents of the large funeral directors (Dignity, Co-op and Funeral Partners). Documents from Dignity and Co-op, that outline the process for arranging a cremation funeral, state that customers should be made aware of all the options. Co-op's guidance states that: "the full options and choices should be offered to our client … these will include, for example: location…, seating capacity…, details of memorialisation available…, disposal of ashes…, cost."[11] Dignity's 'branch resource file' is a resource to "provide ready and easy access to local information and prices applicable to crematoria, cemeteries, local church fees, officiant fees, etc." Funeral directors may check with the family as to what is important; for example, if budget is important, the funeral director may point out local alternatives with cheaper slots or those that offer early morning reduced-fee slots.[12]

What are the funeral director's incentives in the choice of crematorium to recommend?

20. To the extent that the funeral director has a role in choosing the crematorium, the funeral director may prefer to use a crematorium that is more convenient for them in order to avoid using staff and vehicle time travelling to one that is further away. A number of local authority crematoria have suggested that the funeral director may prefer a particular crematorium for logistical reasons.[13]

[10] Funeral Partners Hearing Summary, paragraph 33.
[11] Co-op Funerals Market Study response, 9 July 2018.
[12] [✂]: "I will go in to a meeting with a family sometimes knowing that I will try and dissuade from using a particular crematorium… we might say, "Okay, we know they are tight on budget", so we say, "Actually, if you want to save a bit of money, there is [✂]."" [✂]: "we are very quick to point out that our closest crematorium here is actually the most expensive by hundreds of pounds." [✂]: "I will say, "They are [✂]. Would you consider those?" We praise the grounds at [✂] because they are lovely. The staff are brilliant; the facilities are great." [✂]: "And I make it very clear to people that they do not have to go to their local crematorium; they can choose any crematorium."
[13] Kettering Borough Council, Leicester City Council, Bournemouth, Christchurch and Poole Council, Great Yarmouth Borough Council, and Sefton Metropolitan Borough Council.

21. We consider that, given the survey results outlined in paragraph 16, the scope for funeral directors to influence the choice of crematorium is limited. Nevertheless, we have gathered evidence on the nature of additional charges that customers have to pay if the crematorium is 'further afield' so that we can look at how a funeral director's charging structure may impact on their customers' choices.

22. Across Funeral Partners' branches, the funeral directors' fees include travel to a crematorium up to 25 miles from the branch, with a £[✂] per mile charge after that. Dignity's funeral directors' fees include travel up to 20 miles from their premises, with a fee per mile after [✂]. A number of independent funeral directors have provided similar information,[14] whilst others do not charge extra for travel to a crematorium located some distance away.[15] The additional fees which some funeral directors may charge to travel beyond a certain distance (for example, 20 miles), may not be a particularly significant constraint on their customers' choice of crematorium given that customers are generally willing to travel up to 30 minutes and it is unlikely that 30 minutes of travel will exceed 20 miles and thus incur additional costs given the slower speeds of a funeral cortege compared to normal drive times.

Extent to which customers shop around

23. Responses to the Market Investigation consumer survey show that very few customers shop around - only 7% of customers compared two or more crematoria. A further 31% of customers have a choice of crematorium but did not compare. The remaining respondents did not feel they had a choice of crematorium (see paragraphs 13 and 14).[16]

Factors affecting customers' choice of crematorium

Location/proximity and family connections

24. The Market Investigation consumer survey found that the location of the crematorium and personal connections to a particular crematorium were important factors in the choice of crematorium for the majority of customers.

[14] [✂] Independent Funeral Directors noted an additional charge of £100 for the cost of extra travel time to certain crematoria, whilst [✂] charges £50 for the cost of extra travel to certain crematoria.
[15] [✂] does not charge for the additional charge of using crematoria outside of [✂] (eg travelling to [✂]). [✂] also noted that they travelled out-of-area and did not charge additional mileage. [✂] stated that they did not charge more for travelling further away.
[16] CMA Market Investigation consumer survey, Tables 308-310, Questions C1 + C2 summary. Base: all UK adults 18+ who (i) arranged an at need cremation with a 'high street' funeral director or (ii) arranged an attended cremation with an online-only funeral provider or (iii) arranged an at need cremation without a funeral director since J/A/S/O 2017 (n=376)

The most important factors in choice of crematorium were that it was the only local crematorium (34% of respondents), personal experience of attending a service there before (24% of respondents) and convenient distance or journey time (10% of respondents).[17] Of the 26 customers who said they had a choice of crematorium and compared, 11 compared the crematoria on their location/proximity (paragraph 28 outlines other factors on which customers compared crematoria).[18]

25. In relation to location/proximity, the three largest private crematoria operators (Dignity,[19] Westerleigh,[20] and Memoria),[21] have all noted the importance of proximity in consumers' choice of crematoria, as have a large number of the independent funeral directors and local authority crematoria we have spoken to.[22]

26. Locations may also be chosen because they are convenient for the majority of mourners. Dignity told us that making sure people can attend and holding the cremation locally are key considerations for customers when choosing a cremation funeral,[23] and their planning applications generally make similar observations, with one planning application noting that: "the [funeral] should be embedded in the local community and take place close to home. A local crematorium will allow more friends and relatives to attend as it will be local to the family who have suffered bereavement." Memoria stated that: "it is unlikely that bereaved families will travel further than they need to in order to get to their chosen crematorium. This is driven by the other activities on the day of a funeral such as local church services and following reception for wakes... it is in the interest of the bereaved family to keep the travel time to a minimum." Co-op noted the importance of convenience,[24] as did independent funeral

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[17] CMA Market Investigation consumer survey, Tables 326-328, Question C7A. Base: All adults 18+ in the UK who arranged an at need cremation with a high street funeral director, or arranged an attended cremation with an online-only funeral provider, or who arranged an at need cremation without a funeral director in the past 24 months, and the deceased had not made their wishes known (n=339)

[18] CMA Market Investigation consumer survey, Tables 335-337, Question C8. Base: All who compared crematoria (n=26).

[19] Dignity stated that: "Consumers tend to go to the crematorium which is geographically closest to them or which they have used or attended previously."

[20] Westerleigh: stated that "We believe that the main factors influencing the choice of crematorium are proximity, price and the quality of service and setting at the crematorium."

[21] Memoria: "it is unlikely that bereaved families will travel further than they need to in order to get to their chosen crematorium."

[22] Kettering Borough Council, Leicester City Council, Derby City Council, [✂], York City Council, Inverclyde Council, Worthing Borough Council, Orbitas, Mortlake Crematorium, [✂]. The summary of the Cardiff Roundtable noted that "location is the key issue for the family as regards a crematorium; two other attendees agreed with this statement."

[23] Dignity's report 'Cost, Quality, Seclusion and Time' notes that: "Currently, very practical considerations are top of mind when arranging a cremation. As chart 4.7 illustrates, making sure that everyone who wants to attend can attend and holding the cremation locally were the most common considerations" (p17).

[24] Co-op stated that: "Where there is a choice, clients generally know which crematorium they would prefer to use, based on family history or convenience."

directors, and the Scotmid Coop who pointed out the need to have a cremation near to the location of other elements of the funeral.[25]

27. In relation to family connections, the choice of crematorium may be influenced by the fact that the family has previously held a cremation there. Dignity,[26] Westerleigh,[27] and Memoria[28] have all noted this as an aspect of customer decision making. The NAFD stated that choice of crematorium was generally based on where the last funeral was held.[29] Co-op[30] and Funeral Partners[31] made similar observations as have a large number of the independent funeral directors and local authority crematoria that we have spoken to.[32]

Price and quality

28. Of those customers who do compare crematoria (see paragraph 23), some seem to compare them on the basis of price and quality. In particular, similar numbers compare on the basis of the quality of the crematorium building and grounds as compare on the basis of location/proximity. The Market Investigation consumer survey found that of the 26 customers who compared crematoria, 12 said that they compared on the basis of the attractiveness of the buildings and grounds (whereas 11 did so on the basis of location/proximity - see paragraph 24). Five said that they compared on the basis of the availability of booking slots, four stated that they compared crematoria fees, whilst the quality of facilities (for example, whether they had modern and well-maintained facilities) and the range of facilities (such as the ability to display photos and music systems) were mentioned by four and one respondent respectively.[33]

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[25] [✂]: "Also how far it is away from the wake, because that has now become very important for people. Where are they going to have refreshments afterwards?", Scotmid Coop: "It may be where the catering is going to be. In Edinburgh we have lots of funeral teas that we arrange, it is just a custom. So, quite often they are already thinking ahead to where the funeral tea is going to be." [✂]: "It has also got be down to practical decisions because families would want as many people as possible to go and say goodbye to their mum and dad. If they are in their eighties, they are contemporaries are that, they cannot expect them to travel from [✂] to [✂]. Then where do you go afterwards for refreshments?"
[26] Dignity stated that: "Consumers tend to go to the crematorium which is geographically closest to them or which they have used or attended previously."
[27] Westerleigh: "the choice of crematoria will be influenced by connections with existing crematoria (eg if other family members had been cremated and had memorials at an existing local crematorium)."
[28] Memoria lists 'family heritage' as a main driver of customer decision making.
[29] NAFD hearing summary.
[30] Co-op stated that: "Where there is a choice, clients generally know which crematorium they would prefer to use, based on family history or convenience."
[31] Funeral Partners: "Often people have already decided which crematorium they are going to go to, "we want to go to this crematorium because this is where previous funerals have taken place."
[32] Conwy County Council, Derby City Council, St Helen's Borough Council, Great Yarmouth Borough Council, Aberdeen City Council, Bournemouth, Christchurch and Poole Council, West Middlesex Crematorium, York City Council, Inverclyde Council, Barnsley Council, Mortlake Crematorium, Herefordshire Council, [✂].
[33] CMA Market Investigation consumer survey, Tables 335-337, Question C8.

29. We have also heard from crematoria and funeral directors that price is not an important factor for customers when choosing a crematorium for an attended service:

(a) Dignity told us: “I think there is a psychological list of where you put those things and price is not at the top of it, I do not think.” Dignity noted that generally price differentials of £100 were unlikely to make a difference to customers who may prefer a crematorium that is easier to reach.

(b) Memoria has stated that “Price, within reason, is usually not a consideration with most families.”

(c) A Westerleigh internal document notes that crematoria face inelastic demand and show how price rises at Westerleigh and Dignity crematoria have not impacted on volumes.[34] In an internal document Westerleigh noted that, for one of its crematoria, a [✂]% price increase (from £[✂] to £[✂], after a major upgrade programme) did not have an adverse effect in terms of ‘swaying’ families to less expensive crematoria.

(d) The London Cremation Company has stated that: “Families will not simply turn their backs on what they see as ‘their family’ crematorium or cemetery, to save say, £50 on a cremation fee.”

(e) The NAFD stated that a cheaper crematorium is unlikely to make customers choose it over another: “when we say it is better value, we are talking £100; it is not enough to make them change their choice.”

(f) Co-op suggested that price was not a factor that influenced choice of crematorium (particularly when a family had used a crematorium before).

(g) We have also received consistent evidence from the independent funeral directors and local authority crematoria that we spoke to that price is not an important factor to customers when choosing a crematorium.[35]

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[34] Westerleigh notes that this document was a sales document, prepared mainly by Westerleigh’s previous shareholders and previous management. Westerleigh states that readers of the document would be expected to carry out their own due diligence and make their own assessment of the factors affecting demand and that the analysis presented in the sales document is selective (for example it does not show the impact of qualitative factors and volume/price relative to the market as a whole).

[35] [✂]: “in our office we have a price comparison of all the crematoria… a lot of people do not want their mourners to have to travel too far”, and [✂]: “It is irrelevant what the cost is for the vast majority of the time.” [✂]: “And we are very quick to point out that our closest crematorium here is actually the most expensive by hundreds of pounds. So, if they want to, we can go a mile further away for £300 cheaper. But, often, that does not affect them.” The Cardiff Roundtable noted that “An attendee said that location is the key issue for the family as regards a crematorium; two other attendees agreed with this statement and said that this explains why people are opting for the Memoria crematorium although it is so much more expensive.” See also: Kettering Borough Council, West

30. The evidence that we have received from funeral directors and crematoria on the importance of quality to customers is mixed:

(a) Dignity,[36] Westerleigh,[37] and Memoria[38] told us that customers choose their sites over others on the basis of the quality of their facilities. Small private crematoria have also made similar statements.

(b) Dignity has also noted the importance of offering appropriate time slots and professional staff, a well-maintained chapel, value for money, adequate parking and well-kept grounds.[39]

(c) Memoria has also told us that "qualitative factors such as quality of service, staff, range of facilities are more relevant in battleground areas". 'Battleground areas' are those areas where customers are located between two crematoria, or closer to a rival crematorium.

(d) A Westerleigh internal document refers to the fact that "proximity/quality are the key selection factors" for crematoria.[40]

(e) Independent funeral directors told us that customers may choose a crematorium that is considered to be better quality, or have a larger chapel.

(f) On the other hand, [✂], an independent funeral director, noted that customers very rarely ask about the facilities available at a crematorium, and Dignity notes that customers may not be aware of quality differences between crematoria and they are likely to have expectations that all crematoria are the same.[41]

Summary

31. Family connections and location/proximity are generally the most important factors in choosing a crematorium. Very few customers compare crematoria,

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Middlesex, Crematorium, [✂] noted that price was becoming a 'regular discussion' now that new crematoria are present in the area.

[36] Dignity response to Issues Statement, paragraph 4.13.

[37] Westerleigh response to Issues Statement, paragraph 4.4.2.

[38] Memoria response to Interim Market Study report, page 4.

[39] Dignity Hearing Summary, paragraph 49.

[40] Westerleigh notes that this document was a sales document, prepared mainly by Westerleigh's previous shareholders and previous management. Westerleigh states that readers of the document would be expected to carry out their own due diligence and make their own assessment of the factors affecting demand and that the analysis presented in the sales document is selective (for example it does not show the impact of qualitative factors and volume/price relative to the market as a whole).

[41]Dignity: stated "the overriding thing was that the expectation of everybody was that most crematoriums were about the same. That crematoriums offered about the same level, because most people have got the experience of their local one."

and for the few customers who do, the attractiveness of buildings and grounds and location/proximity are the factors most frequently compared on, whilst price and other aspects of quality (such as facilities available) are less important.

Competition on price

32. The three largest private crematoria operators (Dignity, Westerleigh and Memoria) told us that they compete on price. Memoria argued that all of its crematoria compete on price,[42] and Dignity and Westerleigh told us that their crematoria offer good value for money relative to rival crematoria.[43]

33. As discussed in paragraphs 28 and 29, price is not an important factor in the choice of crematorium by customers. This section summarises the evidence from the internal documents supplied by Dignity, Westerleigh and Memoria and submissions in relation to how crematoria compete on price.

34. Internal documents indicate that Dignity, Westerleigh and Memoria compare and benchmark their fees relative to other neighbouring rival crematoria when setting fees (which is typically done once a year). For example, Memoria, benchmarks each of its crematoria with the two to five closest rival crematoria in terms of fee, slot length, and the 'state of crematorium' (which generally describes the age and condition of the crematorium) before it proposes any fee increases. These internal documents note that proposed prices/price increases will be 'in line,' or 'level,' or 'in range' with rivals (although Memoria notes that other documents make reference to remaining 'competitive'). These documents note recent investments and anticipate that if others make similar price changes there will be limited effect on volumes: "I would suggest a price increase in [✂] of £[✂] per slot. If the other facilities follow the same pricing structure we should still be competitive and maintain our market share." In relation to [✂] crematorium, where Memoria is located very close to a [✂] site, Memoria states: "Given that it is only [✂] away it would be a race to the bottom if we go lower than them, so I would go in at the same price which will make the bereaved family's choice down to the facility and staff."

35. In its Funerals Market Study report the CMA noted that Dignity had made average annual fee increases of between 6-8% for each of the previous eight years.[44] Dignity told us that it aims to meet revenue targets and sets price increases around a revenue target, although it will make exceptions to this where local conditions prevent such an increase from being feasible. Internal

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[42] Memoria response to Interim Market Study Report, page 5.
[43] See for example Dignity response to Issues Statement, paragraph 4.12 [✂].
[44] Funerals Market Study, Final report, paragraph 6.60

emails from Dignity indicate how in some instances only relatively small price increases are possible given the prices set by local rivals. Dignity provided a spreadsheet showing price increase proposals [✂]. We have looked at the extent to which Dignity was able to impose these fee increases. During 2016-2017, [60-70]% of Dignity crematoria made a fee increase of [✂]% or greater, whilst [30-40]% of their crematoria had a smaller fee increase ([0-10]% were able to make a fee increase of between 5% and [✂]%, whilst the remaining [20-30]% made fee increases of less than 5%).[45] Dignity also provided recent internal emails which refer to price proposals for 2019 as follows: "A review of the competitive position for each individual crematorium has shown that it would be difficult to increase prices in around [✂] our [sic] sites... We are now proposing [✂].

36. In the Funerals Market Study report (published in November 2018), the CMA noted that Westerleigh had made average annual fee increases of between 6-8% for each of the previous eight years.[46] Westerleigh provided a Business Plan from 2016 with projections of annual cremation fee growth of between [✂].[47] Documents produced by Westerleigh (after the 2016 Business Plan) in November 2017 and December 2017 are consistent with the 2016 Business Plan, noting that Westerleigh plans a price increase of "c. [✂]%" in 2018, and that "the simple fees for existing sites is budgeted to increase by [✂]% [from FY17 to FY18] from £[✂] to £[✂]." However, during the hearing Westerleigh told us that its budget and price increases for the current year bore little relation to its Business Plan[48] and that it now expects that its fee increases will be below these projections. Since the hearing Westerleigh has produced draft projections in which it expects to make price increases of [✂]% across its crematoria (with some exceptions, for example, freezing fees at some crematoria to [✂]). Recommendations by Westerleigh for fee increases at its crematoria are based on similar observations to those contained in the internal documents of Dignity and Memoria, comparing fees at Westerleigh crematoria with alternative, neighbouring crematoria. Westerleigh's recommendations focus, in part, on the extent to which their fees will represent value for money, given that they may be higher than other nearby crematoria (whilst offering a higher quality service).[49] In considering fees at

[45] Where we have data available on 44 out of 46 Dignity crematoria.
[46] Funerals Market Study, Final report, paragraph 6.60
[47] Westerleigh notes that this document was a sales document, prepared mainly by Westerleigh's previous shareholders and previous management. Westerleigh states that readers of the document would be expected to carry out their own due diligence and make their own assessment of the factors affecting demand and that the analysis presented in the sales document is selective (for example it does not show the impact of qualitative factors and volume/price relative to the market as a whole).
[48] Westerleigh Hearing Summary.
[49] [✂]: "They [cremation fees] can't be significantly lower though as I feel that we should be chargign [sic] more of a premium for our services as we are only 5% above the national average on price whilst in a different league for service."

crematoria, Westerleigh [✂], and may make smaller increases in fees at crematoria where they consider they have close rivals or crematoria that have had large fee increases in previous years.

37. For new crematoria, some private operators have told us that they may initially price below their desired price point, with Memoria stating "we often need to under-charge in the first 2-3 years in order for a new site to establish itself in a local community" and Westerleigh stating "initial pricing may not be fully reflective of this quality differential or the extent of the new investment. Future price increases are planned as the site builds a reputation for quality with the local community and funeral directors and the site and grounds mature over time." Nevertheless, our analysis of prices shows that new entrants tended to be more expensive than the incumbent crematoria in their local area, with around 60% of incumbent crematoria charging lower fees than the new entrant. In particular, the closest existing crematorium to the new entrant was cheaper than the entrant in just over half of cases.

38. Local authority crematoria told us that they generally set their fee increases by either a fixed percentage each year, or they set fees by benchmarking their fees with neighbouring crematoria and considering the extent to which their costs had increased.[50] A former bereavement services manager noted the likely importance of the 'going rate' in local authority price setting.[51]

39. We have seen only limited evidence of funeral directors pushing back and attempting to constrain cremation fees. Funeral directors and crematoria providers have stated that they do not, in general, negotiate with each other on attended cremation fees.[52] Memoria told us that (on one occasion) it was unable to implement a planned price increase at its [✂] site because of negative feedback from funeral directors when it attempted to increase fees to £850 (£[✂] above the nearest alternative crematorium).[53] However, Dignity did not provide any examples of occasions when price increases had to be retracted. We heard from one independent funeral director who (as part of a group of funeral directors) had put pressure on their local crematorium not to

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[50] Given the large number of local authorities from whom we have gathered information, the following list provides examples of local authorities who stated that they set fees by benchmarking and/or with reference to their costs but it is not exhaustive: Doncaster Metropolitan Borough Council, Copeland Borough Council, South Lanarkshire Council, Maidstone Borough Council, Wrexham County Borough Council, Wigan Council, Reading Borough Council, North East Lincolnshire Council, Barrow-in-Furness Borough Council, Sandwell Metropolitan Borough Council, Cheltenham Borough Council, North Devon and Torridge District Councils, Conwy Country Borough Council, Tameside Metropolitan Borough Council, Rochdale Borough Council, Cornwall Council, etc.
[51] Ken West Written Response to the statement of issues.
[52] Summary of Cooperative hearing (paragraph 26), summary of Funeral Partners hearing (paragraph 21), summary of Dignity hearing (paragraph 28).
[53] Memoria: competitor price comparison [✂]. The document notes that Memoria wanted to increase the fee at its site to £850, whilst its nearest competitor (by distance) was charging £[✂].

increase fees, while another group of funeral directors noted that they had been unsuccessful in resisting a large price increase by their local authority.

Summary

40. The evidence that we have seen shows that both private and local authority crematoria operators benchmark their fees with those of local rivals. We have not seen evidence that crematoria use benchmarking to try to undercut rivals on price. Rather, evidence indicates that the benchmarking activity is undertaken to make sure that their fees and fee increases are not ‘out of line’ with others’. Many local authority crematoria appear to set their fee increases with reference to required percentage increases rather than competitors. Furthermore:

(a) Internal documents and statements from Dignity indicate that their starting point is that they can impose relatively large year-on-year fee increases, and internal documents from Westerleigh indicate that they consistently projected relatively large year-on-year fee increases prior to 2018. Both providers have implemented average year-on-year increases that have been well above inflation until recently, unless specific local circumstances have prevented this for certain crematoria.

(b) We have seen limited evidence of funeral directors successfully pushing back against fee increases, and no evidence that funeral directors negotiate with crematoria on attended cremation fees.

Competition on quality

Introduction

41. The Market Investigation consumer survey shows that very few customers compare between crematoria and, for those who do, nearly half compare crematoria on the attractiveness of the grounds and buildings. Very few respondents compared crematoria on the basis of the range and quality of facilities.[54]

42. Some crematoria have told us that they compete on quality. Dignity, Memoria and Westerleigh have submitted that they have an incentive to compete on quality as their sites would not be profitable without competing for, and gaining, customers who have closer alternative crematoria. They have told us

[54] CMA Market Investigation consumer survey, Tables 335-337, Question C8.

that some customers choose their crematoria over closer, alternative crematoria due to superior facilities and quality.[55] Other smaller private crematoria have also told us that they have some customers who have a closer alternative, and these customers come to their crematorium instead because of: “superior quality of facility and levels of service from staff have been cited as reasons some funeral directors bring their clients... where there is a nearer alternative.”[56]

43. Dignity, Westerleigh and Memoria have all stated that the quality of the cremation service and facilities that they offer at their crematoria is both high and relatively consistent. Dignity stated that “Dignity new build crematoria are all operated on a 60 minute service time interval and set-up with the latest digital audio visual systems,” and that it aims for consistency across all its crematoria. Westerleigh stated that “all crematoria developed since 2009 offer the highest quality facilities… and ensure privacy and seclusion for each service… this approach to quality is applied on a consistent basis, across all of Westerleigh's sites and is not influenced or compromised by the number or location of other crematoria in the area,” and further notes that it “continues to invest in its portfolio and has sites built prior to 2009 which also offer excellent quality facilities.” Memoria stated: “We want to design and build crematoria that are high quality in design, materials and finish…. We have a commitment to provide the best possible standards of service and facility to all bereaved families that use our facilities. This is the same across the country regardless of the number of competitors that we face in any given area.” Crematoria operated by the same provider may differ in quality due to capacity (meaning shorter slots are offered at busier crematoria),[57] the wish to accommodate specific local religious or cultural needs,[58] or where some of their crematoria have been updated/refurbished more recently compared to others. As such, the largest private crematoria operators do not appear to flex the quality of their services and facilities depending on the quality level offered by local rivals or the level of local competition that they face, and they appear to set consistent levels of quality across their crematoria, irrespective of whether they are old or new.

44. To address the arguments set out in paragraph 42 we have considered the extent to which the fact that some crematoria attract customers who have a

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[55] Dignity response to Issues Statement, paragraph 4.13. Westerleigh response to Issues Statement, paragraph 4.4.2. Memoria response to Interim Market Study report, p4

[56] Lincolnshire Cooperative. Similar responses were given in response to the following RFIs: [✂], The Southern Cooperative, [✂]. A local authority crematorium, Wellingborough also made a similar observation.

[57] Busier crematoria may be unable to offer longer booking slots (see working paper Crematoria: outcomes for more details).

[58] For example, South Leicestershire Memorial Park and Crematorium offers specific facilities for Asian funeral and cremation services, as does Great Glen Crematorium (“We also accommodate Hindu and Sikh funeral rites whereby the charging of the coffin into the cremator may be witnessed”).

closer alternative crematorium ('out-of-area customers') is evidence of competition over quality between crematoria. The evidence set out below is structured as follows:

(a) Evidence relating to why customers may choose a crematorium that is not their closest;

(b) evidence relating to the extent to which crematoria are able to attract customers who have a closer alternative crematorium;

(c) evidence relating to the extent to which crematoria do not attract all the customers for whom they are the closest; and,

(d) evidence relating to why certain crematoria are better than others at attracting customers who have a closer alternative crematorium.

Evidence as to why customers travel to a crematorium which is not their closest

45. This section summarises the Market Investigation consumer survey and other evidence as regards why customers may choose to travel further than their closest crematorium.

Survey evidence

46. The Market Investigation consumer survey shows that 81% of customers chose the closest crematorium to where the deceased person lived. However, 14% of respondents stated that they did not use the closest crematorium.[59] Of those who did not use the closest crematorium, the reported reasons for not choosing it are as follows.

[59] CMA Market Investigation consumer survey, Tables 344-346, Question C11. Base: all UK adults 18+ who (i) arranged an at need cremation with a 'high street' funeral director or (ii) arranged an attended cremation with an online-only funeral provider or (iii) arranged an at need cremation without a funeral director since J/A/S/O 2017 (n=376). The remaining respondents did not know or could not remember.

Table 1: Why respondents did not use the closest crematorium (C12)

	*n**	%†
Not the 'family crematorium'/the crematorium we always/traditionally use	21	39
Did not have availability around the time we needed them/wanted	5	9
Unattractive building/grounds	4	7
Did not offer choice of dates/ days and times for the service	3	5
Less convenient for the respondent	3	5
Quality of facilities (eg old-fashioned, badly maintained)	3	5
Wishes of the deceased	3	5
Funeral director did not recommend it	2	4
Difficult for funeral guests to find/get to	2	4
Less convenient location for the family as a whole	2	3
Not big enough	2	3
Difficult to get from the crematorium to the venue for the reception/wake afterwards	1	2
Funeral director said they could not/did not use it	1	2
I/We didn't like it	1	2
Liked it less than the alternative	1	2
Limited range of facilities (eg no/poor disabled access, parking, refreshments, toilets etc., not able to display photos, music system, web streaming etc.)	1	2
Funeral director had no experience of using it	1	1
Higher prices	1	1
Other‡	3	5
No particular reason	2	4
Don't know/can't remember	5	9

Source: CMA Market Investigation consumer survey
* Base: 53 (all who did not use the closest crematorium)
† Frequencies also shown as percentages for ease of comparison; this was a multiple choice question, so percentages sum to more than 100%
‡ 'Other' reasons were not quality-related

47. As the table shows, quality-related reasons (ie unattractive buildings/grounds, quality of facilities, limited range of facilities) were reported by a small number of customers as reasons for not using the closest crematorium. Instead, the most commonly stated reason for not using the closest crematorium was that it was not the "family crematorium" (n=21/53), and the second most commonly stated reason was slot availability (mentioned by n=5/53). The most commonly stated quality-related reason for not using the closest crematorium was "unattractive building/grounds" (n=4/53).

48. We are unable to split these results between private and local authority crematoria but note that, even if all the customers who chose a crematorium that was not their closest were customers of private crematoria, it remains that few of these customers chose the alternative crematorium for quality-related reasons.

Other evidence

49. Evidence outlined in paragraphs 24, 26, and 27 gives an indication of how factors such as convenience, logistics and family connections can be drivers of the customer's choice of crematorium. These factors mean that customers may not necessarily choose a crematorium that is their closest.

50. Statements, submissions and internal documents from Dignity, Westerleigh, and Memoria provide additional evidence on the reasons (that are not related

to quality) as to why customers may choose a crematorium that is not their closest:

(a) The ease of access, road links and perceived traffic;[60]

(b) geographical characteristics such as motorways and natural barriers may result in customers travelling to a certain crematorium;

(c) availability of booking slots; and,[61]

(d) customers may have a "day-to-day association" with certain places that mean they choose a crematorium where they have such associations, or issues of local identity may drive customer choice.[62]

Evidence relating to the extent to which crematoria are able to attract customers who have a closer alternative crematorium

51. Dignity, Westerleigh, and Memoria measure their success in attracting customers for attended services[63] slightly differently, but broadly, and for the purposes of this analysis, their customers are defined as being from their 'core catchment area' if their crematorium is the closest crematorium (by cortege drive time). Customers located within their core catchment area are closer to their crematorium ("core customers") than any other crematorium. Customers who are located outside of this catchment area are closer to another crematorium ("out-of-area customers").

52. Dignity and Westerleigh provided, on a crematorium by crematorium basis, data on the number of cremations conducted for 'core' customers and the number of cremations conducted for 'out-of-area customers' in 2018. Dignity

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[60] [✂] For example, in relation to its Cam Valley crematorium, Westerleigh notes that "families have chosen to use Cam Valley despite the extra distance from Cambridge. This has been exacerbated in the last year due to disruption at Cambridge City Crematorium by significant delays caused by extensive roadworks on the A14." [✂]. For example, in relation to its Cardiff and Glamorgan Memorial, Memoria notes: "we have struggled to significantly penetrate into Cardiff owing to concerns over perceived traffic issues at Culverhouse Cross (which is a major junction which links Cardiff with the road to our site."

[61] Westerleigh states: "typically Westerleigh will offer better facilities, longer slots and more availability, especially during peak periods." Furthermore, Westerleigh's Board Reports state that strong results at some of their crematoria have been driven by 'long delays' and 'disruption' at rival crematoria. [✂]. Dignity states that a new crematorium may be able to attract customers from further afield due to availability of slots: "Furthermore, the increased quality of Alrewas Crematorium, compared to the 1964 Stafford Crematorium should again result in Rugeley residents being attracted to the improved availability of slot times even for those residents of the western half of the town."

[62] Westerleigh: "there are also likely to be cultural and local factors affecting choice in many locations e.g. in terms of allegiance to local community, town or county… these factors are hard to assess." Memoria response: For example, in relation to its North Hertfordshire Memorial Park and Crematorium Memoria states: "Hitchin and Letchworth are both centres of population that are located closer to NHM than competing crematoria at Stevenage and Luton. However, Hitchin tend to use Luton extensively for day-today shopping so do associate with the town. Similarly, people in Letchworth tend to do the same in Stevenage so again naturally identify with that area more naturally."

[63] In this analysis, we have attempted to exclude direct cremations (as the location of the crematorium is less important in these cases) and atypical customers (eg repatriated bodies from other countries).

and Westerleigh based the customer location on the address of the deceased. Memoria provided data for each crematorium relating to whether the funeral director that used them was closer to their crematoria or closer to an alternative crematorium (so-called “battleground areas”).

53. Table 2 contains summary statistics on the proportion of out-of-area customers (and, for Memoria, funeral directors) for each of their crematoria.

Table 2: Proportion of out-of-area customers at each crematorium (2018)

[✂]

Source: CMA Analysis of data provided by Dignity [✂], Memoria [✂] and Westerleigh [✂].

Notes:
(1) Customer location is based on the address given for the deceased. This can be the home address of the deceased or the most recent residence (eg in the case of a care home).
(2) Data for the calendar year 2018.
(3) For Dignity we defined their out-of-area customers as the remaining proportion of customers who were not defined by Dignity as the ‘nearest’ in the data provided.
(4) For Memoria we defined their out-of-area customers as their ‘battleground customers’ as a proportion of their total customers in the data provided. We note that Memoria have calculated different proportions to the CMA. The CMA used Memoria ‘RD FD by area reports’ which gives granular data relating to each funeral director using a crematorium, and divided the number of ‘battlegrounds’ customers by the total number of ‘battlegrounds’ and ‘core area’ customers. We did not include ‘other area’ customers in our calculation. The Memoria analysis does not provide this level of detail (their ‘FD by area splits’ files state, for each crematorium, the proportion of customers who are battleground customers). The CMA has calculated these figures based on data for eight crematoria (excluding data relating to Memoria’s newest crematoria). We note proportions of out-of-area customers for newer crematoria may be lower compared with more mature crematoria.
(5) For Westerleigh we defined their out-of-area customers as the qualitative pull in the data provided.

54. Table 2 shows that, on average, around a third of the customers of each of the three parties were out-of-area customers. However, there is a high degree of variation in the proportion of out-of-area customers across the crematoria of each party (for example, for Westerleigh this proportion ranges from [✂]% to [✂]%), notwithstanding that private crematorium operators told us that they have standardised quality across their crematoria (see paragraph 43). For each firm, a quarter of crematoria had at least [✂]% of customers coming from out-of-area, and a quarter had at most [✂]% of customers coming from out-of-area. We note that the average figures set out above, showing that private crematoria attract a proportion of out-of-area customers of around a third, appear higher than the figures based on the Market Investigation consumer survey, with only 14% of customers of all crematoria stating that they used a crematorium that is not their closest.

55. We consider the fact that crematoria attract some customers who have closer alternatives is not, in itself, evidence of competition, or of competition over quality. As noted above, there may be many reasons, other than quality differentials, why customers do not use the crematorium that is closest to them. As such, the figures in Table 2 will overstate the proportions of customers who use a crematorium that is not their closest for quality-related

reasons (our survey found that the most commonly stated reason for not using the closest crematorium was that it was not the "family crematorium," mentioned by n=21/53, and the second most commonly stated reason was slot availability, mentioned by n=5/53). Furthermore, the degree of any competition matters, which a focus on "core catchment areas" may not capture. Typically, when we consider supplier-centred catchment areas in local markets, these are defined as the area from which a supplier draws most of its customers and we look at the alternatives available to these customers, or a significant proportion of them, to assess the strength of the competitive constraints faced by the supplier. If a supplier does not discriminate across its customers (ie price, quality and other non-price variables are the same for all customers as it is the case for crematoria), then we would expect the supplier to face stronger competitive constraints the larger the proportion of the customers in the catchment area who have a number of alternatives to choose from (assuming they exercise this choice). In this framework, we expect competition to be stronger the more rivals there are within the catchment area and/or the more rivals' catchment areas overlap (as significantly overlapping catchment areas may suggest that suppliers are alternatives for a significant proportion of their customers).[64] As set out in the working paper Crematoria: background and market structure, a high proportion of crematoria have no rival fascia within their catchment area and most of them have only a limited number of alternative fascia. If only a few customers choose between alternative crematoria (based on quality) and the number of alternatives available to customers in a given area is limited, competition (over quality) may in any event be weak (and insufficient).

Evidence relating to the extent to which crematoria do not attract all the customers for whom they are the closest

56. Whilst crematoria may attract customers who have a closer alternative crematorium, they may also fail to attract customers for whom they are the closest crematorium. Whereas crematoria can observe where their customers come from, it is more difficult for them to assess the extent to which people who are located relatively close to their crematorium choose a crematorium further away. We have some data which allows us to assess the extent to which larger private crematoria lose customers for whom they are the closest crematorium to a rival. We have sought to assess how many customers of the larger private crematoria travel to a crematorium which is not the closest to them by: looking at market penetration reports from Memoria; and by

[64] CMA Retail Mergers Commentary, paragraph 2.1 and 2.2.

comparing the proportions of out-of-area customers at neighbouring private crematoria.

Market penetration reports

57. Memoria estimate the number of cremations they conduct within the core catchment area and divide by their estimate of the number of deaths in the same catchment area. This is referred to as their market penetration. Table 3 shows the achieved market penetration for each of their crematoria.

Table 3: Memoria's Achieved Market Penetration (2018)

Crematorium	*Achieved Market Penetration, %*
Amber Valley	[✄]
Cardiff & Glamorgan	[✄]
Denbighshire	[✄]
Flintshire	[✄]
Kirkleatham	[✄]
North Hertfordshire	[✄]
South Leicestershire	[✄]
South Oxfordshire	[✄]
Waveney	[✄]

Source: Memoria [✄]

Note: In some cases, the market penetration is above 100%. This would be the case where the number of cremations performed is above the number of estimated cremations in their area. The estimated number of cremations is calculated by multiplying the number of deaths by 0.75, which is close to the national cremation rate of 77%. A market penetration of above 100% could occur when this under-estimates the total number of cremations.

58. The table shows that most Memoria crematoria achieved less than 100% market penetration in some areas. This indicates that their crematoria did not capture all potential cremations in their core catchment area and some customers travelled to neighbouring crematoria that are further away for the customer.[65] Memoria notes that some of these crematoria are in their 'infancy' and they expect these market penetration figures to increase over time.

Comparison of out-of-area customers at neighbouring private crematoria

59. We have obtained evidence in relation to some local areas that enables us to assess the extent to which neighbouring private crematoria may draw customers who are closer to an alternative private crematorium. Dignity and Westerleigh submitted maps which show the location of their customers for their crematoria. Figure 1, Figure 2, and Figure 3 are maps for three private crematoria in Kent. This is an area where there are two Westerleigh and one

[65] We note that Memoria is only able to estimate the total number of cremations within their core area and that will impact on the corresponding market penetration data.

Dignity crematoria with neighbouring core catchment areas. The crematorium in question is outlined in black.

Figure 1: Barham (Westerleigh)

[✂]

Figure 2: Charing Crematorium (Westerleigh)

[✂]

Figure 3: Hawkinge (Folkestone) (Dignity)

[✂]

60. Figure 1 and Figure 2 show that the Westerleigh crematoria draw some customers from each other's core catchment area. In particular, Charing crematorium draws customers from [✂], while Barham crematorium draws customers from [✂]. Figure 3 shows that Hawkinge crematorium draws customers from [✂].

61. Westerleigh told us that its Barham site had seen an increase in customers from [✂], indicating that families are deciding to drive [✂]. Westerleigh told us that they attribute this to the higher quality offered at their sites and the relatively poor quality of the Hawkinge site. However, Dignity's Hawkinge crematorium attracts [✂]% of its customers from out-of-area. Figure 3 shows that some of these customers come from [✂]. This means that despite Hawkinge crematorium's alleged poor quality, it still attracts a proportion of its customers from [✂].

62. There are a number of other areas in which Dignity and Westerleigh crematoria are close to each other, and for which we have data on the proportion of out-of-area customers. Table 4 shows the name, operator, and proportion of out-of-area customers for each of the crematoria in these areas. Each row corresponds to an area.

Table 4: Neighbouring Dignity and Westerleigh Crematoria

Name	*Operator*	*% out-of-area customers*	*Name*	*Operator*	*% out-of-area customers*	*Name*	*Operator*	*% out-of-area customers*
Telford	Dignity	[✂]	Emstrey	Dignity	[✂]			
Parndon Wood	Westerleigh	[✂]	Enfield	Dignity	[✂]	Hoddesdon	Westerleigh	
Barham	Westerleigh	[✂]	Hawkinge (Folkestone)	Dignity	[✂]	Charing	Westerleigh	
Sedgemoor	Westerleigh	[✂]	Weston-super-Mare	Dignity	[✂]			
West Wiltshire	Westerleigh	[✂]	Mendip	Dignity	[✂]			
Melrose	Westerleigh	[✂]	Houndwood	Dignity	[✂]			
West Lothian	Westerleigh	[✂]	Holytown	Dignity	[✂]			

Source: CMA analysis of Dignity and Westerleigh data.

63. Table 4 shows that neighbouring private crematoria all draw some customers from outside of their core catchment area. It is likely that some of these out-of-area customers come from the neighbouring catchment area for which we also have data. In particular, Table 4 shows that:

(a) In an example where the same provider is present in each of the neighbouring areas (Telford and Emstrey) around [✂] of customers come from out-of-area. An examination of maps indicates that at least some of these customers come from the neighbouring area (ie there are customers of Emstrey coming from Telford and, to a lesser extent, vice-versa);

(b) some crematoria that have been alleged to be of low quality still managed to attract out-of-area customers. For example, Westerleigh told us that Enfield crematorium offered low quality services and was in very poor condition. Nevertheless, [✂]% of customers from Dignity's Enfield crematorium have a closer alternative.

Evidence relating to why certain crematoria are better than others at attracting customers who have a closer alternative crematorium

64. This section analyses whether the differences in the ability of the larger private crematoria operators to attract out-of-area customers are associated with differences in their relative prices, slot lengths, customer satisfaction and capacity utilisation compared to the closest alternative crematorium.[66] We

[66] We have compared the closest alternative crematoria as opposed to the closest rival given that we have limited evidence that customers choose a crematorium on the basis of ownership. We have evidence that location is important to customers. As such, we have compared the extent to which crematoria are successful in

also considered other qualitative evidence as to where out-of-area customers come from and whether this can explain why certain crematoria are better than others at attracting customers who have a closer alternative crematorium.

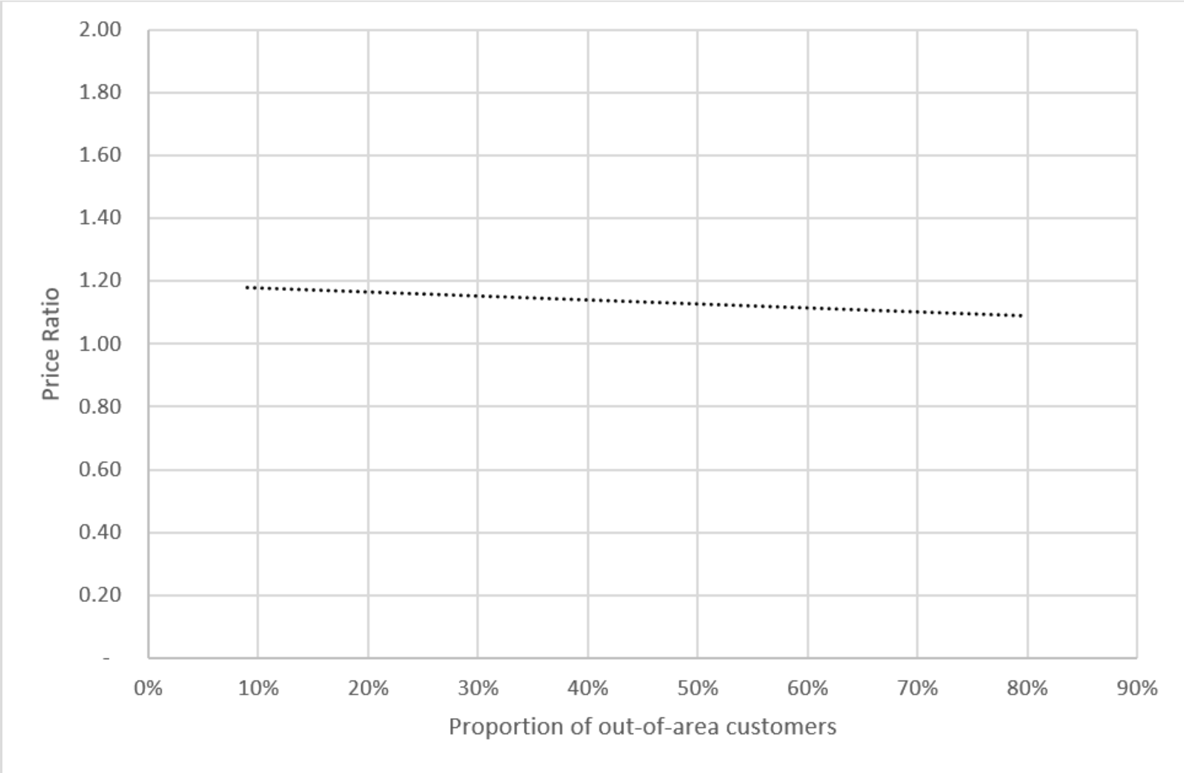
Price

65. We can test the extent to which customers may be willing to travel to a crematorium that is not their closest in order to buy a lower price cremation by analysing the relationship between a crematorium's price relative to its local alternatives, and the proportion of its out-of-area customers.

66. Figure 4 plots the proportion of out-of-area customers of a crematorium with its relative price compared with the nearest alternative ('price ratio'). This is calculated as the price of the relevant private crematorium divided by the price of its nearest alternative. A price ratio higher than 1 means that the private crematorium is more expensive than its alternative. A price ratio lower than 1 means that the private crematorium is less expensive than its alternative. If customers were willing to travel further to buy a cheaper cremation, we would expect there to be a negative relationship: if the crematorium is cheaper than its neighbours (ie the price ratio is lower than 1), we would expect it to have a higher proportion of customers from out-of-area.

attracting out-of-area customers depending on their relative quality and other measures relative to the closest alternative. We note that in only 7 instances out of 80 is the closest alternative operated by the same crematorium provider. We have assessed whether the correlations described in this section are materially different if we exclude observations where the closest alternative crematorium is operated by the same provider and found that the correlations are not materially different.

Figure 4: Proportion of out-of-area customers and price ratio (2018)



Source: Crematoria-level information provided by Dignity, Memoria and Westerleigh.
Note:

(1) The dashed line is a line of best fit.
(2) Price ratio calculated as the price of cremation offered by the private crematorium divided by the price of cremation by their closest alternative.
(3) Closest alternative crematoria may be operated by the same firm.
(4) The same result holds when considering the average price of all competing crematoria within 30 minutes, and when considering the average price of the closest 3 competing crematoria.

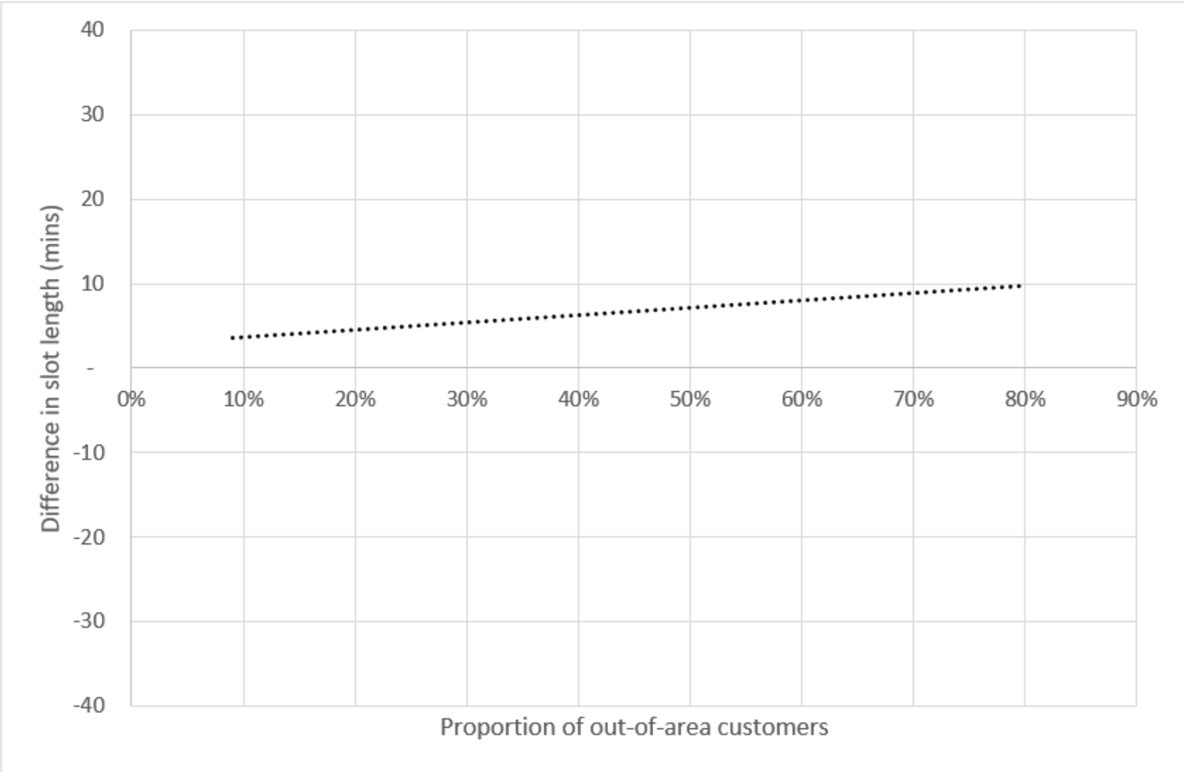
67. Figure 4 indicates that there is a weak negative relationship between the price ratio of these crematoria and their closest alternative, and the proportion of their customers who come from out-of-area. This indicates that where private crematoria are cheaper than the closest alternative crematorium (ie a price ratio of less than 1), they attract slightly more out-of-area customers than crematoria that are more expensive than their closest alternative crematorium (ie a price ratio greater than 1).

Slot length

68. Figure 5 plots the proportion of out-of-area customers of a crematorium with the difference in its slot length compared to its closest alternative. This is calculated as the slot length of the private crematorium minus the slot length of its closest alternative. Therefore, positive values indicate that the private crematorium has a longer slot length, 0 indicates that it has the same slot length and negative values indicate that it has a shorter slot length than its closest alternative. If customers travelled further to have a longer cremation

slot, we would expect to observe a positive relationship between the proportion of out-of-area customers and the difference in slot length.

Figure 5: Proportion of out-of-area customers and the difference in slot length with closest alternative (2018)



Notes:
(1) The dashed line is a line of best fit.
(2) The alternative may be operated by the same firm.
(3) A similar relationship arises when considering the relationship with the average slot length of their three closest alternatives, and with the average slot length of all their alternatives within 30 minutes.

69. As Figure 5 shows, the line of best fit indicates that there is a weak positive relationship.[67] However, Figure 5 shows a high degree of variation in the proportion of out-of-area customers for the same slot length differential (for example, those crematoria with a slot length 30-minutes longer than their closest alternative range from around 10% out-of-area customers to over 50%). This indicates that there is no strong relationship between differences in slot length and the proportion of out-of-area customers across these three firms' branches.

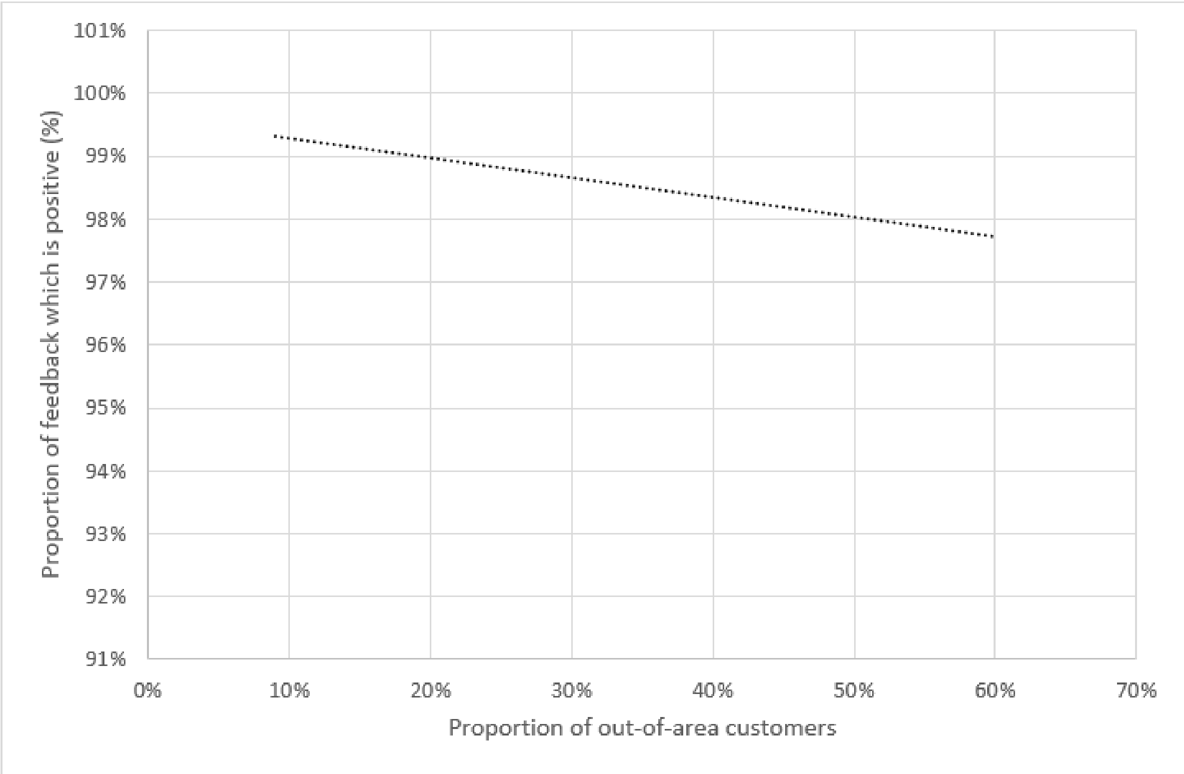
Customer satisfaction levels

70. Memoria and Westerleigh collect data on customer satisfaction levels for each of their crematoria. The feedback scores were calculated on the basis of the

[67] When only considering the crematoria which have a different slot size, the relationship becomes slightly more positive.

percentage of respondents who rated the funeral service as Excellent or Good (from a scale of Excellent, Good, Satisfactory, Poor). This measure captures a general indicator of quality, rather than the customer response to any one specific measure.[68] If a higher quality crematorium (as reflected by higher satisfaction scores) draws more out-of-area customers, this would be reflected in the data by a positive relationship.

Figure 6: Proportion of out-of-area customers and customer satisfaction levels (Memoria and Westerleigh) (2018)



Notes:
(1) Data for Memoria and Westerleigh's crematoria only.
(2) The dashed line is a line of best fit.

71. Figure 6 indicates that there is a weak negative relationship between self-reported customer satisfaction levels and the proportion of out-of-area customers. This can be seen by observing that the two crematoria with the lowest customer satisfaction levels attracted a relatively high proportion of their customers from out-of-area. On the other hand, the crematoria which had 100% satisfaction levels, demonstrated a high degree of variation in the proportion of their customers from out-of-area.

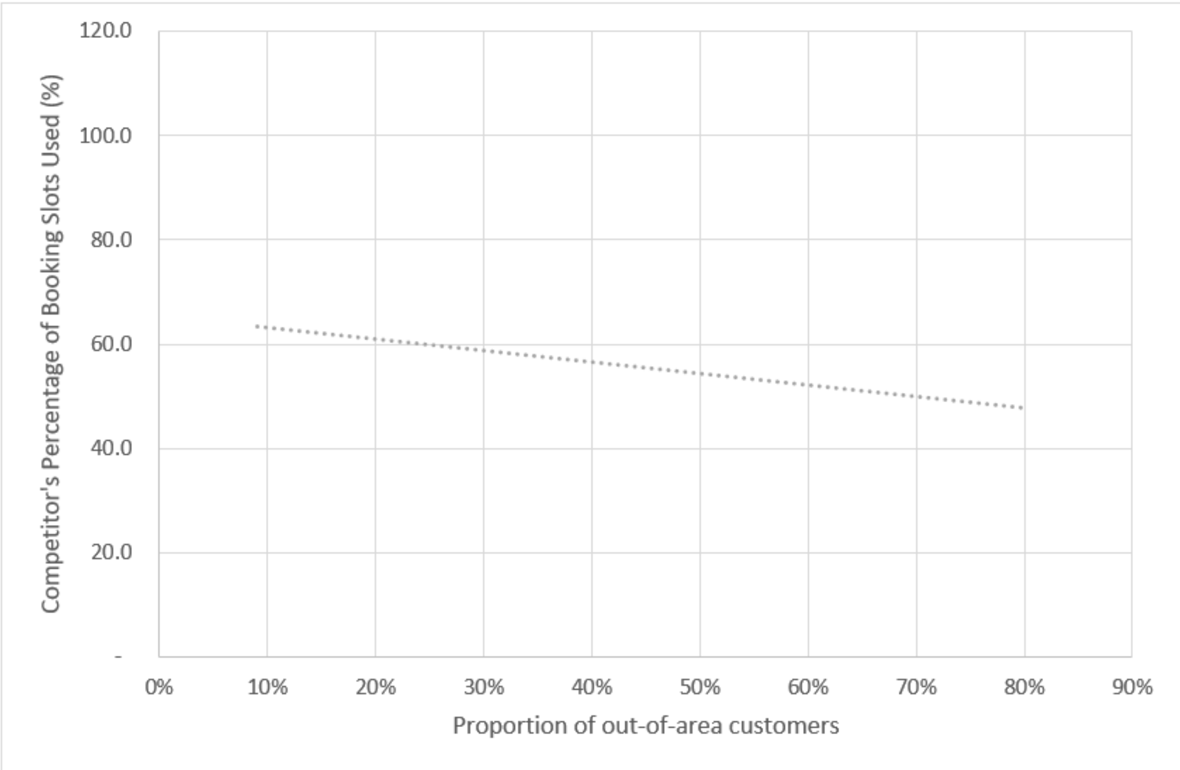
[68] In the working paper Crematoria: outcomes we discuss the limitations of such customer satisfaction survey scores.

Capacity utilisation

72. One factor that may explain the proportion of out-of-area customers may be the capacity utilisation of neighbouring crematoria. Westerleigh told us that, in order to avoid waiting for an available peak slot in their closest crematorium, customers may travel further to a crematorium with more available peak slots.

73. Figure 7 shows the relationship between the proportion of out-of-area customers and the capacity utilisation of their closest alternative. The higher this figure, the more capacity constrained the alternative crematoria are. If we expect that customers travel to crematoria which are further away because nearby crematoria are capacity constrained, this would be reflected in the data by a positive relationship.

Figure 7: Proportion of out-of-area customers and the capacity utilisation of their nearest alternative



Notes:

(1) The dashed line is a line of best fit.
(2) The alternative may be operated by the same firm.
(3) The vertical axis is the percentage of booking slots used in January 2018 for each crematoria's closest alternative crematoria for which we have data.
(4) Capacity utilisation measured for January 2018. A similar result arises when considering capacity utilisation over all of 2018 for the closest 3 competing crematoria. It also holds when considering the closest single alternative, or the average of all competitors within a 30-minute drive-time.

74. Figure 7 indicates that there is a negative relationship between the capacity utilisation of the closest alternative crematorium and the proportion of out-of-area consumers. The data does not therefore reflect a pattern of customers

travelling to crematoria which are not their closest as a result of their nearby crematorium being capacity-constrained.

Qualitative evidence

75. We considered other qualitative evidence as to where out-of-area customers come from and whether this can explain why certain crematoria are better than others at attracting customers who have a closer alternative crematorium.

76. We have received evidence that indicates how private crematoria model the number of out-of-area customers a new crematorium may attract. Plans for new crematoria provided by Westerleigh indicates that it predicts how many out-of-area customers will come from outside the core catchment area of the new crematoria based on certain assumptions. For The Vale and North Wiltshire crematoria, Westerleigh estimated the number of additional cremations performed if it attracted customers from between 1- and 5-minutes' drive-time outside its core catchment area. It predicted that gaining customers 1 minute outside its core catchment area would result in [✄] additional cremations for The Vale Crematorium, and [✄] for North Wiltshire crematorium. It predicted that gaining customers 5 minutes outside its core catchment area would result in [✄] additional cremations for The Vale crematorium and [✄] for North Wiltshire crematorium. Dignity noted the following when calculating how many cremations a new crematorium will conduct and the extent to which customers will travel further than their closest crematorium, and why: "A case could be made for increasing the percentage draw from the three marginal wards, as residents may choose to travel a few minutes further to obtain their preferred slot time/availability… Furthermore, the increased quality of Alrewas Crematorium, compared to the 1964 Stafford Crematorium should again result in Rugeley residents being attracted to the improved availability of slot times even for those residents of the western half of the town."

77. Maps submitted by Westerleigh show the customers that come from the borders of their core catchment areas. In particular, we have considered crematoria that have a high proportion of out-of-area customers. As examples, Figure 8 and Figure 9 are the maps provided by Westerleigh for its Great Glen and West Lancashire crematoria.

Figure 8: Extract of map for Great Glen crematorium (Westerleigh)

[✄]

Figure 9: West Lancashire Crematorium Customers (Westerleigh)

[✂]

78. Figure 8 shows that a significant number of Great Glen Crematorium's out-of-area customers come from [✂], some of whom are outside of its core catchment area. Figure 9 shows that a number of West Lancashire Crematorium's out-of-area customers come from [✂], which are on the boundary of its core catchment area. This is the case for several other crematoria that have a relatively high proportion of out-of-area customers.[69] As such, crematoria attracting high proportions of customers from out-of-area may be located such that they have a large number of potential customers just outside their core catchment area and these customers will only travel a small additional distance relative to their closest crematorium to reach the alternative crematorium.

Summary

79. To assess the arguments made by Dignity, Memoria and Westerleigh that the fact that they attract a high proportion of customers who have a closer alternative crematorium ('out-of-area customers') is evidence of competition over quality, we have considered: the reasons why customers may choose a crematorium that is not their closest; the extent to which Dignity, Westerleigh and Memoria crematoria attract customers from out-of-area; and, evidence as to why certain crematoria are better than others at attracting out-of-area customers.

80. The results from our survey indicate that only a small number of customers choose a crematorium that is not their closest and, when they do so, this is often for reasons unrelated to quality. Submissions from funeral directors and crematoria are consistent in this regard and indicate the importance of factors such as family connections, and the logistics of the funeral (eg the location of the wake), which may mean that customers do not necessarily choose their closest crematorium. The larger private crematoria operators have also identified local factors such as access and "day-to-day associations" for each of their crematoria as reasons for why customers may choose a crematorium that is not their closest.

81. There is a high degree of variation in the proportion of out-of-area customers which different private crematoria attract. We have assessed whether measures of quality, price and capacity constraints are correlated with the

[69] These are a few examples of Westerleigh's crematoria that draw customers from just outside their core catchment area. [✂].

proportion of out-of-area customers and found only weak relationships, or relationships contrary to what we might expect.

Entry

Introduction

82. We have obtained quantitative and qualitative evidence relating to how incumbent crematoria are affected by, and respond to, the opening of a new crematorium ('entry').

83. Our quantitative analysis is based on an assessment of the impact of entry on volumes and fees at incumbent crematoria using the 46 instances of entry which took place from 2008 to 2018, of which 44 were private crematoria entry.[70,71] A fixed effects model was used to control for factors which are approximately constant over time, for example local factors such as crematorium chapel size. The fixed effects model, its strengths and limitations, and the results are described in more detail in the Appendix.

84. In interpreting the results, we place greater weight on results which are statistically and economically (as indicated by the magnitude of the effect) significant.[72]

85. Our quantitative analysis does not control for all local factors, particularly factors that change over time, such as local demand. This could bias the results as we may conflate the impact of such factors on entry and volumes/fees with our estimate of the impact of entry on volumes and fees. The bias may arise as an increase in local demand may attract new entrants and it may also increase the volumes/fees at crematoria, while our results would attribute the increase in volumes/fees entirely to entry. More specifically, this would imply a positive bias in our results.[73] In the Appendix we set out how the positive bias is accounted for in interpreting the results.

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[70] This analysis excludes the 3 replacements between 2008 and 2018 as these events do not change the number of crematoria in the area.
[71] Our analysis does not take account of the fact that in a few instances the entrant is operated by the same crematoria provider as the incumbent. We do not expect entry by an operator who is also an incumbent in the same area to materially affect this analysis. We discuss this further in footnote 6 in the Appendix.
[72] Statistical significance is explained in the notes to Tables Table 6 and Table 7. A result is economically significant where the magnitude of the result is different enough from zero to be of interest in the context of what is being considered (for example, if incumbents lost 0.01% of their volume after entry, or any other negligible amount, this is unlikely to be of interest).
[73] A positive bias means negative numbers should be more negative and positive numbers should be smaller (that is, closer to 0, or non-significant) compared with the estimated effect. We do not know the magnitude of the bias, nor the extent to which this bias will differ across local areas.

86. Drive time bands were used to assess how the impact of entry on volumes and fees change with the drive time between entrant and incumbent. The results of this analysis show the average percentage change of an incumbent's volume and fee from having one additional crematorium within a given drive time band. For ease of interpretation, this analysis uses normal drive times.[74] For reference, a 30 minutes cortege drive time is equivalent to an 18 minutes normal drive time.

87. Table 5 below, shows the number of entries experienced by incumbents during the time period covered by the data set, split by drive time band and type of incumbent (local authority or private crematorium). A crematorium may enter a location within multiple incumbent crematoria drive time bands, particularly in drive time bands which are further away, meaning that the total number of incumbent crematoria experiencing entry will be larger than the total number of entrants. Table 5 shows that this is the case. For example, incumbent crematoria experienced 78 entry events within a 20-30 minute drive time during the relevant period (with 48 of these incumbents being local authority crematoria and 30 of these incumbents being private crematoria).

88. The representativeness and the reliability of the estimated impacts depend on the number of entries experienced in the market: the higher the number of entries experienced by incumbents, the more robust our results are likely to be. Only two crematoria (both local authority crematoria) experienced entry within the 0-10 minute drive time band and only seven private crematoria experienced entry within the 10-20 minute drive time band. The small number of observations in these drive time bands is likely to affect the robustness of the corresponding results (noted with a "†" in Table 6 and Table 7).

[74] If using cortege drive times, the drive time bands would be expanded by the 5/3 factor used to calculate cortege drive time from normal drive time.

Table 5: Number of entries experienced by incumbent type within each drive time band, 2008 – 2018

		Incumbent Type	
Drive time band (min)	*All*	*Local authority*	*Private*
0-10	2	2	0
10-20	35	28	7
20-30	78	48	30
30+	549	366	183

Source: CMA analysis.

How volumes change

Quantitative analysis

89. In Table 6 we report the results on how an incumbent's volume is affected by entry. Where we draw on specific results in the text below, we identify the relevant coefficient, and its statistical significance, from the tables in brackets. The asterisks indicate that the result is significantly different from zero with the following confidence levels: *90%, **95%, ***99%.

90. Our quantitative analysis shows that entry has a statistically significant impact on volumes and that this effect decreases the further away entry occurs. For example, column (1) shows that one additional crematorium within the 10-20 minute drive time band reduces an incumbent's volume by 20% (-0.203***). This effect decreases to approximately a 7% (-0.0673**) reduction when the additional crematorium is within the 20-30 minute drive time band. The effect on volumes from an additional crematorium in the 30+ minute drive time band is found to not be significantly different from 0 (-0.00823).

91. We extended this analysis by assessing whether the impact on volumes from entry is significantly different between local authority and private incumbent crematoria.[75] Column (2) in Table 6 shows how volumes at local authority and private crematoria are affected by entry. The 'effect on local authority' results are interpreted as percentage changes in volume at incumbent local authority crematoria. The 'effect on private' results are interpreted as the difference from the effect on local authorities. This means that the effect of entry on private incumbents can be obtained as the sum of the 'effect on local authority' term and the 'effect on private' term. The volume effect of private crematoria is considered statistically different from the volume effect on local authority crematoria[76] if the 'effect on private' results are statistically

[75] We use 'interaction terms' to separate out the volume effects by local authority and private incumbents.
[76] That is, that the estimated change in volumes after entry at private incumbents is different to the change at local authority incumbents.

significant. The results show that for most drive time bands, the effect of entry on volumes does not significantly differ by incumbent type.[77]

92. If there were a significant quality differential between private and local authority crematoria, and customers were willing to travel for a higher quality service, we might expect entry to affect volumes more strongly for local authority incumbents where the quality differential with a private new entrant may be greater compared to the impact on volumes at a private incumbent where any differential with a new entrant may be smaller. This does not appear to be the case.

Table 6: Estimated percentage volume effect on incumbent crematorium from entry

	(1)	(2)
Drive time band (min)	*Ln (volume)*	*Ln (volume)*
0-10	-0.306***†	
10-20	-0.203***	
20-30	-0.0673**	
30+	-0.00823	
Effect on local authority (LA):		
0-10		-0.288***†
10-20		-0.174***
20-30		-0.0965***
30+		-0.0244***
Effect on private:	*(difference to effect on LA)*	
0-10		*No instances*
10-20		-0.118*†
20-30		0.0647
30+		0.0586***
Observations	3,209	3,209

Source: CMA analysis.
† denotes drive time bands in which a small number of incumbents experienced entry.
Note: Standard errors are reported in parenthesis. All standard errors are clustered at the crematoria level. Asterisks indicate that the result is significantly different from zero with the following confidence levels: *90%, **95%, ***99%.

Qualitative analysis

93. The analysis above assesses the extent to which incumbent crematoria lose volumes upon entry. We have considered the extent to which those incumbent crematoria who lost volumes, lose customers who are close to the new crematorium (suggesting a customer preference for proximity), or are located over a wider area (suggesting that customers may choose a crematorium on the basis of factors other than location/proximity).

94. Dignity, when considering potential volumes for a new crematorium, stated in a planning document, prepared on its behalf: "A study area is then defined

[77] The exception is in the 30+ minute drive time band. In this drive time band, column (2) shows a local authority's volume is reduced by approximately 2% (-0.0244***) whilst a private's volume increases by approximately 3% (-0.0244*** + 0.0586***). We would not expect entry to lead to increased volumes at incumbent crematoria, particularly those that are over 30 minutes normal drive time away.

using a gravity model, that is by looking at the locations of existing crematoria and assuming that people will gravitate towards the nearest facility."

95. We conducted telephone calls with nine local authorities most of which had experienced entry during 2015 and 2016 and had lost volumes since entry. Qualitative evidence from these calls implies that when a new crematorium opens, the most significant loss of customers that it faces is generally from customers who are close to the new crematorium:

(a) Kettering Crematorium told us that it lost volumes from the funeral directors based near Wellingborough where a new crematorium opened and from near Great Glen when another new crematorium opened. Volumes from these funeral directors fell from [✂] per year to [✂] per year and from [✂] per year to [✂] per year respectively (from the year of entry/prior to entry to 2018);

(b) Leicester City Council stated that prior to entry of new crematoria, those living to the south of the city had no local provision of crematoria and could either travel to Leicester to use the crematorium or travel to Loughborough. After the entry of two new crematoria to the south, Leicester crematorium had served significantly fewer customers from the south of the city and experienced a loss of customers from within the city but located close to the new crematoria in the south and east edges of the city.

(c) Derby City Council's crematorium is located to the north-west of Derby, whilst Dignity's new Trent Valley crematorium is located 30 minutes away[78] on the opposite side of the city in the south-east. Derby City Council told us that: "there is a good geographical pull from the Spondon/Chellaston/Elvaston [south-east] corner that will be drawn and are being drawn to Trent Valley. In fact, some of the funeral directors in that area we now rarely see; they are going to Trent Valley... It is generally from that south side of the city… whilst the Co-op is still coming to us, it is the Co-op branches from the north of the city, whereas the Co-op branches from the south of the city are being drawn towards Trent Valley." Dignity has stated that this is what it expected to happen when it planned the crematorium: "The Council crematorium is to the North of Derby, a place called Markeaton… We have gone to the south of the City and introduced a new private facility to the South and hopefully pulling away some of the cremations to the South from that. Technically, it was no more difficult than that." Dignity continues: "There are other areas

[78] Non-cortege driving speeds.

where the crematorium might be the [*sic*] to the east of the City and you come in at the opposite end, the West side of the city. So that is the basic demographics of it."

(d) Cheshire East Council stated that after the Vale Royal crematorium opened in 2014 Crewe crematorium had lost volumes from the CW7, CW8, CW9 and CW10 postcode areas. By 2018 volumes in the CW8 and CW9 postcode area were [✀]% lower than in 2014. Volumes in CW7 fell from [✀] cremations to [✀] cremations between 2014 and 2018 and volumes in CW10 were also reduced. Figure 10, below, shows the local area.

Figure 10: Vale Royal and Crewe Crematorium

[✀]

Source: CMA analysis of Cheshire East Council.

(e) Conwy County Borough Council, Mansfield and District Crematorium Joint Committee, Taunton Deane Borough Council, and Great Yarmouth Borough Council made similar observations as the above in relation to losing some volume from funeral directors/customers located close to, or in between, their crematorium and the new entrant.[79]

96. One exception to this pattern was the response from Bournemouth, Christchurch and Poole Council which has seen a reduction in demand from across its borough, including those both close to, and further from, the new crematorium that has opened. Bournemouth, Christchurch and Poole Council stated that they considered this to be because the new crematorium is owned by a local funeral director who has branches across the Bournemouth/Christchurch/Poole area and the funeral is marketed in such a way that the funeral and cremation services are purchased together. We consider that this model is relatively unusual and differentiated from the offering of most other funeral directors, thus explaining the exception in this particular case.

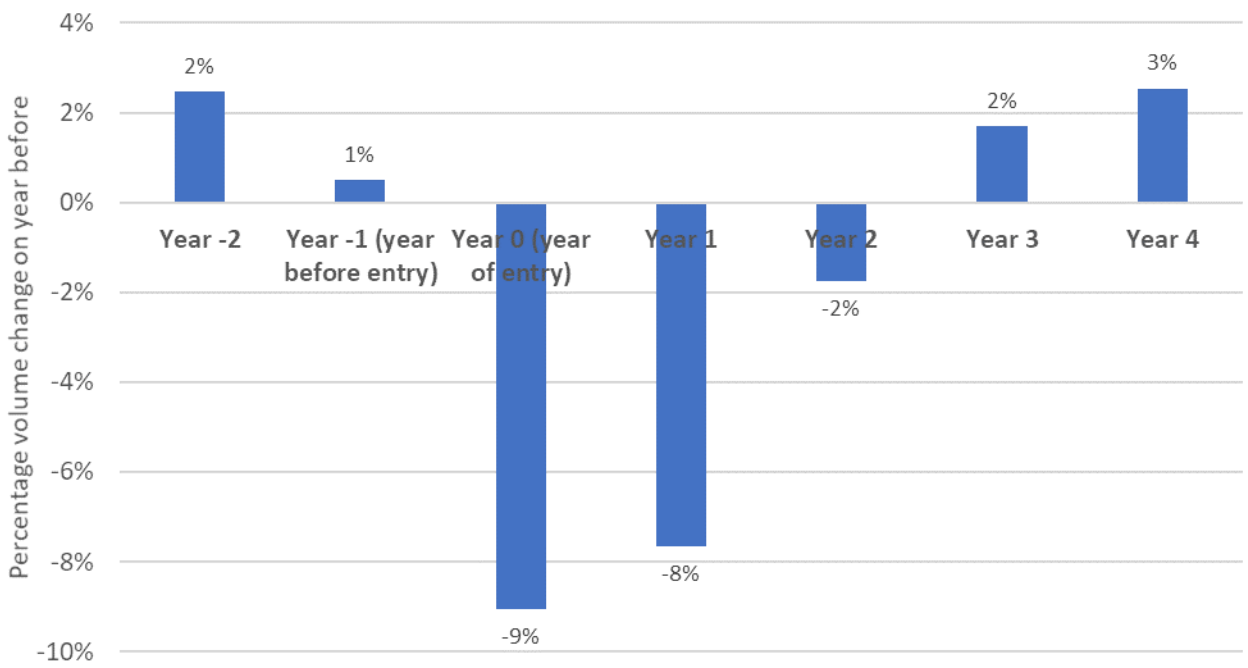
97. The quantitative analysis set out in paragraphs 89 and 91 describes how volumes change from the year prior to entry to the year of entry. We have also assessed the extent to which incumbent crematoria lose volumes over a sustained period of time.[80] Volume figures suggest that, on average, incumbent crematoria lose volumes upon entry, but the decline stops soon

[79] Conwy County Borough Council and Great Yarmouth Borough Council. [✀].
[80] This is based on averaging volume data and does not control for other factors (as the fixed effects analysis does).

afterwards and, three years after entry, volumes restart growing year on year at rates similar to those before entry, as shown in Figure 11.

98. The pattern of volume changes at incumbent crematoria described above, particularly the fact that soon after entry volumes at incumbent crematoria tend to stop declining (on average), suggests that, after the initial migration of customers, there is limited ongoing diversion of customers between the incumbent and the new crematorium. Given that we have heard from the larger private crematoria operators (who comprise the majority of new entrants) that they provide higher quality and compete against existing lower quality crematoria across a wide geographic area, we would expect incumbent crematoria to suffer from declining volumes year-on-year after entry, particularly as it takes time for new crematoria to become established. This does not seem to be the case. Instead, the analysis appears consistent with customers close to new crematoria migrating to the new crematorium due to its proximity (as described in paragraph 94), but limited ongoing competition beyond the point of entry. In the working paper Crematoria: background and market structure we present analysis that shows that the increasing number of cremations over the last ten years have been primarily met by private crematoria, and that the average number of cremations per crematorium has been relatively stable for most crematoria operators.

Figure 11: Average changes in volumes on the previous year at incumbent crematoria experiencing entry (in year 0)



Source: CMA analysis of Cremation Society data. Analysis of incumbent crematoria that experienced entry within a 20-minute normal drive time (33 minutes at cortege speeds) between 2008 and 2018. Based on 27 crematoria in year -2, 28 crematoria in year -1, 28 crematoria in year 0, 24 crematoria in year 1, 15 crematoria in year 2, 9 crematoria in year 3 and 8 crematoria in year 4. Given for some crematoria entry occurred recently, we do not have data for how their volumes responded in later years. One crematorium analysed experienced entry by a crematorium operated by the same provider. Excluding this crematorium from this analysis has no material impact on the results presented.

Response to entry

How fees change

Quantitative analysis

99. Using the analytical framework set out in paragraphs 83 to 86 we assessed the impact of entry on an incumbent's standard cremation fee. The results of this analysis, presented in Table 7, can be interpreted as the percentage change in an incumbent's cremation fee from having one additional crematorium within a given drive time band. Where we draw on specific results in the text below, we identify the relevant coefficient, and its statistical significance, from the tables in brackets. The asterisks indicate that the result is significantly different from zero with the following confidence levels: *90%, **95%, ***99%.

100. This analysis found a limited impact of entry on the cremation fee charged by incumbents when not accounting for incumbent type and, when there is an impact, it is in a direction opposite to what we would expect from a competitive response. Column (1) indicates that only entry in the 20-30 minute drive time band has a statistically significant effect on fees, where one additional crematorium increases fees by around 2% (0.0206**).

101. When accounting for incumbent type, we observed that the effect of entry on fee is different between local authority and private incumbent crematoria. Column (2) shows that across all drive time bands the impact of entry on a local authority crematorium's fee is not statistically significant. However, the entry effect on a private provider's fee is statistically significant, although the direction of the effect is opposite to what we would expect (since we would expect the presence of more competitors to lead to lower fees). Private providers' fees increase by approximately 7% (0.0689**) with one additional crematorium within 10-20 minutes' drive time,[81] with this effect reducing the

[81] We note that this finding is based on a small number of observations, see paragraph 88. However, if excluding this result, the finding remains that the size of the fee increase reduces as distance to the entrant increases.

further away entry occurs – entry within 20-30 and 30+ minutes increases the fee by around 5% (0.0482**) and 2% (0.0202**) respectively.

Table 7: Estimated percentage fee effect on incumbent crematorium from entry

	(1)	(2)
Drive time band (min)	*Ln (fee)*	*Ln (fee)*
0-10	0.0443†	
10-20	0.00188	
20-30	0.0206**	
30+	-0.00193	
Effect on local authority (LA):		
0-10		0.0507†
10-20		-0.00479
20-30		-0.000615
30+		-0.00759
Effect on private:	*(difference to effect on LA)*	
0-10		*No instances*
10-20		0.0689**†
20-30		0.0482**
30+		0.0202***
Observations	3,184	3,184

Source: CMA analysis.
† denotes drive time bands in which a small number of incumbents experienced entry.
Note: Standard errors are reported in parenthesis. All standard errors are clustered at the crematoria level. Asterisks indicate that the result is significantly different from zero with the following confidence levels: *90%, **95%, ***99%.

Qualitative evidence

102. The ICCM, Memoria, and the Cremation Society have told us that when a new crematorium enters the number of cremations per crematorium in close proximity will be redistributed. [82] This could put pressure on crematoria to increase their fees (or reduce the extent to which they reinvest in their crematorium)[83] to maintain income levels.[84,85] This would be consistent with our findings, above, that private crematoria increase their fees upon entry.

103. We asked Dignity and Memoria how they responded to specific recent instances of entry in relation to the fees that they set.[86] Memoria noted that the instance of entry was some distance from their crematoria (around 30-minutes normal drive time) and, whilst the new entrant was cheaper than them, they considered the new entrant was competing for different areas to the Memoria crematorium and as such they took no action and instead are keeping a 'watching brief.' Dignity stated that when its crematoria are affected

[82] [✂], ICCM response to Issues Statement, Cremation Society response to Issues Statement.
[83] Bournemouth, Christchurch and Poole Council and Leicester City Council.
[84] ICCM response to Issues Statement.
[85] Memoria has argued that this pressure will apply where private crematoria enter and the pressure to increase prices will apply to local authority incumbents.
[86] We identified Dignity and Memoria crematoria that had experienced entry within a 30-minute (normal) drive time since 2014. We did not ask Westerleigh as we considered that their sites had only experienced entry at or around the same time as Westerleigh themselves were entering a local area.

by entry they do not respond by reducing fees or adjusting their price because there has been entry, but notes that entry of new crematoria have increased the competitive constraints that they face and have limited their ability to increase prices. Dignity has also noted, that due to the importance of geography in choice of crematorium, when a new crematorium opens and customers from the area of the entrant are lost, reducing prices to compete is likely to be ineffectual in winning customers back.

104. We asked nine local authorities on calls, and a further 12 in writing, how they responded to entry when setting fees. None of them stated that they responded to entry by reducing their fees. Two local authorities noted that increasing fees to make up for lost volumes is an option (but did not ultimately increase fees),[87] but we found limited evidence of this occurring (only two of the local authorities we spoke to increased fees to make for the shortfall, and one of these increased the fee at the same time as increasing their slot length).[88] This reluctance to increase fees is because local authorities have a desire to keep fees low, particularly due to concerns around funeral poverty and to maintain relatively low fees compared to rivals.[89] Instead of changing fees, local authorities tended to revise down revenue targets for the crematorium.[90] This is consistent with our findings above that there is no statistically significant relationship between fees and entry for local authority incumbents.

Capital expenditure and slot length

Quantitative analysis

- *Capital expenditure*

105. We have obtained data from private providers and local authorities in relation to capital expenditure and significant investments made in the five years between 2014 and 2018 at each of their crematoria. Data was provided by Dignity, Westerleigh, Memoria, 15 small private providers and 162 local authority crematoria.[91] We have excluded investment data relating to

[87] Kettering Borough Council and Conwy County Council.
[88] Coventry City Council and Leicester City Council.
[89] Conwy County Council, Derby City Council, Great Yarmouth Borough Council, Aberdeen City Council, and Bournemouth, Christchurch and Poole Council. See also Cheshire East Council, Portchester Council, Boston Borough Council and Mansfield and District Crematorium Joint Committee.
[90] Conwy County Council, Sefton Metropolitan Borough Council, Great Yarmouth Borough Council, and Aberdeen City Council.
[91] We were missing data from the London Cremation Company (six crematoria), seven independents and 22 local authority crematoria.

cemeteries[92] and new build crematoria in the years up to and including the year of entry.

106. We grouped these crematoria between those that had experienced entry within a 30-minute normal drive time during the relevant period and those that had not experienced any entry. We found that the average capital expenditure by those experiencing entry was around £443,000 over the five years whilst those not experiencing entry spent, on average, around £604,000.[93,94] We looked at the data in more granular detail and found examples of many crematoria who have not experienced entry making significant investments.[95] We found many local authorities making investments, none of whom appear to have experienced entry (to provide some context and examples, Blackpool spent £[✂] on a new extension, Honor Oak spent £[✂] on a refurbishment and gardens, Falkirk spent £[✂] on a chapel extension, improved parking and refrigeration- among other improvements- and Ayr spent £[✂] on an extension and car park improvements).

107. We note that there are limitations in the data we obtained, specifically because of the different ways in which private and local authority providers record and categorise their investments. We obtained data from 162 local authority crematoria, all of which may have recorded their investments differently from each other and have different definitions for what they regard to be a significant investment (for example, different local authorities have different criteria for regarding an investment to be significant, ranging from £5,000 to £500,000). Furthermore, data provided by private crematoria operators and local authority crematoria may not be directly comparable. We note that private crematoria operators have, in some instances, included investments that local authorities have not, for example, they have included investments in general maintenance such as carpet cleaning, waste removal and CCTV monitoring in their responses.

108. Despite these differences, we consider that the analysis indicates that investment decisions are likely to be taken relatively independently of local

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92 Where this is apparent.
93 Where we have data for 257 crematoria in total. 54 crematoria experienced entry in this period.
94 We considered whether these figures are affected by the age or operator of the incumbent crematoria. As such, we have compared the average capital expenditure over the period 2014-2018 of older (pre-1990) local authority crematoria by those who have experienced entry and those who have not. The average capital expenditure over the period by those who experienced entry was around £517,000 (36 crematoria) and the average capital expenditure over the period by those who did not experience entry was around £758,000 (119 crematoria).
95 We note that private providers did not tend to be affected by entry whilst local authority crematoria did. We considered whether the composition of providers being affected by entry led to these results. We found that both private providers and local authority crematoria experiencing entry invested less, on average, compared to those that did not experience entry during the time period.

entry events. In particular, we note that local authority crematoria may not be subject to normal commercial pressures and decisions may be taken for other reasons.

- *Slot lengths*

109. Using the analytical framework set out in paragraphs 83 to 86,[96] we ran a version of the model to assess whether incumbent crematoria's slot lengths are affected by entry. Further details of this analysis and its results are set out in the Appendix, from paragraph 24.

110. We have fewer years of data for slot lengths (2012 to 2018) compared to the analysis on volumes and fees (2008 to 2018).[97] Having fewer years of data reduces the robustness of the results compared to the results relating to volumes and fees, described from paragraphs 89 and 99 respectively, as this analysis uses fewer entry events (and thus has fewer observations).

111. This analysis replaces volume or fee in the fixed effects model with slot length. This version of the model estimates the effect of entry on incumbent crematoria's slot length. Most of the estimated effects in this analysis were found not to be significant. Entry in the 0-10 minute drive time band was found to have a statistically significant effect on slot length. However, as noted in paragraph 88, only two incumbent crematoria experienced entry in this drive time band and the small number of observations in this drive time band is likely to affect the robustness of this result.

Qualitative evidence

112. We asked Dignity and Memoria how they responded to recent instances of entry other than in relation to price.[98] Memoria conducted a full assessment of the new entrant's facility and service offerings. Memoria stated that it is constantly reassessing this decision. Dignity stated that 'were there to be space for improvements, Dignity would invest time and resources to improve the quality of its offering (for example, the availability of visual tributes and music system, refurbishment and redecoration works)." Specific actions listed by Dignity for each of its twelve crematoria which had experienced recent entry were:

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[96] That is, using the same the fixed effects model used to assess the impact of entry on an incumbent's volume or fee.
[97] Due to changes in the way that the Cremation Society gathered data in relation to slot length.
[98] We identified Dignity and Memoria crematoria that had experienced entry within a 30-minute (normal) drive time since 2014. We did not ask Westerleigh as we considered that their sites had only experienced entry at or around the same time as Westerleigh themselves were entering a local area.

(a) Redecoration/refurbishments (4 crematoria);

(b) improve grounds and gardens (1 crematorium);

(c) replace cremators (1 crematorium);

(d) increasing slot lengths from 45 to 60 minutes (2 crematoria); and,

(e) upgrades of visual tributes and music systems (2 crematoria).

113. Local authorities who had experienced entry by a new crematorium told us about the significant investments that they have made, but in many instances, these were not made specifically because of a new entrant, but because the work needed to be done in order to provide a service to their local residents. For example, one local crematorium stated: “We haven't done anything that we wouldn’t have already done anyway.”[99] However, a number of local authorities did state that the entry of a rival crematorium had made them consider what they offer, and potentially make service improvements by thinking about the design of the crematorium, or comparing themselves in relation to the facilities on offer by the entrant.[100]

114. However, local authority crematoria who had not experienced entry also made significant investments. In total these crematoria spent £91m in the period 2014 to 2018. Further details of some of these investments are described in paragraph 106.

115. As noted in paragraph 112(d), Dignity increased slot lengths after entry in two of its crematoria. We note that Memoria in any event offers slot lengths of one hour at all of its crematoria. Local authorities who had experienced entry by a new crematorium generally either increased their slot length after the entry of a new crematorium,[101] or are considering extending their slot length (particularly because the loss of volumes has made extending slot lengths possible),[102] although two local authorities considered that they already had an appropriate slot length.[103] Those local authorities who had increased their slot length after entry, either did not increase their fees to reflect the longer slot length,[104] or increased their fees marginally.[105]

[99] Kettering Borough Council, Conwy County Council, Sefton Metropolitan Borough Council, Great Yarmouth Borough Council.
[100] Derby City Council, Trafford Council, Swindon Council.
[101] Kettering Borough Council, Leicester City Council, Derby City Council, Aberdeen City Council [✂].
[102] St Helen’s Council, and Bournemouth, Christchurch and Poole Council.
[103] Sefton Metropolitan Borough Council, and Great Yarmouth Borough Council.
[104] Kettering Borough Council, Derby City Council, Aberdeen City Council.
[105] Leicester City Council [✂].

Summary

116. Our analysis of entry indicates that a new crematorium attracts customers from existing crematoria. Volume losses are larger the closer the new crematorium is to the existing crematorium, which is consistent with what we have observed and been told about customers’ preferences for proximity.

117. After the initial migration of customers to the new crematorium, volumes at incumbent crematoria stop declining, and, three years after entry, volumes restart growing year on year at rates similar to those that prevailed before entry. This suggests that, after the initial migration of customers, there is limited ongoing diversion of customers between the incumbent and the new crematorium. Incumbent local authority crematoria do not respond to entry in terms of the prices that they set. However, on average, private crematoria that have experienced entry increase their fees.

118. Finally, incumbent crematoria do not appear to respond to entry by making investments or increasing slot lengths. Decisions around slot lengths and investments appear to be taken independently of competitive conditions.