

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

### **Summary of hearing with Co-operative Group Limited held on Tuesday, 16 July 2019**

#### **Introduction**

1. Co-operative Group Limited (Co-op) said that the funeral sector was unique and, therefore, very difficult to standardise. It suggested that customers had perhaps been slower to demand change than in other sectors, due to the infrequent nature of the purchase of at-need funerals, but that changes were now taking place very quickly and that the sector may be approaching a tipping point.
2. A customer survey commissioned by Co-op identified the main drivers of choice as: 1) quality of care 2) the branch location 3) tailoring of the funeral and personalisation and 4) pricing, both transparency and actual price.
3. Co-op said that it was increasingly seeing customers shop around, considering price as well as quality and service factors. [X]. [X]% of customers who visit Co-op's at-need webpages also visit its online pricing tool.
4. Co-op said that comparison sites, whilst nascent, were starting to provide customers with price transparency. Its research found that, on average, 27% of customers started their research journey online, noting also that demand for customer support to be provided through telephony and online channels was increasing. Co-op said that: 'CMA action to improve online transparency and make it effective could have a really positive effect on this market'.
5. However, Co-op considered that care and service remained the 'number-one driver of choice for customers' and that it was difficult to 'compare standards of care of the deceased in particular'. Co-op expected that 'securing standards of care for the deceased' would become more important as a driver of customer choice. In Co-op's view, regulation and measures that would help customers compare back-office standards of care of the deceased were required.

6. Co-op's strategy was designed to respond to the changing needs of customers 'by creating a more personalised and inspiring proposition'. This included being more competitive on price, in particular versus independent funeral directors. Co-op said it was 'raising its standards of care and excellence to the next level'. Removing costs and complexity from its business would enable it to fund its transformation.

## Strategy

7. Responding to a question about how it positioned itself on price in relation to its competitors, Co-op said that its pricing position had been competitor led, and that Co-op had set its prices broadly mid-market but reflective of its service offering and quality.
8. Co-op said that its growth strategy was based on organic growth, opening new satellite branches off existing care facilities, as well as building new care centre facilities. Co-op said it was most cost effective for it to open a new branch off an existing care centre to infill or partially infill into new opportunities off an existing care centre, sometimes as a defensive response to a competitor opening. However, Co-op has also laid down a small number of new care centres with satellite branches to open in new geographies.
9. [REDACTED].
10. The CMA asked [REDACTED] what was driving funeral price transparency: was it CMA scrutiny or customer demand? Co-op commented that it was the first funeral director to sign the Enhanced Funeral Pledge with Fair Funerals, and one of the commitments it gave in 2017 was to move its prices online. [REDACTED]. Co-op explained that there was still some 'legacy thinking' in its business with some colleagues not recognising how fast the consumer had been moving and marketing teams still thinking of things 'in quite a traditional way'. Co-op noted that all of its prices were now online.
11. On pricing, Co-op said that they did not aim [REDACTED] in the market because it considered that it had significantly higher standards than its competitors. [REDACTED].
12. [REDACTED].
13. In respect of its acquisition/new funeral home strategy, the CMA asked if Dignity's presence would have been a factor. [REDACTED].
14. Co-op said that it wanted its prices to be below those of Dignity's prices. However, it looked more at the quality standards of independents and their ways of operating in terms of its day-to-day business because recommendation was so important. Co-op said that independents were local

and for many of them it was the lifeblood for their family, so they were very ready to provide a good service.

## **Competitive constraints**

15. The CMA asked how Co-op had responded to new suppliers and new forms of entry. Co-op characterised new entrants as falling into three categories: those doing the job of a traditional funeral director, 'more modern players' who took a different approach to marketing their services and 'digital players' (such as providers of direct cremation services).
16. In the traditional segment, competition would typically come from ex-funeral director employees setting up in business. Online and direct cremation types of business, the newer low-cost entrants, were competing more on price, sometimes 'in quite an aggressive way in terms of marketing and their presence'.
17. Co-op confirmed that new entrants had taken market share and volume from them and that Co-op had been losing market share to both new entrants and existing funeral directors who had responded to emerging customer trends since 2012.
18. In addition, Co-op said it had expected to increase its volumes through organic growth and the introduction of lower priced Co-op funeral products (including simple funerals and direct cremation), but these had cannibalised some of its own volumes rather than incrementally increasing volumes. The move to a more consistent operational model, in terms of organisational design, processes, controls and technology had also caused some disruption to its own business.
19. Co-op said that it expected the average selling price for a traditional funeral to increase in the future but only in line with inflation, because of increasing competition entering the market and the death rate not changing significantly. Co-op added that funeral directors would want to price at a competitive position but they would have to be mindful of their own cost inflation, so it was unrealistic to assume there would be no future increase in average selling price, but this would need to be minimised to be competitive, given that price was becoming increasingly important when consumers were choosing a funeral director. The CMA asked whether Co-op expected the proportion of funerals that were simple funerals to change substantially over the next five years. Co-op indicated that overall, it expected to deliver more simple funerals, noting the growth in sales volumes since 2014, in particular for pre-paid plans. Co-op also said that, if you take out pre-paid plan redemptions, it expected the proportion of funerals to be maintained [X].

20. The CMA asked Co-op whether the sale of Simple Funerals had any constraining effect on the price it charged for Traditional Funerals. Co-op explained that its customers wanted the ability to personalise more, either adding to a simple funeral package or removing things from a Traditional Funeral package, so the pricing architecture between its Simple Funeral and its Traditional Funeral had to make sense. Co-op said that there was some evidence that Simple Funerals were constraining charges for Traditional Funerals [X] while also referring to consumers shopping around more, better online price transparency and consumers researching funerals ahead of a purchase as making the market more competitive for Traditional Funerals. Co-op added that, in real terms, the price of its Traditional Funeral had been held at the same level since June 2017.
21. Co-op explained to the CMA the complexities of being more transparent and consistent on prices at a national level while remaining competitive at a local level. Co-op said it had rationalised the number of price bands it operated for Traditional Funerals as well as standardising the charges for some elements of the funeral package, for example, embalming and limousine charges. Co-op said that it decided to offer a national price for its Simple Funeral because it considered it the right thing to do. However, there were some regional variations, such as higher costs of premises in London than in the North, and higher death rates in more densely populated areas, which led to increased levels of competition in some local markets, which made it difficult to offer a national price for its Traditional and Classic funerals.
22. Co-op said the way that it gave flexibility to its local branches was through its “guaranteed to beat” initiative, launched in September 2018. This initiative provided its local funeral directors with discretion, provided there was proper evidence of a quote from an alternative funeral director, to price below the competitor quoted price and retain the funeral business. Co-op confirmed that take-up so far had been ‘a little bit disappointing’[X].
23. Co-op said that it did not know whether there had been any movement of business from Dignity to Co-op as it was difficult to track whom market share had been lost to. CMA asked why not if price was becoming more important? Co-op explained that many people would still choose a funeral director based on who they had used previously and on the basis of recommendations. The part of the market that could be actively influenced was, therefore, a much smaller part of the overall market. Co-op noted that it was important to have good quality and good service relative to all the competition in the local market, being true to ‘...the right standards and the right quality’.

24. Co-op said that both it and Dignity had struggled as the market had become more price competitive [redacted] and that ‘...the consumer has looked to cheaper independent means and local markets’. Co-op said that it was conducting price trials in different parts of the UK to develop its pricing proposition.
25. The CMA asked whether the profile of the people using digital channels was different from the profile of the people walking through the door, either by age or some other characteristic. [redacted].

## **Crematoria**

26. The CMA asked whether Co-op had ever tried to negotiate a discounted price with a crematorium in return for volume. Co-op said it had not, other than for its cremation without ceremony package for which it offered a national proposition, explaining that this was because the customer generally had a crematorium in mind, noting in addition differences in crematoria prices. It also noted the more practical complexities of negotiating with large numbers of parties to get national network coverage.
27. The CMA asked how a new entrant crematorium set about marketing itself. Co-op said the crematorium staff would visit local funeral directors and make them aware of the new facilities so that the new crematorium became an option that could be offered to their customers. If the customer did not have a crematorium in mind, the funeral director would be able to tell the customer where the nearest crematorium was and provide information on length of service slots and price.

## **Profitability**

28. The CMA asked whether Co-op’s current level of profitability, based on its 2018 projections, was sustainable and whether that might change in the future. Co-op said that the current expectations of performance of the business looked [redacted] to that in the 2018-2022 plan (prepared in 2017). Co-op said that it had seen a decline in the volume of funerals per home because of competition from new entrants.
29. Co-op said that the introduction of the Co-op Simple Funeral required it to re-engineer its cost base to achieve a competitive price point for the product. [redacted]. Co-op considered that some customers were taking a Simple Funeral in preference to Co-op’s Standard Funeral [redacted].
30. The CMA asked how efficient Co-op was. Co-op said that its fixed-cost base was [redacted].

31. The CMA asked Co-op about its objectives in terms of ROCE. Co-op said that it aimed to generate profit somewhere between £[redacted] million and £[redacted] million to justify the investment [redacted]. Co-op said that it was in the process of updating its KPIs, but that it did not believe its business could generate returns like it had in the period up to 2015. [redacted]
32. The CMA asked about payment terms for different funeral products. Co-op said that it did not differentiate in payment terms across its funeral packages. Co-op required disbursement costs to be paid within 48 hours of the customer signing the arrangement form, typically the crematoria fees, doctor's fees and any other pass through cost. Co-op said it did not take a margin on those costs. All funerals were invoiced after the funeral had taken place with payment required within 30 days.
33. [redacted].
34. Co-op said that it did see itself as a national brand, but that it was very important that it was known in the local community too. [redacted].
35. [redacted]. Co-op said that its challenge was to understand to what extent pre-paid delivered incremental volumes and to what extent was it forward payment of a funeral. Pre-paid plans provided include bronze, silver, gold and bespoke plans. Co-op said that, following a purchase, customers could upgrade, downgrade or cancel plans. Co-op said that the pre-need market would continue to grow and, as an integrated provider of funeral services, pre-need plans were an important part of its offer. [redacted].
36. Co-op said it was [redacted] continuing to invest in state-of-the-art new care centres and saw this as a way of getting better economies of scale. [redacted].
37. Co-op said that time in care (the time from the date of death to the date of the funeral) varied by geography, in part because of cultural norms and local practice. In Northern Ireland it was [redacted] days and Scotland [redacted] days. The national average was probably around [redacted]days. [redacted].
38. [redacted]. Co-op said that it was working on improving its operational processes and procedures and creating greater standardisation [redacted].
39. [redacted].
40. The CMA asked about local authority funeral contracts that Co-op operated in some parts of the country, asking whether it made money on such contracts. [redacted].

## Quality

41. Co-op noted that, as the number one driver of choice was service and care, it faced a huge reputational risk if something went wrong from a care perspective.
42. Co-op said that there was [§] across its network. [§]. In relation to independent funeral directors it had found, when looking for acquisitions, 'a wide differentiation in the quality of standards of service' ranging from 'really good' to 'really poor'. By way of example, Co-op said it had seen '...deceased laid out on old joinery workbenches, not in refrigerated temperature-controlled environments.'
43. Co-op said that as a minimum standard it complied with the NAFD Code of Practice, but that its critical and core standards were higher than the NAFD Code of Practice, looking at all aspects of its business. Co-op considered that it set standards that were higher than the sector, noting its Guardian platform (a digital information management system for tracking the care of the deceased in the back office) and associated standards of care as an example of how it tried to raise the bar in the industry.
44. The CMA asked whether improving quality significantly would drive up market share or whether it would need to price more competitively too. Co-op said it would need to price more competitively too. Improving volumes was about price, marketing price reductions and getting the experience on the care and services side right which would generate repeat business, which is why Co-op's strategy talked significantly about additional investment in training its staff.
45. The CMA asked how Co-op measured the quality of independent funeral directors, whether Co-op measured independents' quality as against Co-op's own standards, or some other minimum standard. Co-op said that it had set for itself quality standards that raised the bar, which were different and above what was required for a minimum standard of operation in the industry. Co-op said that the average consumer thought that this industry was already regulated, that there should be some minimum standards that should operate in the industry, for example, access to proper temperature-controlled units and in the way that funeral directors offered choice to customers. Co-op said all options should be available to clients, rather than a funeral director pre-determining what they think a client can afford or what they think a client might want for a funeral. Co-op said it did not know what happened behind closed doors at the independents. What Co-op did know about quality standards came from its experience of potential acquisitions of independent businesses, where it had observed businesses that were below an acceptable

minimum [standard], as well as ‘the things that they hear in the market gives them a strong suspicion that ...there is a problem’.

46. The CMA asked whether customers were paying for more quality than they had asked for or realised they were paying for. Co-op said this was difficult to answer, noting that when something had gone wrong, it created an alarming reaction with Co-op's customers. Co-op said that its price points reflected value for money for the quality of service it provided, which was the level of quality that they would want for their own loved ones (while also noting that if it put prices up it would become extremely uncompetitive).
47. The CMA asked why Co-op wanted to lead the market in quality, given the negative impact on its profitability and cost base. Co-op said that it invested in becoming a leader in quality and standards because it thought the market would move towards more visibility in the quality of care, given the growth in online price comparison and review websites, which involved service and quality ratings, in other markets. Co-op said that it expected the quality of care given to the deceased to become more visible and that this would mean consumers would place more value on quality in the future. Co-op commented that the CMA might put some regulation in place to increase transparency in the sector to enable people to compare funeral director services.
48. [REDACTED].
49. Co-op said that it did not see Dignity as its biggest competition. It regarded its main competition to be independent funeral directors where there was a lot of new entry. Co-op said that it did compete with Dignity on digital innovation, which was something many independent funeral directors couldn't do, but that day-to-day competition was with independent funeral directors.
50. Co-op thought Dignity did consider the Co-op to be its major competitor, noting that it had cut its own funeral price in response to Co-op price reductions. Co-op said that it did not know how the quality of its own services compared to those of Dignity as it could only see its front of house facilities and not the back of house facilities.
51. Co-op noted that Dignity was not growing its market share, other than through the acquisition of new businesses, and that it had experienced erosion of its core business. Co-op noted that independent funeral directors accounted for 60% of the market [REDACTED].
52. Co-op considered that the rate of new entry into the market had slowed, but not plateaued yet. They were seeing more instances of new entry online and direct cremation offerings, alongside full funeral offerings.



## Remedies

53. CMA asked why Co-op was encouraging the CMA to consider regulation. Co-op said that it was 'a very difficult sector' and that it would benefit from more transparency because of the infrequency of the purchase and difficulties of benchmarking funeral director services.
54. Co-op explained that quality of care was the most important factor, both in relation to the deceased and the customer. Co-op said that most people thought the funeral directors were regulated business, but there were no minimum standards, no qualifications required or any licensing. Further, the voluntary trade association model of checks did not work effectively, which is why Co-op had determined its own critical and core standards.
55. Co-op said that, given that price was increasingly becoming a driver, standards might deteriorate, and that regulation was required to prevent a race to the bottom in terms of standards of care in the back of house.
56. The type of regulation Co-op had in mind would focus on quality, sales practices and transparency. As an example of minimum standards, Co-op considered refrigerated temperature-controlled environments or access to refrigerated temperature-controlled environments was important. On sales practices, Co-op said customers should be presented with all of the options in a clear and transparent way at the start of the process, not charged a mark-up on pass through costs and that any commission payments to the funeral director should be fully disclosed. Co-op said that the Funeral Inspectorate in Scotland had done some good work and this was something that could potentially be leveraged.
57. The CMA asked whether regulation of quality standards might result in some funeral directors exiting the market. Co-op said that regulation could drive investment in facilities to ensure funeral directors have appropriate quality standards. Further, there were different options available to funeral directors. A funeral director could arrange and conduct a funeral without needing to manage the deceased if they got a third party or funeral director to handle that aspect.
58. Regarding the potential regulation of prices, Co-op said that it was not necessary because prices were becoming more competitive as a result of new entry, digital pricing and other factors already discussed in the Hearing. Co-op accepted that if the level of price increase in the sector had continued at the same rate as it had been historically, then there would have been a potentially strong case for utilising price regulation as a measure of last resort but that this was a hypothetical premise as it did not reflect current reality

given the changes in the industry described, Coop also said that, if remedies to improve sales practices and transparency did not achieve the desired outcomes, the CMA might need to revisit what was a tool of last resort.

59. Co-op said that the CMA would need to be mindful that price regulation might reduce new entry because it made the market less attractive and it might restrict innovation and product differentiation. It might have unintended consequences and reduce quality because operators looked to remove costs at the expense of quality. It might also mean that there might be less competition on price. The CMA noted that Co-op was assuming that price regulation would apply across all packages, commenting that there were other models of price regulation that might be more relevant such as one that defined a simple funeral.
60. Co-op noted the practical challenges of price regulation in that scenario, such as defining the essential components of a simple funeral and how to set a safeguard at an appropriate level, allowing for geographical differences in costs, including the cost to serve [§].
61. Co-op considered that, with or without regulation, the market was moving towards greater transparency and at a greater pace than it had before, but the industry was not sufficiently transparent yet. Co-op said that transparency was better on price, it was not yet as good on service and the care quality. Co-op said that none of the comparison sites were 'nailing that at all'. Regulation would, in its view, help to accelerate the pace of change and improve consistency in the market, particularly in sales practices and the provision of information to customers.
62. In relation to sales practices, The CMA asked what information was provided to customers on the telephone. Co-op indicated that it depended on what the customer asked and what stage in the arrangement process they were at. Co-op confirmed that few arrangements were conducted end-to-end exclusively by telephone. Typically, the arrangements were made in a face-to-face chat. Co-op said it would be simple to monitor whether all the choices were made available to the customer. The CMA asked whether the term 'simple funeral' influenced the way people chose a funeral. Co-op said that its insight indicated that "simple" was a word that was used very frequently and that many people had an aspiration to describe their funeral as "simple". "Simple" was chosen because it was potentially more attractive and less off-putting than other alternatives.

## Other themes

63. The CMA asked how place of death impacted on decision-making and how quickly the deceased needed to be moved. Co-op said this was dependent on whether the place of death, for example, a hospice or hospital, had any on-site mortuary facilities and capacity at those mortuaries. Seasonality and pandemic factors were also relevant. The CMA noted not all deaths took place in hospital and that it was interested to understand how this impacted on the relative's ability to make a choice.
64. Co-op confirmed that it would not charge the arranging client if they had not instructed the removal from the place of death. If the arranging client then wanted the deceased transferred to another funeral director, Co-op would facilitate this at no charge.
65. The CMA asked what evidence Co-op had about informal arrangements between funeral directors and intermediaries such as care homes and hospices. Co-op said that the evidence it had about such arrangements between other funeral directors and intermediaries was sourced from what colleagues in its own business had told it and what people in the market said. It did not know how widespread such arrangements were.