

Funeral directors and crematoria services market investigation

Dignity response to Funeral Directors CMA working papers dated 20 and 21 February 2020

1. Introduction

1.1 Dignity plc (“**Dignity**”) welcomes the opportunity to comment on the following set of working papers related to Funeral Directors:

- (A) Two published working papers: ‘*Funeral directors pricing levels and trends*’ and ‘*Funeral Directors – price dispersion analysis*’; and
- (B) Three additional working papers not published by the CMA but shared with Dignity to further its understanding of the CMA’s approach to the market investigation to date: ‘*Analysis of Dignity’s price trial*’; ‘*Constraint imposed on standard funerals by low-cost options – analysis of internal documents and RFI responses from three largest funeral directors*’; and, ‘*Competition between funeral directors – internal documents*’.

1.2 Dignity provides below its comments on each of the working papers. However, Dignity’s ability to comment fully on the analyses in the papers is restricted by the extensive redactions of confidential data. These papers and the underlying data should be placed into a confidentiality ring to allow Dignity’s advisors to engage thoroughly with the CMA’s thinking and findings.

2. General comments

2.1 Dignity first provides some general comments before commenting on each working paper separately.

2.2 First, various sources of evidence show a marked change in the dynamics of funeral director fees since 2016. Surveys from SunLife (once corrected for the weighting biases identified by the CMA) and Royal London show that funeral director fees have fallen in real terms (after inflation).¹ Table 1 below summarises findings from the CMA’s own analysis of price trends – it shows a marked change between CAGRs from 2013-2016 and 2016-2018, with most funeral directors experiencing below inflation fee growth in the

¹ For SunLife see Table 7 in the *Funeral directors pricing levels and trends* working paper. Table 8 in the same working paper also shows that funeral director fees in 2019 had fallen from peaks in 2016/2017 for ‘Dignity’, ‘Co-Op’ and ‘Independents and others’. For Royal London, see results in Figure 3 below.

recent period (highlighted in green). The CMA's own evidence shows the change across providers.

- 2.3 Dignity's own experience is that there has been a substantial shift away from standard funerals to lower priced alternatives. **The CMA must collect and analyse 2019 – 2020 data to properly understand the changes that are already underway in the market.**
- 2.4 The Covid-19 pandemic is further changing the dynamics of the market:
- (A) Customers have changed consumption patterns, with increased uptake in simple funerals and direct cremations instead of more traditional options.²
 - (B) There has been an increase in customers searching for funeral director services online.³
 - (C) Funeral directors have themselves had to reshape their offerings on the supply side in the face of new challenges (such as increased costs to deliver services⁴).
- 2.5 It is unclear, at this stage, what changes to consumer behaviour and costs will persist in the market longer term. Indeed, it may be some time before the market returns to pre-pandemic 'normal', and some market changes are likely to be permanent (for instance, greater awareness about simpler funeral options and/or the practice of having a memorial separate from the cremation).
- 2.6 Dignity encourages the CMA to examine these changes before taking decisions on any future price-related remedies for the market. These are accelerating a decline in funeral director fees that the CMA has found was already taking place in the market.

² Please refer to Figure 6 presented later in the paper.

³ Dignity has experienced that online sessions on its website [§] in the period January – May 2020 compared to 2019: more than [§] visits in January – May 2020 vs. around [§] in the same period of 2019.

⁴ During the pandemic, Dignity has had to: invest in costly personal protective equipment for staff; manage markedly higher staff absenteeism; and, invest in temporary mortuary facilities.

Table 1: Summary of CMA's Results

| Compound Average Growth Rates | | 2013-2016 | 2016-2018 |
|---|----|------------|---------------------|
| RPI | | 1.7% | 3.5% ⁽⁴⁾ |
| Analysis of 3 largest FDs: Dignity, Co-Op and Funeral Partners ⁽¹⁾ | | | |
| <i>Average Funeral Revenues (AFR)</i> | | | |
| Standard Funerals | 6% | 2% | |
| Simple Funerals | 3% | -4% | |
| At-Need Funerals | 5% | -1% | |
| All Funerals | 5% | 0% | |
| <i>Average Total Revenues (ATR)</i> | | | |
| Standard Funerals | 6% | 3% | |
| Simple Funerals | 4% | -1% | |
| At-Need Funerals | 5% | 0% | |
| All Funerals | 5% | 0% | |
| Analysis of 3 regional Co-Ops ⁽²⁾ Central England, East of England, Southern | | | |
| <i>Average Total Revenues (ATR)</i> | | | |
| Standard Funerals | 3% | 3% | |
| Simple Funerals | 0% | 5% | |
| At-Need Funerals | 3% | 3% | |
| All Funerals | - | - | |
| Analysis of 13 larger FDs ⁽³⁾ | | | |
| <i>Average Total Revenues (ATR)</i> | | | |
| 2 of 13 FDs | - | -2% to -1% | |
| 3 of 13 FDs | - | 1% to 2% | |
| 5 of 13 FDs | - | 3% to 4% | |
| 3 of 13 FDs | - | 5% to 6% | |

Source: *Funeral directors pricing levels and trends* working paper

(1) Standard (Table 11), Simple (Table 12), At-Need (Table 13), All Funerals (Table 15).

(2) For regional co-ops, only ATR shown as CMA notes: "as respondents did not have a consistent definition of disbursements, our analysis focuses on the level and trend of the ATR". See Tables 16, 17 and 18.

(3) Results summarised in paragraph 92. Results were not available for 2013-2016.

(4) RPI calculated using ONS data.

2.7 Second, the CMA recognises that quality (and accordingly costs) vary significantly across funeral directors and, in fact, the CMA is considering implementing quality regulation remedies to ensure minimum quality standards are met across the market and transparency remedies so that customers can better compare quality and pricing. The CMA will need to take into account the changes that will result from the introduction of these remedies on prices across the market. The CMA must therefore consider whether remedies should be implemented in tranches i.e. so that any potential price control remedies are only brought into effect if the quality regulation and transparency remedies have not delivered certain desired outcomes.

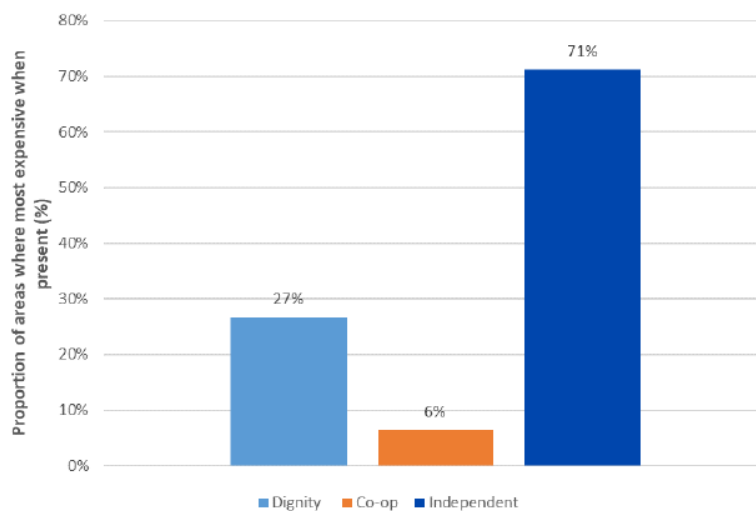
2.8 Third, Dignity agrees that there is high price dispersion in funeral director fees across the UK. **Price levels vary both within and across funeral providers (and across time).** This reflects many underlying differences between funeral directors, customer needs, and regions. To properly understand observed price trends, the CMA must control for this underlying variation, and must be cautious of conclusions based only on national averages.

2.9 As examples:

- (A) There are substantial differences in costs and prices in different regions of the UK. Any 'average' prices at the 'national' level face significant risk of compositional bias. Dignity, for example, has a higher proportion of its branches in London and the South East than most major chains (e.g. the Co-Op and regional Co-Ops). This distorts the comparison of the Dignity average price against other suppliers' prices. Where the CMA has undertaken more local analysis (better controlling for compositional risks) – Dignity is not found to be consistently the most expensive (see Figure 1, for example).⁵

Figure 1: CMA Price Dispersion Analysis

Figure 1: Proportion of local authority areas where a given provider is the most expensive funeral director, with respect to simple funerals, when present in the area, January 2018 to May 2019²⁹



Source: CMA analysis of YFC data.

Notes: Dignity is the highest priced funeral director in 61 areas out of the 229 areas in which it is present. Co-op is the highest priced funeral director in 14 out of the 218 areas in which it is present. An independent funeral director is the highest priced funeral director in 253 out of the 355 areas in which an independent funeral director is present.

Source: *Funeral Directors – price dispersion analysis* working paper, page 10.

- (B) Dignity agrees that examining Average Funeral Revenues (AFR), excluding disbursements, is an informative metric and is indeed a metric Dignity monitors internally.⁶ Dignity's AFR [redacted] between 2017 and 2019, and Dignity has submitted evidence to show that [redacted] over the longer term.⁷ However, in comparing AFR

⁵ See also Figure 15 and Figure 16 of the *Funeral directors pricing levels and trends* working paper showing recent Dignity research.

⁶ As is explained further below and in Dignity's response to the *Funeral Directors: Profitability* working paper, Average Total Revenues (ATR) including disbursements is not a reliable metric as it can be distorted by the inflation in disbursements which the Funeral Director does not control.

⁷ See Dignity's response to Question 26 of the RFI dated 8 August 2019.

between providers the CMA does not appear to undertake controls of the underlying differences between providers (e.g. regional focus). More analysis is also needed to test whether the AFR differentials are driven by providers' ability to meet customer needs (offering more choice in the design of the service) and quality.

- (C) Even within a single funeral provider, there can be very significant variation in prices within the same funeral type, reflecting different customer demands (choosing more or less expensive services) and different branch locations. Figure 2, for example, shows Dignity's 2019 invoice data (excluding disbursements) by funeral type. Despite being a single provider applying the same high standards to quality across its network, there is wide price dispersion driven by differences in customer demand and region.

**Figure 2: Dignity invoice revenues (excl. disbursements)
by funeral type in 2019**

[✂]

Source: Dignity's 2019 invoice data.

[✂].

- 2.10 These underlying differences must be examined in more detail – and controlled for – if any price control is to be considered by the CMA.⁸

3. Comments on the '*Funeral Directors pricing levels and trends*' working paper

- 3.1 The CMA analysed price levels using three sources: (i) a database of pricing data compiled by SunLife which covers the period between 2010 and 2019, (ii) revenue and disbursements data from the largest 13 funeral directors (by number of branches) for the period 2013 to 2018; and (iii) internal documents.

SunLife data analysis

- 3.2 Dignity welcomes the CMA's detailed analysis of the SunLife survey and recognition of "*a number of biases*" identified in the methodology and therefore in SunLife's published results.⁹ The results are sensitive to small changes in methodology.
- 3.3 First, Dignity notes that the annual sample is very small indeed – 100 surveys (10 in each region). This gives a coverage of under 2% of funeral branches in the UK – **the risk of measurement error is therefore huge**. It is also informative to see in Annex 2 of the working paper the very high levels of churn in the underlying sample, which **magnifies the risk of measurement error in small sample sizes**. Given the challenges with the

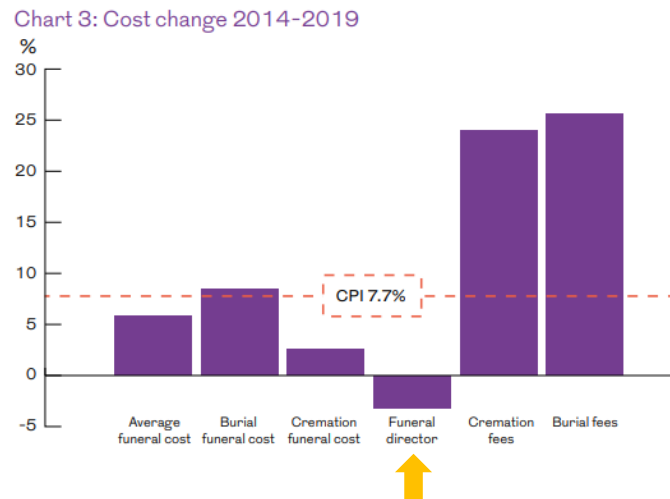
⁸ Dignity welcomes that the CMA will analyse the pricing data to assess the extent to which prices vary by funeral directors' locations. '*Remedy options for regulating the price of funeral director services at the point of need*', paragraph 69(b).

⁹ *Funeral Directors pricing levels and trends* working paper, paragraph 2.

reliability of the small samples, Dignity considers it highly unlikely that the CMA would have accepted a survey in this form in other settings. Therefore, any evidentiary weight attached to this data should be very low.

- 3.4 Dignity encourages the CMA to request the underlying data from the Royal London survey as another public source with which to examine trends over time. This survey shows *funeral director* fees are falling, and are substantially below inflation, as seen in Figure 3.

Figure 3: Royal London Survey



Source: Royal London, *Change on the horizon? National Funeral Cost Index Report 2019* available at: <https://www.royallondon.com/siteassets/site-docs/funeral-plans/national-funeral-report-2019.pdf>

- 3.5 Second, it is informative to learn that the SunLife survey has oversampled Dignity in recent years. The CMA's reweighting – at a national share of supply level – reduces the CAGR of funeral director fee growth from 4.6% to 3.5%. This is a substantial change. The CAGR for RPI over the period 2010 to 2019 was 2.9%, meaning that on this index funeral director fees were broadly in line with inflation elsewhere in the economy. However, the CMA should validate the prices collected by SunLife against Dignity's actual revenues per funeral and the regional concentration of the Dignity portfolio.
- 3.6 Third, the CMA should focus more on the evidence that the SunLife data provides of the regional differences in funeral prices across the UK. The degree of price variation across the UK, and controlling for the underlying reasons for this, must be examined in the design of any price control.
- 3.7 It is informative that the CMA has re-weighted the SunLife data to account for differences in the regional death rates. However, it is unclear whether the CMA has yet re-weighted for both the share of supply bias and regional bias simultaneously. Conducting the two re-weightings simultaneously would be more meaningful than examining each in isolation.
- 3.8 Fourth, from paragraph 48 of the working paper, the CMA uses the SunLife data to analyse 'Branch Level' fee distributions. Given the very small samples, and the high churn in the branches included, Dignity does not believe this evidence can carry evidential weight as the measurement errors will be substantial.

3.9 Finally, the CMA concludes in paragraph 55 of the working paper that, according to SunLife data, between 2010 and 2019 funeral director fees grew in real terms (based on RPI) by £75 for ‘Independents and other’; by £170 for Co-Op; and by £524 for Dignity. **Dignity disputes this conclusion** and asks that the CMA also examines the underlying data. As the CMA has seen in Dignity’s financial submissions, Dignity’s AFR [§] from £[§] in 2010 to £[§] in 2019, [§].¹⁰ Therefore, this conclusion based on small, unrepresentative samples (even of the Dignity branches) needs to be examined in more detail and does not appear sound.

10 Dignity calculated the change in real terms following the same approach taken by the CMA in its analysis shown in Table 8 – i.e. deflating data such that data 2010 is the base year and RPI index published by ONS. The calculations are based on the data submitted as *Annex A-2(a)-4.1_amended* (during the put-back process on 17 February 2020) for the 2013 – 2019 period and internal data for the previous years.

Data from funeral directors

- 3.10 The CMA considers Average Total Revenues (ATR - including disbursements) across 13 larger funeral directors. The CMA notes that many of the smaller funeral directors were not able to provide more disaggregated data.¹¹ This is a significant concern, particularly if any price control is to be based on specific packages. The 'actual' funeral director fee data available to the CMA at the package level appears to be very limited.
- 3.11 Dignity believes that the ATR is a less meaningful metric to assess funeral director performance because it includes disbursements which creates significant 'noise'. There will be variation caused by the larger disbursements (e.g. differences between burial fees and cremation fees) and how they vary across the UK, but also customer and funeral director preferences. Some funeral directors might treat third-party payments inconsistently – e.g. some funeral directors might apply a mark-up while others may not; organists can be employed by the funeral director directly (internal payment) or passed through to customers (disbursement); etc.¹²
- 3.12 Continued inflation in other parts of a funeral package will impact the results found by the CMA on funeral director fees. Figure 3 above shows, for example, that continued inflation in cremation and burial charges inflated the ATR found by the Royal London survey even where funeral directors fees were falling significantly. However, even with this noise and disbursement inflationary pressure, Table 1 above shows that only 3 of the 13 funeral directors saw ATR rise faster than inflation between 2016 and 2018. The majority did not see fees keep pace with inflation.
- 3.13 The CMA shows in Figure 9 and Table 20 of the working paper the different ATR levels found across the firms. Dignity agrees that there is significant divergence between providers. However, the analysis does not control for any variations between these funeral director groups, for example, in terms of differences in regional focus.
- 3.14 The CMA then undertakes a branch-level analysis, looking at 7 branches from 4 of the larger funeral directors. This shows wide variation in ATR.¹³ However, again, this comparison provides no controls for underlying differences between these branch locations.¹⁴ Therefore, other than illustrating that there is wide variation in experience for

¹¹ The four regional Co-Ops, for example, were not able to provide data on a consistent basis (paragraph 72 and footnote 32). The CMA also asked 76 smaller FDs for data from 2015 to 2018, but analyses responses from only 23 of these (paragraph 100). This is consistent with the CMA's experience in the Funeral Profitability working paper, where smaller funeral directors experienced difficulties in providing more granular data (i.e. annual revenue per funeral excluding disbursements). The CMA should take these difficulties into account when considering any price control remedies. See *Funeral Director: Profitability* working paper, Appendix A.

¹² For example, some funeral directors might record florist invoices for office flowers as disbursements. The same treatment could apply to any memorials sold as a separate revenue line, with costs included in disbursements.

¹³ Dignity confirms that its AFR varies significantly across branches. Please refer to Dignity's response to question 2 of the RFI dated 29 November 2019.

¹⁴ As mentioned above, disbursements vary across the UK and are also driven by funeral director and consumer preferences.

different branches (even within the same group), it is unlikely that any stronger conclusions can be made on the basis of this evidence.

- 3.15 Finally, the CMA collected data from 23 smaller funeral directors, and looked at 5 branches. The data again shows wide variation in ATR. But the small sample, absence of any controls (e.g. regional), and noise in the ATR metric itself, means that it is unlikely that any stronger conclusions can be drawn on the basis of this evidence.

Evidence in Internal Documents

- 3.16 The CMA reviewed internal documents from Dignity, Co-op and Funeral Partners and found them to point towards a hierarchy of prices “*with Dignity at the higher end of prices, independents generally (but not always) cheaper and Co-op and Funeral Partners somewhere between the two... Some research has shown that some independent funeral directors charge more than the three largest funeral directors*”.¹⁵ Dignity agrees that there is a mixed picture.

- 3.17 Dignity does not consider it robust to conclude, based on the Dignity research cited by the CMA, that “*Research by Dignity found that independents price higher in areas where both Dignity and Co-op are present, although these differences are not always large, and the effect of having one of Co-op or Dignity present in an area has been less consistent over time*”. The sample sizes on this survey analysis were too small to draw any meaningful comparisons, and measurement errors affect the reliability of results over time. Dignity also made this point to the CMA at the first hearing in July 2019.

- 3.18 Moreover, Dignity notes that the internal documents from the three largest funeral directors reflect pricing data from different time periods which make the results incomparable.¹⁶ Dignity also disagrees with the CMA that “*[most of the research] generally reflects current pricing patterns*” because “*some of this research predates the launch of the market investigation and may therefore reflect historic pricing patterns*” and “*some of the research was conducted on small sample sizes and therefore may not hold for the entirety of the UK.*”¹⁷ Research based on small sample sizes is unable to reveal pricing patterns reliably.

- 3.19 **Annex 1.1** sets out Dignity’s more detailed comments on this working paper.

¹⁵ ‘*Funeral Directors pricing levels and trends*’ working paper, paragraph 140.

¹⁶ For example, Dignity provided a mystery shopping research which cover the 2016 – 2018 period and the research of Your Funeral Choice pricing data which covers the 2017 – 2018 period; Co-Op’s analysis is redacted but appears to reflect 2019 data while Funeral Partners’ mystery shopping is based on 2018 pricing data and its other research presented in Figure 25 is based on forecast average revenue.

¹⁷ ‘*Funeral Directors pricing levels and trends*’ working paper, paragraph 143.

4. Comments on the '*Funeral Directors – price dispersion analysis*' working paper

4.1 The CMA estimates the level of price dispersion between funeral director branches using pricing data on Simple funerals provided by Your Funeral Choices (YFC) and pricing data on Standard funerals provided by Beyond from January 2018 to May 2019.

4.2 Dignity agrees with the CMA's findings that:

(A) The funeral market has become more competitive in recent years. In 2017, the CMA found that in approximately half of all local areas the cheapest simple funeral was at least 50% cheaper than the most expensive simple funeral.¹⁸ In 2019, the CMA found only 13% of local areas where this is still the case.¹⁹

(B) The proportion of areas for which Dignity's Simple funeral is the most expensive funeral director has reduced significantly.²⁰ This is also consistent with the price reduction of Dignity's Simple funeral. Dignity had the most expensive Simple funeral in only 61 of the 229 local areas in which it was present.

(C) Dignity positions itself as a high-quality provider and, as such, it is positioned towards the higher end of prices. However, price dispersion of both standard and simple funerals remains material even where Dignity is not present, meaning that price dispersion is not driven by Dignity alone.²¹

4.3 Dignity has concerns about the validity of some of the CMA's findings in the working paper. In particular:

(A) There appear to be data anomalies in the averages presented in the working paper – see **Annex 1.1**. Unintuitively the price dispersion for Simple funerals is larger than for more bespoke, differentiated Standard funerals, suggesting a data integrity issue. Dignity needs access to the underlying data to test these anomalies.

(B) As noted by the CMA, the analysis is based on local authorities which might not correspond with the relevant local economic markets.²² The CMA also expanded local areas up to eight miles from the postcode centre when insufficient information was available within the postcode area. This approach might lead to the inclusion of branches that do not face the same competitive constraints and

¹⁸ *Funeral Directors – price dispersion analysis* working paper, paragraph 12(a).

¹⁹ *Funeral Directors – price dispersion analysis* working paper, paragraph 32.

²⁰ *Funeral Directors – price dispersion analysis* working paper, paragraph 12(b) and paragraph 33.

²¹ *Funeral Directors – price dispersion analysis* working paper, paragraph 61.

²² *Funeral Directors – price dispersion analysis* working paper, paragraph 8(c).

economic characteristics in the same local market and, as a result, it might skew the results.²³

- (C) The CMA estimates price dispersion by taking the difference between the price of the most expensive priced funeral director branch and the lowest priced funeral director in a given area (and listed on the website). This measure is sensitive to outliers compared to other metrics – e.g. interquartile range which the CMA used in the *Funeral directors pricing levels and trends* working paper or the coefficient of variation (CV).²⁴ The CMA could examine some alternative measures of variation.
- (D) The CMA notes that there is a level of differentiation between funeral directors in terms of product range and quality offered as well as of geographic location. The CMA “controlled” for this level of differentiation by comparing prices for simple and standard funerals and by comparing prices for funeral directors located in the same local area.²⁵ However, the CMA’s analyses do not take into account the differences between funeral director services within each local area.²⁶ For instance, the CMA appears not to have taken into account the degree of differentiation within each funeral type. Although a definition of simple and standard funeral is provided by PCWs, it is difficult to ensure consistency in terms of quality across the elements within each funeral package.
- (E) The CMA gathered pricing data from YFC and Beyond during the period from January 2018 to May 2019. However, it is not clear whether pricing data from funeral directors within the same local area was collected at the same point in time.

YFC data analysis

- 4.4 The price comparison analysis depends crucially on a like-for-like package of elements in the Simple Funeral. Dignity is, however, concerned about the genuine comparability of offerings from different funeral directors.
- 4.5 Footnote 25 of the working paper says “*Where we note the definition of a simple funeral used by YFC includes a funeral director’s services (collection/care of the deceased, a basic coffin, hearse and management of a simple service), standard cremation or burial*”

²³ *Funeral Directors – price dispersion analysis* working paper, paragraph 16. In footnote 19, the CMA notes that “*this does not necessarily mean there were no other funeral directors present within the postcode area but may just reflect that other funeral directors did not have their prices listed on YFC (the data set used by Royal London)*”.

²⁴ The CV describes the amount of variability in prices relative to the average price. It is the ratio of standard deviation to the mean. Standard deviation is a measure that quantifies how much a set of values are spread out, the higher the standard deviation the greater the spread; it is calculated by taking the square root of the average squared deviations from the mean.

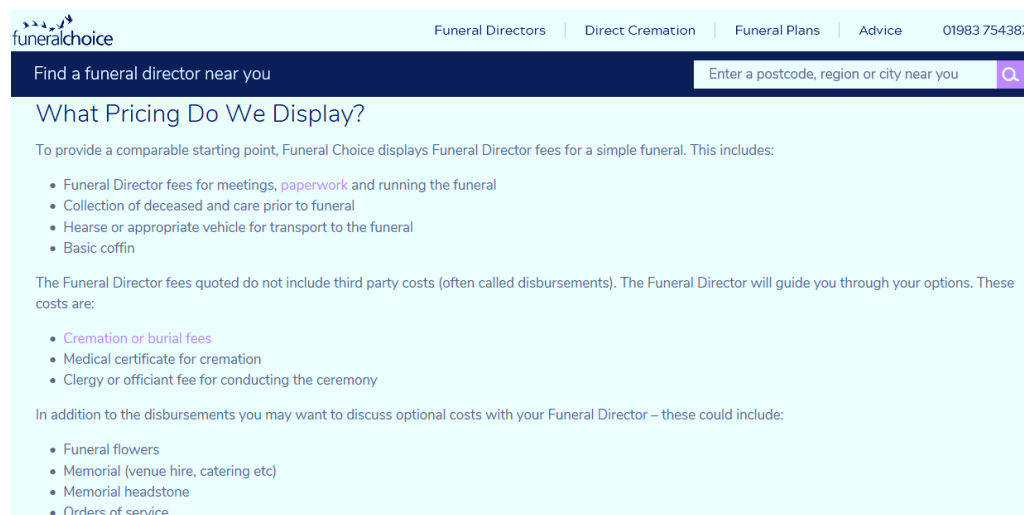
²⁵ *Funeral Directors – price dispersion analysis* working paper, paragraph 2.

²⁶ *Funeral Directors – price dispersion analysis* working paper, paragraph 8(a).

fees, doctor's fees and clergy/officiant fees. <https://www.yourfuneralchoice.com/about-us>".

- 4.6 However, the YFC website suggests that several of these fees are **not** included (see Figure 4 for a screen shot of the YFC website taken in February 2020). The CMA also acknowledges this: "However, there may still be discrepancies in the simple funeral package price the funeral directors report back (e.g. if their simple funeral contains/excludes different services compared to YFC simple funeral)."²⁷

Figure 4: Your Funeral Choices



The screenshot shows the 'Your Funeral Choices' website. At the top, there is a navigation bar with links for 'Funeral Directors', 'Direct Cremation', 'Funeral Plans', 'Advice', and a phone number '01983 754387'. Below the navigation bar is a search bar with the text 'Find a funeral director near you' and a search icon. The main content area is titled 'What Pricing Do We Display?' and contains the following text:

To provide a comparable starting point, Funeral Choice displays Funeral Director fees for a simple funeral. This includes:

- Funeral Director fees for meetings, paperwork and running the funeral
- Collection of deceased and care prior to funeral
- Hearse or appropriate vehicle for transport to the funeral
- Basic coffin

The Funeral Director fees quoted do not include third party costs (often called disbursements). The Funeral Director will guide you through your options. These costs are:

- Cremation or burial fees
- Medical certificate for cremation
- Clergy or officiant fee for conducting the ceremony

In addition to the disbursements you may want to discuss optional costs with your Funeral Director – these could include:

- Funeral flowers
- Memorial (venue hire, catering etc)
- Memorial headstone
- Orders of service

- 4.7 If there are issues of inconsistency in the definition of the Simple funeral on the YFC website, then the CMA's analysis will be distorted.

Beyond data analysis

- 4.8 Dignity has concerns about the Beyond data analysis:
- (A) As noted by the CMA, Beyond gathered data from funeral directors using an inconsistent approach – i.e. Dignity data was collected via mystery shopping while data from independent funeral directors was self-reported.²⁸ Dignity would like the opportunity to check the reliability of this data collected by Beyond.

²⁷ Funeral Directors – price dispersion analysis working paper, paragraph 28(a).

²⁸ Funeral Directors – price dispersion analysis working paper, footnote 36.

(B) Dignity's branch prices are likely to be out of date. For example, the approach may not account for the tailored funeral pricing applied to many branches within Dignity's network during the period.²⁹

(C) Beyond data does not cover important players in the market: Co-op and Funeral Partners branches, the first largest and the third largest operators in the UK; and, Regional Co-ops.³⁰

4.9 Therefore, the CMA's findings on the Beyond analysis cover only a small sub-sample of funeral directors in the UK. Further, measurement issues for the data collected, make meaningful comparison and conclusions more complex.

4.10 **Annex 1.1** sets out Dignity's more detailed comments on this working paper.

²⁹ *Funeral Directors – price dispersion analysis* working paper, footnote 40.

³⁰ *Funeral Directors – price dispersion analysis* working paper, footnote 35.

5. Comments on the ‘Analysis of Dignity’s price trial’ working paper

- 5.1 The CMA analysed data on Dignity’s revenues and volumes during the price trials. The CMA combined datasets from LEK data (i.e. trials from April to November 2018) and Dignity (i.e. trials from October 2018 to July 2019). Dignity has **not** been able to validate how the CMA combined the two datasets (and any cleaning that was undertaken) and would like the opportunity to examine the CMA’s analysis in a confidentiality ring.
- 5.2 The CMA also estimated share of supply for each cell during the period January 2018 to June 2019. Dignity requests access to this data and analysis.

Share of supply

- 5.3 The CMA notes that the aggregated shares of supply might be underestimated for various reasons. Dignity notes the following further points:
- (A) In 2019, 27% of the funerals Dignity delivered were pre-need funerals. Dignity has sold a large volume of pre-need plans. The presence of these plans in the analysis will dull the responsiveness of volumes to price changes as the price changes will have less (if any) short-term impact on these plans. Shares of supply are a proportion of both pre-paid and at-need funerals.³¹ This means that the trial will underestimate the degree of switching between at-need funerals providers.
 - (B) [REDACTED] branches were not included in the analysis as these were not part of the trial.³² This is almost [REDACTED] of the Dignity portfolio. This also negatively affects the reliability of the share of supply estimates.
 - (C) Share of supply might be underestimated as [REDACTED],³³ [REDACTED]. Hence, shares of supply will still be underestimated in certain regions.

Figure 5: Summary of Dignity’s current network coverage

[REDACTED]

[REDACTED].

- (D) Finally, Dignity notes that the CMA assesses the effect of the pricing trials on share of supply in isolation and does not control for other factors that might have driven the movements in the share of supply. For instance, investments made by

³¹ *Analysis of Dignity’s price trial* working paper, footnote 22. As per the *Company-level price and market share analysis* working paper, the CMA could seek to deduct the assumed pre-paid funerals from the total number of deaths.

³² *Analysis of Dignity’s price trial* working paper, paragraph 16.

³³ *Analysis of Dignity’s price trial* working paper, paragraph 4.

funeral directors (e.g. marketing activity), the level of churn of funeral branches and pricing strategy of other competitors.³⁴

- 5.4 These factors combined suggest that the link between price and aggregated share of supply in the analysis would be weak in any event. Therefore, the fact that evidence of share of supply responding to price was found suggests that this was driven by a strong customer response.

Switching

- 5.5 [REDACTED].³⁵ [REDACTED].³⁶ [REDACTED].³⁷

- 5.6 We note above reasons that may dull the responsiveness of standard volumes to changes in simple prices in the short-term: (i) the national average shares; (ii) the high proportion of pre-need plans in the Dignity mix; and, (iii) many branches being outside the trials. However, Dignity is also concerned that the two-month windows on either side of the price change are too short to observe the full effects of switching.³⁸

- 5.7 Figure 6 below shows that there has been [REDACTED]. Therefore, while switching may not be clearly evident in the narrow windows around price changes, [REDACTED] over time. Early evidence suggests that the effects of the Covid-19 pandemic have changed the mix further in 2020: the proportion of simple funerals [REDACTED] from [REDACTED]% in 2019 to [REDACTED]% in the period January – May 2020.

Figure 6: Dignity’s at need funeral mix (%), 2013 – 2020

[REDACTED]

Source: *Annex A-2.1 submitted to the CMA in response to RFI dated 29 November 2019* (updated to also capture November 2019 and December 2019) for the period 2013 and 2019 and Dignity’s most recent volume data for January – May 2020.

Note: The calculations exclude contract, child and pre-need funerals.

- 5.8 **Annex 1.1** sets out Dignity’s more detailed comments on this working paper.

³⁴ Dignity notes that the CMA conducted a market share analysis taking into account price movements in the *Company-level price and market share analysis* working paper.

³⁵ [REDACTED].

³⁶ [REDACTED].

³⁷ [REDACTED].

³⁸ *Analysis of Dignity’s price trial* working paper, paragraph 21 – 22.

6. Comments on the ‘*Constraint imposed on standard funerals by low-cost options – analysis of internal documents and RFI responses from three largest funeral directors’* working paper

6.1 This working paper examines the extent to which low-cost funeral options exert competitive pressure on more traditional funeral options. As noted above, Dignity has seen a significant change in mix towards lower priced options. Dignity has also invested substantially in the direct cremation offering Simplicity, and now also offers in-branch customers options for attended direct cremations. Therefore, in Dignity’s view, there is already strong evidence of a shift in customer behaviour.³⁹

6.2 The CMA must also consider the extent to which its proposed transparency remedies will raise consumer awareness of low-cost options (such as direct cremation).

6.3 Given the importance of direct cremations, Dignity notes specifically the CMA’s conclusions that “*documentary evidence suggests direct cremation meets specific customer needs, which are not always related to prices, and that it is likely to remain a relatively small part of the market*”.⁴⁰ However, the CMA appears to draw conclusions on the basis of past performance of this relatively new proposition.

6.4 Dignity considers the following as important:

(A) The current proportion of direct cremations is driven by firm and consumer behaviour:

(i) [§]. Dignity had invested £[§] as of the end of 2019. In February 2020, [§]. Direct cremation is no longer strictly a separate proposition as described in paragraph 31.

(ii) Direct cremation is not yet offered by all smaller funeral directors in the market.⁴¹ As pointed out by SunLife’s Cost of Dying Report (2020), customers currently have limited knowledge of direct cremation.⁴² However, the CMA’s information remedies may change this position.

(iii) The CMA appears to focus only on unattended direct cremations and did not investigate the substitutability between more flexible direct cremation formats (e.g. intimate direct cremations, attended direct cremations with a service held by the family) and traditional funerals.

³⁹ Dignity also refers to Trajectory’s *Low-cost and alternative funeral solutions* report submitted as Annex 1 in response to the first set of working papers.

⁴⁰ *Constraint imposed on standard funerals by low-cost options – analysis of internal documents and RFI responses from three largest funeral directors* working paper, paragraph 25.

⁴¹ Annex 1 - *Funeral directors pricing levels and trends*, paragraph 108.

⁴² SunLife Cost of Dying Report (2020), slide 11.

(iv) As mentioned earlier, the Covid-19 pandemic is further changing the dynamics of the market. Customers have changed consumption patterns, with reported increased uptake in direct cremations instead of more traditional options. It is likely this will have lasting impacts, as more customers will have a greater awareness of direct cremations.

(B) The CMA should consider trends in other countries where direct cremation is a mature service. For instance, in its *International comparison* working paper, the CMA found that “*direct cremation has become a low-cost option in most countries and it is likely to grow further, as a proportion of all funerals*”.⁴³ We note also that direct cremation accounted for 37.5% of cremations in the US in 2016, indicating substantial market penetration.⁴⁴

6.5 **Annex 1.1** sets out Dignity's more detailed comments on this working paper.

⁴³ *International Comparison* working paper, paragraph 55 (a).

⁴⁴ 2018 NFDA Cremation and Burial Report: Research, Statistics and Projections, July 2018, available at: <http://tinyurl.com/y8s48fa2>.

7. **Comments on the ‘*Competition between funeral directors – internal documents*’ working paper**

7.1 The CMA used parties’ internal documents to examine the dimensions of competition between funeral directors, and how parties monitor and adapt to the actions of rivals. Although it is difficult to comment in detail on this working paper without seeing the internal documents of the other parties reviewed by the CMA, Dignity provides below some comments on the CMA’s conclusions.

7.2 Dignity agrees with the CMA that competition between funeral directors takes place across many areas of business, including price, quality, promotional activities, and branch location (including entry and expansion).⁴⁵ Dignity invests in all these areas to maintain its value proposition to customers.

Quality of back-of-house

7.3 The CMA found some evidence that the largest funeral directors monitor rivals on aspects of customer experience, such as pricing, vehicles and premises, but there was more limited evidence of monitoring of back-of-house facilities or processes.⁴⁶

7.4 As noted in its submission on remedies in response to the first tranche of working papers, Dignity wants improved quality regulation to set minimum standards for back-of-house quality.

7.5 In Dignity’s experience, levels of back-of-house quality can vary significantly across the sector and are not always satisfactory.⁴⁷ Dignity has submitted evidence of substantial investments that it has had to make in infrastructure and staff training after acquiring a smaller independent firm. The CMA has also heard evidence from Dignity managers in [redacted] where, following acquisition of an established independent, Dignity had to immediately close the independent’s sub-standard mortuary facilities, stop activities with high health & safety risk (on-site masonry work), and put in place internal procedures (including employment contracts and training for staff).

Quality and innovation

7.6 The CMA received some examples of innovation from the largest funeral directors, which appear to be related to processes and products/services. Based on these examples, two

⁴⁵ *Competition between funeral directors – internal documents* working paper, paragraph 12.

⁴⁶ *Competition between funeral directors – internal documents* working paper, paragraph 24-25.

⁴⁷ As raised in its response to Question 5 of *Annex B – Market Questionnaire – Funeral Services* dated 10 May 2019, there are two scenarios which Dignity becomes aware of the rivals’ quality of the back-of-house: (i) when Dignity acquires branches from competitors; (ii) when Dignity funeral directors are contacted by funeral directors with reduced back of house and/or limited staff to assist with embalming duties.

of which were submitted by Dignity, the CMA concluded that innovation is not particularly distinct from quality.⁴⁸

- 7.7 Dignity is currently going through a transformation programme that is aimed at modernising the client proposition (i.e. implementing new technologies to support the arrangement process, trialling different service propositions, building a national Dignity brand and continuing marketing and development of the Simplicity brand and proposition) and improving its operating model (i.e. increasing its focus on client service and community engagement and improving its operational efficiency through the use of technology).
- 7.8 While some of these components of the transformation programme may not be distinct from front-of-house quality as they are aimed at improving customer experience, Dignity is also experimenting with technological changes which are not quality-related per se. For instance, Dignity is streamlining central support and investing in technology to centralise and automate administrative processes – e.g. evolving operational and business reporting; implementing a modern source-to-pay solution to support staff in ordering items and processing purchases more efficiently.⁴⁹
- 7.9 It is also likely that operators will compete on environmental performance (for example, electric hearse etc).
- 7.10 There is therefore an element of quality competition amongst funeral directors but quite apart from that an element of innovation which needs to be protected as part of the CMA's remedies package. Furthermore, a backward approach to assessing innovation in a sector can often miss key future changes.

Internal audits

- 7.11 The CMA assessed to which extent the largest funeral directors monitor their own performance using evidence on sales performance, customer surveys and internal audits.
- 7.12 Dignity monitors very closely its customer feedback and has large survey samples. These reflect a high level of customer satisfaction in Dignity's performance.
- 7.13 On internal audits, the CMA reviewed Dignity's material submitted in response to Question 15 of Annex A - Market Questionnaire – Funeral Services dated 10 May 2019 and sent on 17 June 2019. The CMA provides a description of this material at paragraph 35-36.
- 7.14 Although the CMA appreciates that Dignity conducted internal audits of a number of branches in 2018 and 2019, it notes that it was not clear from the documents submitted what aspects of the branches' service were actually audited.

⁴⁸ *Competition between funeral directors – internal documents* working paper, paragraph 13-14.

⁴⁹ Further details on the components of the transformation plan in Dignity plc Annual Reports for 2018 and 2019.

7.15 Dignity provides the following clarifications:

(A) [REDACTED].⁵⁰

(B) [REDACTED].⁵¹

(C) [REDACTED].

(D) [REDACTED].

Discounts

7.16 The CMA considered whether discounting, as indicative of competitive pressure faced by funeral directors, had increased since 2015.⁵²

7.17 The CMA analysed Dignity's discounts and found that:

(A) the value of the discount as a proportion of turnover per funeral had been around [REDACTED]% since 2016⁵³; and

(B) the value of the specific category of discounts reported as 'competition' had [REDACTED] from over £[REDACTED] in 2016 to around £[REDACTED] in 2018.⁵⁴

7.18 These conclusions are incomplete. First, the CMA should also recognise that Dignity substantially reduced prices of both Simple and Standard/Tailored funerals during this period.

7.19 Second, when interpreting these results, the CMA should note that:

(A) [REDACTED].

(B) [REDACTED].⁵⁵

7.20 **Annex 1.1** sets out Dignity's more detailed comments on this working paper.

50 [REDACTED].

51 [REDACTED].

52 *Competition between funeral directors – internal documents* working paper, paragraph 53.

53 *Competition between funeral directors – internal documents* working paper, paragraph 57.

54 *Competition between funeral directors – internal documents* working paper, paragraph 58.

55 [REDACTED].

Annex 1.1

Dignity detailed comments on the working papers

| Para. | Extract | Dignity comment |
|---|--|---|
| <i>Funeral Directors – price dispersion analysis</i> | | |
| 17 | <i>In this working paper, we have focused on areas which have at least three funeral director branches to ensure the statistics are meaningful.</i> | The CMA should investigate the coverage of the included branches per local area. The measured results might not be representative in areas where a significant number of branches exist but only three branches were included in the sample. |
| Footnote 25 | <i>Where we note the definition of a simple funeral used by YFC includes a funeral director’s services (collection/care of the deceased, a basic coffin, hearse and management of a simple service), standard cremation or burial fees, doctor’s fees and clergy/officiant fees. https://www.yourfuneralchoice.com/about-us/</i> | Dignity has noted above at paragraph 4.5 that the description given on the YFC website of the simple funeral is different to this definition from the CMA. |
| 34 | <i>We also note that Co-op is not the most expensive in any areas where Dignity is present, given that Co-op consistently prices its simple funeral lower than Dignity, as explained in paragraph 30.</i> | The CMA should note that the differences in prices between Co-op and Dignity are small – i.e. Dignity’s simple funeral costs £1,995 in England and Wales and £1,695 in Scotland while Co-op’s simple funeral costs £1,895 and £1,675, respectively. |

| Para. | Extract | Dignity comment |
|-----------------------------------|--|---|
| 41 | <p><i>To reflect Dignity’s pricing as of 1st April 2019, we have applied its cap on the professional fee and classic hearse of £[x] to all its branches in Beyond’s data. Though Dignity has not applied this cap to all its branches, we consider this to be a reasonable approach to updating the data set.</i></p> | <p>Dignity assumes that the CMA applied the £3,395 cap on the professional fee and classic hearse.</p> <p>At footnote 40, the CMA clarifies that “any price changes to Dignity branches which were already below the cap (or to items in the analysed package other than the professional fee and classic hearse) will not have been captured. Nor has the Tailored funeral pricing been applied to any branches as we do not know the specific branches this has been implemented in”. Dignity has provided the CMA with the list of branches that introduced the tailored funeral as Annex 1.2.</p> |
| <p>Table 1 and Table 3</p> | | <p>The average simple funeral price dispersion of Non-Dignity areas reported in Table 1 appears to be significantly larger than the average standard funeral price dispersion of Non-Dignity areas for standard funerals in Table 3. Dignity appreciates this is not a like-for-like comparison, however, one would expect a higher dispersion in standard funerals than simple funerals as there is more differentiation in the underlying product.</p> <p>This result might be driven by the small sample size of Non-Dignity areas in Table 3 – i.e. Non-Dignity local areas are only 19 compared to 129 in the simple funeral analysis.</p> <p>Furthermore, a difference of only £174 between the average maximum price for simple funerals and standard funerals for non-Dignity local areas appears low.</p> <p>These anomalies suggest one of the two analyses contains biases and / or errors.</p> |

| Para. | Extract | Dignity comment | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
|-----------------------------------|-----------------|--|---------------------------|---------------------------|------------------------------|---------------------------|---------------------------|------------------------------|--------|-----|-----|-------|-------|-----|--------------------------|-----|----|-------|-------|-----|--------|-------------|-----|-------|-------|-----|--------------------------|-------------|----|-------|-------|-----|--------|---------|-----|-------|-------|-----|--------------------------|---------|----|-------|-------|-----|
| <p>Table 1 and Table 5</p> | | <p>Even excluding Dignity branches, the average standard funeral price dispersion appears smaller in Table 5 than those for simple funerals presented in Table 1 (see a comparison in the table reported below). Although, Dignity appreciates this is not a like-for-like comparison, this might indicate that even the results excluding Dignity branches are not reliable.</p> <table border="1" data-bbox="1167 635 2056 1182"> <thead> <tr> <th data-bbox="1167 660 1317 724">Funeral package</th> <th data-bbox="1317 660 1518 724">Local authority</th> <th data-bbox="1518 660 1630 724">Number of areas</th> <th data-bbox="1630 660 1749 724">Average minimum price (£)</th> <th data-bbox="1749 660 1921 724">Average maximum price (£)</th> <th data-bbox="1921 660 2056 724">Average price dispersion (£)</th> </tr> </thead> <tbody> <tr> <td data-bbox="1167 740 1317 772">Simple</td> <td data-bbox="1317 740 1518 772">All</td> <td data-bbox="1518 740 1630 772">358</td> <td data-bbox="1630 740 1749 772">1,490</td> <td data-bbox="1749 740 1921 772">2,246</td> <td data-bbox="1921 740 2056 772">756</td> </tr> <tr> <td data-bbox="1167 788 1317 868">Standard (excl. Dignity)</td> <td data-bbox="1317 788 1518 868">All</td> <td data-bbox="1518 788 1630 868">94</td> <td data-bbox="1630 788 1749 868">1,698</td> <td data-bbox="1749 788 1921 868">2,390</td> <td data-bbox="1921 788 2056 868">702</td> </tr> <tr> <td data-bbox="1167 884 1317 916">Simple</td> <td data-bbox="1317 884 1518 916">Non-Dignity</td> <td data-bbox="1518 884 1630 916">129</td> <td data-bbox="1630 884 1749 916">1,482</td> <td data-bbox="1749 884 1921 916">2,145</td> <td data-bbox="1921 884 2056 916">663</td> </tr> <tr> <td data-bbox="1167 932 1317 1011">Standard (excl. Dignity)</td> <td data-bbox="1317 932 1518 1011">Non-Dignity</td> <td data-bbox="1518 932 1630 1011">19</td> <td data-bbox="1630 932 1749 1011">1,833</td> <td data-bbox="1749 932 1921 1011">2,319</td> <td data-bbox="1921 932 2056 1011">485</td> </tr> <tr> <td data-bbox="1167 1027 1317 1059">Simple</td> <td data-bbox="1317 1027 1518 1059">Dignity</td> <td data-bbox="1518 1027 1630 1059">229</td> <td data-bbox="1630 1027 1749 1059">1,494</td> <td data-bbox="1749 1027 1921 1059">2,303</td> <td data-bbox="1921 1027 2056 1059">809</td> </tr> <tr> <td data-bbox="1167 1075 1317 1155">Standard (excl. Dignity)</td> <td data-bbox="1317 1075 1518 1155">Dignity</td> <td data-bbox="1518 1075 1630 1155">75</td> <td data-bbox="1630 1075 1749 1155">1,652</td> <td data-bbox="1749 1075 1921 1155">2,409</td> <td data-bbox="1921 1075 2056 1155">757</td> </tr> </tbody> </table> <p data-bbox="1167 1203 1720 1235">Source: Table 1 and Table 5 of CMA's analysis</p> | Funeral package | Local authority | Number of areas | Average minimum price (£) | Average maximum price (£) | Average price dispersion (£) | Simple | All | 358 | 1,490 | 2,246 | 756 | Standard (excl. Dignity) | All | 94 | 1,698 | 2,390 | 702 | Simple | Non-Dignity | 129 | 1,482 | 2,145 | 663 | Standard (excl. Dignity) | Non-Dignity | 19 | 1,833 | 2,319 | 485 | Simple | Dignity | 229 | 1,494 | 2,303 | 809 | Standard (excl. Dignity) | Dignity | 75 | 1,652 | 2,409 | 757 |
| Funeral package | Local authority | Number of areas | Average minimum price (£) | Average maximum price (£) | Average price dispersion (£) | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Simple | All | 358 | 1,490 | 2,246 | 756 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Standard (excl. Dignity) | All | 94 | 1,698 | 2,390 | 702 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Simple | Non-Dignity | 129 | 1,482 | 2,145 | 663 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Standard (excl. Dignity) | Non-Dignity | 19 | 1,833 | 2,319 | 485 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Simple | Dignity | 229 | 1,494 | 2,303 | 809 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Standard (excl. Dignity) | Dignity | 75 | 1,652 | 2,409 | 757 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |

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| Para. | Extract | Dignity comment |
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| 59 | <p><i>We have found that, across both simple and standard funerals, average price dispersions are higher in areas where Dignity is present than in areas where it is not, and that this difference between Dignity/non-Dignity areas appears more pronounced for standard funerals.</i></p> | <p>Similar to the point raised with respect to paragraph 120 of the <i>Funeral directors pricing levels and trends</i> Working Paper (see relevant table below), as the averages are higher in the 'Dignity' areas the CMA appears to conclude that this variance is due to the presence of Dignity branches in a local authority. This is a 'correlation versus causation' fallacy as there are various reasons that could drive this result; for example, Dignity's portfolio of homes is in higher costs regions (such as London and South East).</p> <p>The CMA only chose one criterion (i.e. the presence of a Dignity branch) by which to split and compare the prices of local authorities; the CMA should make similar comparisons between areas with or without a Co-Op branch, or between areas with varying levels of population density or average incomes for example, any of which could be significant factors.</p> |
| <p><i>Funeral directors pricing levels and trends</i></p> | | |
| Footnote 9 | <p><i>The estimated number of at-need funerals is calculated by summing the total number of deaths in the UK, and assuming that 15% of all funerals are pre-paid (see paragraph 8.114 of the <i>Funeral Market Study Final report and decision on a market investigation reference</i>).</i></p> | <p>As raised in Dignity's response to the <i>Company-level price and market share analysis</i> working paper, it is unreliable to assume a constant pre-need share of 15% throughout the period 2013 to 2018; pre-need activity has been rising, with 27% of Dignity's funeral sales in 2018 and in 2019 being pre-need funerals (up from 22% in 2013).</p> |
| 49 | <p><i>Dignity's interquartile range was the most variable over the period and at some points the widest.</i></p> | <p>Dignity's response to Question 2 of the RFI dated 29 November 2019 explains that average price levels were driven by a range of factors including</p> |

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| | | differentiation in the composition of Dignity's network over time, changes to customer behaviour across branches over time, different investments made at the various branches, and differences in historic price levels at the various branches. |
| 50 - 53 | <i>However, by 2019 Co-op provided the lowest disbursements and Dignity the highest. For independents and other FDs, the burial disbursement cost increase over the period is around two times their professional fee increase. For Dignity the increase of burial disbursements was slightly lower than their professional fee increase.</i> | As per all disbursements, burial disbursement fees are outside the control of funeral directors and vary widely across the UK and customer preferences. As such, the CMA should avoid drawing conclusions upon a small sample of disbursements. This is also confirmed by the unusual patterns in Table 10 (see below). Dignity provided data on all disbursements; the CMA should assess the representativeness of the SunLife data by comparing it against Dignity's full sample of disbursements. |
| Table 10 | | Co-op experienced a decrease in burial disbursement fees from £2,375 in 2017 to £1,475 in 2018, which increased again to £1,959 in 2019. The CMA should validate this result and, if correct, clarify the reasons behind this unusual pattern. |
| Table 20 and Table 22 | | In Table 20 and Table 22, the CMA calculated the CAGR % (2016 – 2018) of minimum, 25 th and 75 th percentile, median and maximum as the CAGR % (2016 – 2018) of minimum, 25 th and 75 th percentile, median and maximum across the 2016 – 2018 period. This implies that the CAGR % (2016 – 2018) of each summary statistic will reflect the pattern of the ATR per funeral experienced by different funeral directors. For instance, the minimum ATR in 2015 was FD1, FD3 in 2016 (whose ATR was missing in 2015) and again |

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| | | <p>FD1 in 2017 and 2018. Hence, the CAGR % (2016 – 2018) of each summary statistic does not appear to be a reliable measure of price movement in this table.</p> <p>In Table 22, Dignity noticed unusual patterns that might be driven by misreporting issues. For instance, the CAGR % (2016 – 2018) for FD5 is -14%. Its ATR is missing in 2015 and reported to be £3,938 in 2016; it decreases to £2,318 in 2017 to then increase again to £2,928 in 2018.</p> |
| <p>108</p> | <p><i>Also, as noted above, due to the low volumes of simple and direct cremation funeral types, which typically represented 0 to 7% and 0 to 4% of the sampled branches' volumes respectively, we have chosen to focus on comparing the standard funeral package, which typically represented 81 to 92% of the volumes.</i></p> | <p>This finding suggests that smaller funeral directors are less likely to offer simple funerals and direct cremation than larger funeral directors.</p> <p>The CMA analysed the at-need volume mix for the three largest funeral directors in the <i>Constraint imposed on standard funerals by low-cost options – analysis of internal documents and RFI responses from three largest funeral directors</i> working paper. According to the CMA's analysis reported in Table 1 of the working paper, the proportion of simple funerals and direct cremation for Dignity was [X]% and [X]% in 2018, respectively.</p> <p>The CMA should further investigate the at-need volume mix of the smaller funeral directors to understand the reason for their lower mix.</p> |
| <p>119</p> | <p><i>This mystery shopping research also allows a distinction between charges from independent FDs, Dignity and Co-op. The 2018 research found that between 2013 and 2018:</i></p> | <p>During the put-back process, Dignity provided the CMA with the latest version of the Annual Funeral Cost survey 2019. Dignity suggests the CMA consider the data for 2019 (see slide 25). The survey is re-submitted as Annex 1.3 to this paper.</p> |

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| Para. | Extract | Dignity comment |
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| | <p><i>(a) Dignity’s average funeral director cost had increased from £2,926 to £3,749 (28% increase) – this includes a decrease in 2018 from £4,124.</i></p> <p><i>(b) Co-op’s average funeral director cost had increased from £2,404 to £3,067 (28% increase), with no change between 2017 and 2018.</i></p> <p><i>(c) Independent FDs’ average funeral director cost had increased from £1,992 to £2,295 (15% increase) – increasing from £2,287 in 2017.</i></p> | |
| <p>120</p> | <p><i>The 2016 research states ‘One of the key objectives of the research, is to take into account the influence the presence of either a Dignity or Co-operative branch has on the Independents’ average price.’ It made some attempt to structure the sample to get information on four different sub-samples (areas with only independents, areas with Dignity and Independents (D&I areas), areas with Co-op and Independents (C&I areas), and areas with all three (CDI areas), although with the result that these sub-samples have small numbers of respondents. This approach was also replicated in 2017 and 2018.</i></p> <p><i>(a) The 2016 research found, among other conclusions, ‘As hypothesised, FD charges are influenced by the presence and magnitude of the competition, with the highest average FD cost</i></p> | <p>The sub-samples in these surveys have small numbers of respondents meaning the risk of measurement errors are large. As noted during the hearing and during the put-back process, Dignity believes that the CMA cannot draw casual inference on the results of this analysis because of the very small samples used.</p> <p>The sample included 121 areas with 254 branches contacted, which only account for around 4% of the entire population of funeral directors. For each area only one branch per provider is surveyed although many more branches are present in the area.</p> <p>The CMA should note that the number of D&I areas captured in the research are only six compared to 50 locations where all providers are present (CDI areas).</p> <p>There are also regional biases. Dignity’s portfolio of homes is in higher costs regions – i.e. around one third of Dignity’s funeral homes are in London and</p> |

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| Para. | Extract | Dignity comment |
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| | <p><i>found in areas where Dignity Funeral Directors are present – and the lowest in Independent only areas’. It also stated that ‘the presence of both Dignity and Co-operative funeral directors in the same town does seem to push [independents’] prices higher, than where there is limited competition. Equally this might simply be reflective of a larger conurbation.’ However, the data suggests that the relationship between competition and independent FDs’ prices is not clear-cut, as the results indicated that independent FDs’ prices were highest where both Dignity and Co-op were present (£2,364), lower when just independent FDs were present (£2,210), lower when just Dignity and independent FDs were present (£2,139) and lowest when just Co-op and independent FDs were present (£2,019).</i></p> <p><i>(b) In 2017, the research found, among other things, that ‘there is not a huge differential in FD cost by provider mix’, but that ‘Dignity and Co-op [were] both slightly more expensive in CDI areas, probably a function of them being in more urban conurbations’, and ‘the differential is small, but Independents appear to be most expensive in the</i></p> | <p>South East (see slide 8 of Annex B-2(a)-10.2 submitted alongside Dignity’s response to the RFI dated 10 May), and as noted in slide 21 of Annex B-2(a)-10.2, “London and the South East are the most expensive areas for funeral director charges and both cremation and burial funerals”.</p> <p>When comparing the results across the years, the CMA will notice that trends in the differential in FD cost by provider mix are not consistent over time.</p> |

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| | <p><i>areas where there is just a Dignity funeral director, and least expensive where there is a Co-op'.</i></p> <p><i>In 2018, the research found, among other things, that '[c]osts in CDI locations have dropped in the period since 2017, presumably due to the increased competition felt in more urban conurbations, where there are a greater number of FDs to choose from (also driven by a fall in Dignity prices).' Average FD charges had increased slightly across the other provider mix types.</i></p> | |
| Analysis of Dignity's price trial | | |
| <p>Figure 2 and Figure 3</p> | | <p>The CMA notes that discrepancies exist between the two datasets (i.e. LEK and Dignity data) used in its analysis at Figure 2 and Figure 3. These discrepancies limit the extent to which the CMA can compare changes over the entire time period.</p> <p>Dignity requests access to the combined dataset used by the CMA in order to fully comment on the analysis, and also to examine certain anomalies visible, such as:</p> <ul style="list-style-type: none"> • [X]. • [X]. <p>Dignity can only examine these issues by accessing the CMA analysis.</p> |

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| | | |
| 25(a) | [REDACTED]; | [REDACTED]. |
| Constraint imposed on standard funerals by low-cost options – analysis of internal documents and RFI responses from three largest funeral directors | | |
| 3 (b) | <i>Direct cremations (in their more basic form) are unlikely to be suitable for many people, given cultural norms (and arguably psychological needs), and as such, are unlikely to replace standard funerals for many people.</i> | Dignity offers several direct cremation options which suit the needs of those that would not consider a basic option without a service (i.e. the Simplicity intimate funeral and the Simplicity attended funeral). Moreover, Dignity informs its customers that its cremation service is provided without any religious aspects, allowing the customers to arrange their own religious service with their faith leader in the chapel or at a memorial at a later date if they wish so. |
| 3 (e) | [REDACTED]. | As already raised in response to the <i>Branch level analysis of the take-up of simple funerals</i> working paper, the CMA should note potential future changes in consumer attitudes. In Dignity’s experience, a positive correlation between the take-up of simple funerals and the price difference between a standard and simple funeral would likely become stronger as consumers became increasingly familiar with simple and low-cost options. Dignity refers to its response to the <i>Analysis of Dignity’s price trials</i> working paper for further comments on share of supply and changes in Dignity’s funeral mix. |

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| Table 1 | | Dignity notes that when looking at cremation services only, the take-up of direct cremation appears much more significant. The proportion of direct cremations has [X]% of all Dignity cremations in 2016 to [X]% in 2018. In 2019, it [X]%. Dignity believes that direct cremations will continue to grow strongly in the future. Since March 2020, when Covid-19 related restrictions came into effect, direct cremations have accounted for [X]% of Dignity's overall cremation volumes, [X]% over the 2019 figure. |
| 23 (b) | <i>3% of all funerals overall were direct cremations.</i> | SunLife suggests that the small number of direct cremations is mainly driven by lack of consumer awareness and that 42% would consider direct cremation once customers were made aware of it (see slide 11 of SunLife's Cost of Dying Report (2020)). |
| 29 | <i>Dignity's direct cremation product (which, as noted in Table 1, accounts for [X]% of its at-need volumes) is marketed separately under a different brand (Simplicity) and sales channel (separate website and separate phone number, though under same head office service centre). This may limit the degree to which customers link the two or seek to trade down. However, in its response to a request for information, Dignity states '[X]'.</i> | Dignity notes that direct cremation is advertised on Dignity's website as one of types of funeral that Dignity can deliver (see Dignity's website at the following link: https://www.dignityfunerals.co.uk/arranging-a-funeral/types-of-funeral/ and the relevant page on direct cremation at https://www.dignityfunerals.co.uk/arranging-a-funeral/types-of-funeral/direct-cremation/). This allows customers to compare direct cremation against other funeral types. Customers who would like to find out more about the direct cremation services Dignity offer are then directed to Simplicity cremations' website. Moreover, Dignity ran national TV advertising campaigns for Simplicity in 2018 and undertook substantial investment in online advertising (e.g. |

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| | | Google Ad Words). Dignity has launched further trials of Simplicity campaigns in 2019. |
| 34 - 38 | | <p>In these paragraphs, the CMA refers to various documents (including a document from a third-party) which were produced before Simplicity direct cremations were launched. The CMA considered this evidence to assess “How far is direct cremation affecting sales of other funeral types as opposed to providing incremental sales?”. Dignity disagrees that any of this evidence should be used by the CMA to assess “the extent to which direct cremation has attracted new volumes for the three largest funeral directors from elsewhere, compared with cannibalising sales of other funeral types (and which funeral types were most affected)” (paragraph 32).</p> <p>Dignity has submitted data on direct cremations volumes since its launch and submits that the CMA relies an actual data and not assumptions and third-party documents.</p> |
| 46 | <i>In a draft investor relations pack following its reduction in simple prices, Dignity indicated it expected the share of Simple Funerals to stabilise at around 11% of total delivered funerals.</i> | Dignity disagrees that expected shares would be informative of future trends. In fact, as noted at paragraph 53, the simple funerals accounted for [X]% in 2018 (see also Table 1), which is well above the expected share reported in Annex B-2(a)-38.14 and it is expected to grow in the future. |
| 50 | <i>Therefore, in contrast to direct cremation, simple funerals are more likely to be advertised through the same</i> | Dignity disagrees and refers the CMA to its comments on paragraph 29 above. |

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| Para. | Extract | Dignity comment |
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| | <i>channels, and offered with similar prominence, as standard funerals.</i> | |
| 55 | [REDACTED]. | Dignity disagrees with this finding. Dignity refers to paragraph 5.7 and Figure 6 above which show that there has been [REDACTED]. |
| Competition between funeral directors – internal documents | | |
| 17(d) and footnote 14 | [REDACTED]. | [REDACTED]. |
| 27 | [REDACTED]. | Dignity refers the CMA to its response to Question 4 – 8 of the RFI dated 29 November 2019, where it has extensively discussed its main marketing activities. |
| Table 1 | | [REDACTED]. In order to fully comment on these discrepancies, Dignity requests access to these analyses. However, Dignity also notes that the differences already suggest that the figures based on SunLife data are affected by sample selection biases. |
| 62 | <i>We noted in the Market Study that the decision by Dignity to significantly reduce the price of its simple funeral was attributed, in part, to the entry of low-cost rivals. We noted,</i> | Dignity has been responsive in recent years, trialling price changes across the UK. Moreover, the CMA does not consider that most price changes also come with changes in the service proposition, which require careful |

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| | <p><i>however, that action was taken only when the reported acceleration of losses started to be noticeable at the group level and even then it took some months before the company reacted.</i></p> | <p>consideration as they take time to implement – e.g. training for funeral arrangers, updating the system used by funeral arrangers during the arrangements, producing and sharing guidelines for arrangers to follow as per the new service, replacing client packs etc.</p> |
| <p>72</p> | <p>[X].</p> | <p>Dignity notes that there is constant dialogue to look at the long-term sustainability of the funeral business in the face of competitive pressures, changing customer demand, and Dignity's ongoing commitment to offer a higher quality service proposition.</p> |