

Appendix V: Calculation of detriment

Funeral directors

1. We have considered the nature and potential scale of the detriment to customers arising from the provisional AECs we have found in the funeral directors market.
2. There were 616,014 deaths registered in the UK in 2018,¹ approximately 517,000 (84%) of which involved a funeral paid for at the time of bereavement, rather than through redemption of a pre-paid plan.
3. In trying to assess the scale of the detriment to customers we have focused on the extent to which outcomes, resulting from the AECs we have provisionally found, are worse than those we would expect in a well-functioning market.
4. Our estimates of detriment are based on our calculations of the economic profits achieved by funeral director firms and the pricing information we have gathered.

Calculation of detriment based on economic profits

5. In considering the detriment of the Large firms based on economic profits our analysis found that ten of the Large firms earned economic profits in all years from 2014 to 2018. We then netted off the economic losses earned by the three loss-making Large firms to give average (net) annual economic profits of £90.5 million over the period. On a per funeral basis, this equates to economic profits of £402 per funeral.
6. Our profitability analysis indicates that a number of Smaller firms are likely to be earning economic profits similar to those of The Large firms, based on a comparison of EBITDARS. Thus, a proportion of customers of the remaining 58% of the market are likely to have been overpaying for each funeral to a similar extent to those of The Large firms.
7. Our detriment calculation is likely to underestimate the actual total detriment to customers significantly as:

¹ ONS, (22 November 2019) [Vital statistics in the UK: births deaths and marriages](#).

² This figure has been calculated by subtracting the number of funeral plans drawn down in 2018 (ie 98,800), as recorded by the [Funeral Planning Authority](#), from the total number of UK deaths registered. It includes Public Health Funerals.

- (a) It does not take into account the potential inefficiencies that we have identified. Our calculations largely use the actual costs of funeral director firms and do not adjust for potential inefficiencies, meaning that detriment figures may well be higher, potentially significantly so, as a result of an inefficient cost base. In addition to the evidence set out in Appendix S, we note that the 13 Large funeral directors demonstrated a very broad range of costs per funeral, with the lowest cost firm in the group managing to provide a funeral for over £1,500 less than the highest cost firm;
 - (b) it does not seek to measure the detriment arising from the issues we have identified in relation to back of house quality; and
 - (c) it does not seek to measure the detriment arising from the issues we have identified in relation to the distortion of choices where recommendations or referrals are influenced by financial considerations rather than representing the best choice for the customer. Nevertheless, given the potential for vulnerable people to be channelled towards a given funeral director whom they may not otherwise have chosen or to towards a type of funeral which may not fully meet their needs, we consider the detriment would be material.
8. Accordingly, we estimate the total consumer detriment is at least £400 per funeral on average. However, this is likely to be a conservative figure for the reasons set out in the paragraph above.
9. We set out in Section 7 that funeral director professional fees for a standard funeral have increased at a rate above general inflation since at least 2006 until 2016, albeit this has been checked more recently. Had funeral director prices increased in line with inflation since 2006, the average price within this dataset in 2019 would have been £480 to £630 lower. This comparison³ gives an indication of the amount that customers could have saved per funeral on average in 2019 if prices had increased in line with inflation since 2006.

Crematoria

10. We have considered the nature and potential scale of the detriment to customers arising from the AECs we have provisionally found in the crematoria markets.

³ This is not meant to be to a competitive benchmark, as the 2006 figure does not necessarily reflect competitive conditions in a well-functioning market.

11. In 2018, around 480,000 cremations were conducted in the UK.⁴ We estimate around 90% of these to be standard fee cremations, with the remaining services being either reduced fee, unattended, or other services.⁵ We estimate that standard fee, reduced fee, unattended cremation services, and optional additional extras generated a combined total revenue of around £350 million in 2018.⁶
12. Our estimates of detriment are based on our calculations of the economic profits achieved by crematoria operators.

Calculation of detriment based on economic profits

13. Our profitability analysis finds that the local authority crematoria operators in our sample have earned economic profits of approximately £5.6 million per year across the 2014 to 2018 period. This level of profits suggests that customers of local authority crematoria have been overpaying by approximately £175 per cremation on average over the period.
14. Based on our profitability analysis, over the same 2014 to 2018 period, we estimate that the large private crematoria operators⁷ have earned average economic profits per year of £23 million. This level of profits suggests that customers of private crematoria have been overpaying by around £215 per cremation on average over the period.
15. In 2008 the average standard cremation fee was £434. If it had increased in line with inflation the average fee would have been £543 or £569 in 2018 depending on the measure of inflation used. In 2018 the average standard cremation fee was £775 (ie over £200 more than the inflation adjusted fee). This comparison⁸ gives an indication of the amount that customers could have saved per cremation, on average, in 2018 if standard cremation fees had increased in line with inflation.

⁴ Based on Cremation Society data for 2018.

⁵ Based on our analysis of volumes provided by Dignity, Westerleigh, Memoria and London Cremation Company in Section 2.

⁶ We have estimated this figure by estimating the volume of standard fee services at each crematorium and multiplying by the standard fee at each crematorium for 2018. We have also estimated the volume of reduced fee and unattended standard fee services and multiplied by an average reduced and unattended fee (based on data from 272 crematoria). Finally, we have used data from Dignity, Westerleigh, and Memoria relating to their sales of additional optional extras in 2018 and extrapolated this across other providers. We consider this figure to be an underestimate of the total market size, as it does not account for revenue generated from other services such as contract cremations and memorials.

⁷ These comprise Dignity, Westerleigh, Memoria and LCC.

⁸ This is not meant to be to a competitive benchmark, as the 2008 figure does not necessarily reflect competitive conditions in a well-functioning market.