

Appendix G: Funeral director barriers to entry and expansion and analysis of concentration

1. In this Appendix we set out the evidence received as to barriers to entry and expansion in providing funeral director services and our analysis of funeral director concentration.

Funeral director barriers to entry and expansion

Introduction

2. In this section we set out the evidence received as to barriers to entry and expansion in providing funeral director services.
3. Our review of evidence received from funeral directors and industry professionals indicates the following:
 - (a) barriers to entry and expansion into the provision of funeral director services are generally low, though the level of costs depends on the business model; and
 - (b) there has been significant market entry as well as expansion by existing providers, also indicating that barriers to entry are generally low.
4. Our review has drawn from a range of sources including: written responses to questionnaires, provided by the Largest funeral directors and by 26 other funeral directors,¹ as well as 15 structured interviews with a range of smaller funeral directors and some industry professionals (such as those providing ancillary services) covering a broad range of locations (urban areas of various sizes and rural areas, from across the UK), operating different kinds of business models, including long established and newly created funeral directors.
5. This section is structured as follows. First, it reviews evidence on costs and models of entry and expansion; second, it assesses evidence on the level of market entry.

Costs and models of entry and expansion

6. The evidence indicates barriers to entry are generally low, although some investment is required (eg into vehicles and storage facilities) depending on

¹ 15 branches from 14 smaller funeral directors and 11 branches from 5 of the 10 Other Large funeral directors.

business model, and there may be some other barriers such as finding appropriate premises, access to training or to competitor price information which can be used as a benchmark. The need to establish or maintain a local reputation was mentioned as important by some of the Large funeral directors when considering entering a new area in order to recoup the initial investment and secure a sufficient pipeline of funerals. The responses received show the following:

- (a) The level of initial investment by smaller funeral directors in a number of cases² was around £20,000 to £30,000 as specific elements such as vehicles could be hired, reducing the capital outlay required.
- (b) The level of investment in new sites by the Largest funeral directors was around [redacted] for Funeral Partners, [redacted] for Dignity [redacted], and [redacted] for Co-op [redacted]. Costs vary according to business model, for example, sites may be supported by a central hub for storage of the deceased and therefore not operate as a standalone branch.

7. A number of funeral directors indicated that entry had been facilitated by being able initially to hire in some services such as ceremonial vehicles or refrigeration, with some of these then being bought once a more substantial volume of funerals was achieved:

- (a) The owner of a new entrant in a large conurbation [redacted] already had [redacted]. In the early days (2017), it used the premises of another funeral director (who provided a different type of funeral to itself [redacted]) – and this was said to be how many new entrants started.
- (b) An established carriage master [redacted] specialises in supplying vehicles and associated services such as [redacted]. It had assisted [redacted] in entering as it enabled the funeral director to [redacted]. It also reduced the cost of providing vehicles and increased the amount of choice that families had in terms of range of vehicles available to them. It said that funeral directors like [redacted]. In 2016, it had installed [redacted]. Referring to another new entrant [redacted] who had chosen to open his own facility, it commented that the fixed costs of the facility can be problematic for a new entrant as there can be consecutive weeks during which the funeral director will have no business at all – the business being characterised by peaks and troughs. It said that typically a limousine could be purchased for £80,000 to £90,000 and that that it charges £150 to £250 for a hearse or a limousine; £250 for out

² As set out in more detail below, three of the funeral directors gave start-up costs in the range of £20,000 to £30,000 and two quoted lower costs than this (around £10,000).

of hours collections and £185 for collections during the day; £10 per day for using [X].

- (c) A new entrant in a large conurbation [X] said that it bought a private ambulance right from the beginning, but the ceremonial vehicles are all hired from [X], which it knows to be trustworthy. As a result, the initial outlay was minimal. For mortuary provision, it used [X] and the mortuary [X] of a small funeral director established 25 years ago. The initial outlay to move into the shop was £30,000, including the landlord's fees and refurbishment. In this phase of development, the company pays £750 per month to [X] and their spouse, as it cannot afford proper salaries. The profit margin per funeral is currently about £1,000. In order to break even, it estimates that it needs to carry out 4 or 5 funerals per month.
- (d) A new entrant in a mid-size town [X] explained that other than buying a fridge straight away, they started the company with no capital outlay. The original premises were rented. It had subsequently moved into its own premises. It noted that a significant level of investment had been required upfront to bring the building to appropriate standards. The business's building costs base has gone down as a result of the current arrangement, as the rent previously was £800 to £900. The only increase in costs comes from technology and computing. The cost of a brand new refrigeration unit with a capacity of three bodies would have been about £2,500 to £3,000. The purpose built unit within the garage was £5,000. It considered that you could set up easily for less than £10,000, including advertising, refrigeration and preparation equipment (because vehicles could be hired and the premises rented, and there was no need to hold stocks of coffins). The cost of a stretcher is £2,000. The removal vehicle could simply be a second-hand 'Galaxy', which could double up as your own vehicle.
- (e) A new entrant in a mid-size town [X] stated its start-up costs were about £18,000 to £20,000 to refurbish the premises, and an additional £4,000 to £6,000 for refrigeration was not an option. It considered a temporary mortuary facility, but this cost around £3,500, which is why it had waited until it had got some revenue before buying its refrigeration unit. It said that in the first 4 months of the business, the bodies did simply lay in the back room (which is naturally cooler) and were covered at all times. When opening up, it had first purchased a second-hand hearse for £1,100 a few days after opening and 6 months later a refrigeration unit. The next step was to upgrade to a Vauxhall Omega hearse and a limousine.
- (f) A long-established family firm in a rural area [X] said that a new entrant funeral director would need to hire vehicles. It would become viable to

purchase a new Jaguar hearse when it was carrying out 220 to 230 funerals a year, due to both the cost of the hearse and the related staff and necessary garage facilities. It said that all its current customers³ were new entrants at one time and that they were all still hiring their vehicle requirements from them. It said they had enough vehicles to meet the demand of their customers and still service its own funeral business requirements. It noted that it guaranteed vehicle availability to its existing customers in return for loyalty but would not 'be played off one against the other' on price (ie it would not deal with people if they used an alternative carriage master for their requirements).

- (g) A new entrant in a large conurbation [redacted] noted it had faced a number of barriers when entering: difficulty getting information on prices; difficulty getting coffin supply (as manufacturers did not want to upset their existing customers); and training is only available to those already employed by a funeral director as the qualification involves a lot of on-the-job training. Therefore, it is difficult to start up if you come from outside of the industry. In addition, it said that a cold room is needed which requires a high level of investment and other adjustments to the layout of the building may be needed. It estimated total investment in equipment was £20,000 to £25,000. It decided to invest in premises when it expected to arrange 100 funerals per year, due to the significant distance to the facility it had previously been using (both travel time and cost were a factor).
- (h) A new entrant in a large conurbation [redacted] estimated that start-up costs for a funeral director would be about £10,000. This would cover the cost of a retail site and a viewing room with no refrigeration.
- (i) We were told several times about ex-employees of larger funeral directors leaving their employment and starting their own company and about large funeral directors such as Funeral Partners and Dignity acquiring branches in the local area in order to expand.⁴

8. Funeral Partners said the level of investment required to establish a new 'cold start' branch⁵ averaged [redacted] from 2014 to 2018⁶ with a profitable level of volume being achieved after around [redacted] years (although it noted the risk to investment if the branch does not achieve sufficient local brand recognition and therefore funeral volumes).

³ Customers in this case are funeral directors hiring vehicles.

⁴ See later in the Appendix for specific references.

⁵ As opposed to acquiring an already established business.

⁶ Funeral Partners established seven 'cold start' branches in the financial year ending 2014 to 2018. The highest spend at one site was [redacted].

9. Co-op said that the average investment for a new branch is [REDACTED], with the key risk being not achieving projected volumes. The most recent post investment appraisals for new homes indicate a maturity profile of [REDACTED] years with an average payback of [REDACTED].
10. Dignity said that finding a suitable property for a new site can be challenging as even though there is general availability of secondary or tertiary high street locations, size and accessibility (for ambulances, hearses and the coffins) can often exclude sites. The location is also required to be close enough to an existing Dignity full service location in order for it to receive the necessary operational support (vehicles, casuals support, etc). Furthermore, each new site would normally require [REDACTED] of fit-out expenditure ahead of opening as an operational satellite branch. While Dignity has opened new branches of its own (or re-sited existing branches), this has tended to be where [REDACTED].
11. Large funeral directors have tended to expand through acquisition of existing businesses which typically is a quicker route to recovering the initial investment outlay due to the established volume of customers and local reputation.
 - (a) Funeral Partners increased its number of branches from 72 branches in the financial year ending 2013 to 171 branches in the financial year ending 2018, mostly through acquiring existing funeral director branches. Funeral Partners told the CMA that its strategy focuses on acquiring existing branches rather than establishing 'cold starts' because the immediate access to funeral volumes allows expansion at a faster rate. Funeral Partners acquired 102 branches in the financial years ending 2013 to 2018 (compared to 7 cold start branches), costing an average [REDACTED] per branch (compared to [REDACTED] for cold starts). The cost is primarily driven by the payment to the previous owner reflecting the value of goodwill and immediate access to funeral volumes. The risk to investment is whether the acquired funeral volumes can be maintained despite the change in ownership to a group-owned business. Mitigation of this risk involves retaining and improving the levels of quality to which consumers are accustomed.
 - (b) Dignity expanded its number of branches from 636 in 2012 to 831 in 2018, mainly through acquiring existing funeral director branches.⁷ Dignity told the CMA that its view, and its practice, is that [REDACTED]. The risks with expanding through acquisition are that post-acquisition the vendor will open up in competition in the local area [REDACTED]; that the acquired business'

⁷ Year ending.

facilities, practices and standards are below those expected [redacted]; and that staff leave the business following acquisition.

- (c) Co-op increased its number of branches by 197 over the five-year period from 2013 to 2018.⁸ By contrast, Co-op's expansion more recently has largely been through organic expansion as it considers that, with a national brand, it is more cost effective and less risky to grow through this route. It also noted it has had limited success when [redacted]. The risks it identified with expansion through acquisition include [redacted].
- (d) There is evidence of funeral directors with regional presence expanding by acquiring existing businesses. Rowland based in Croydon said that it had acquired a number of rival companies in recent years and currently operated from ten branches. CPJ Field said that it operated 40 funeral homes across the South East of England some of which were through acquiring existing funeral director businesses. By contrast, Midcounties Co-op recently aimed to open a number of funeral homes as cold start branches in areas [redacted]. However, expansion was limited for various reasons including the lack of availability of suitable properties and an unwillingness of some landlords to lease to its business sector.

Evidence on the level of market entry and expansion

- 12. The assessment that barriers to entry and expansion are generally low is supported by the observation that there has been significant market entry as follows.
 - (a) Co-op reported high entry levels with over 500 new funeral director branches having opened from 2013 to 2018 including the Largest funeral directors and also 'independent' funeral directors (see Table 1) with 86.5% of non-Co-op branches opened from 2013 to 2018 still active in 2019. Based on this analysis, around half of the new branches were accounted for by Large funeral directors expanding (and Co-op itself accounted for 35% of them).
 - (b) Dignity also reported a significant increase in funeral directors in recent years⁹ with one internal document reporting a 26% increase in funeral directors between 2015 to 2017.

⁸ See Table 1

⁹ Dignity Funerals Ltd response to CMA interim market study report (28.1.19), page 1

- (c) Funeral Partners reported that funeral director services were generally very active in terms of new entrants.
- (d) Experience of entry and expansion was common amongst the funeral directors from whom we received evidence. Just under half of branches that responded to our questionnaire¹⁰ reported that they had experienced entry in the last five years.¹¹ A third¹² of the reported entrants were branches of the Largest funeral directors, over half were from other funeral directors¹³, and one entrant was a local authority that set up its own funeral director service. A small number were reported to be low-price providers and/or direct cremation specialists.¹⁴
- (e) Experience of entry was also common among the funeral directors and industry professionals interviewed. Entry of various types of companies (larger and smaller funeral directors, start-ups) was observed:¹⁵
- (i) An established carriage master [redacted] commented that the funeral director market was currently very competitive. Taking [redacted] as an example, for years there had only been one funeral director in operation. Now there were four.
 - (ii) A new entrant in a large conurbation [redacted] who operates in the [redacted] area, observed that changes in the sector have included the entry of a former Dignity employee close to an existing Co-op branch, another funeral director opening a new branch and one independent taking over another's facility in [redacted]. A lot of independents in [redacted] were also taken over by Funeral Partners in the last year.
 - (iii) A well-established family firm in a mid-size town [redacted] noted there had been a significant degree of entry, with an increased number of both independent funeral directors and branches of Co-op and regional co-ops. Until 2019, it did not think entry had impacted its business, with its level of business being closely aligned with the death rate. This was true even when entrants had a similar proposition to itself (in terms of family values, price lists etc). However, it noted that its volumes had declined in 2018 and this trend appears set to continue

¹⁰ Paragraph 4 provides information on the number of respondents.

¹¹ 12 out of 26 branches: 5 out of 12 small funeral director branches reported entry, 7 out of 14 branches from the Other Large funeral directors reported entry.

¹² 6 out of 18.

¹³ 11 out of 18.

¹⁴ 3 out of 18 were reported as low cost and direct cremation specialists, 1 was reported as only a low-cost provider and 1 was reported as only a direct cremation specialist.

¹⁵ Of the 15 funeral directors and industry professionals interviewed, at least 11 mentioned experience of entry in their locality.

and although the death rate is down, there appear to be other factors at play, such as direct cremation, market entry and people shopping around.

- (iv) A new entrant in a mid-size town [X] noted that many of the new entrants were formerly employed by Co-op, who were dissatisfied with its restructuring, moving away from its traditional ethos and the fact that it was revenue driven. It noted that when former employees set up on their own, some of their customers follow them. Such new entrants would be able to keep their costs down, yet still give the same personal service to these same families. Another entrant in [X], who did not have a funeral director background, was not a member of either SAIF or NAFD and approached matters in an unconventional way, but seemed to be successful.
- (v) A long-established family firm [X] said that following an acquisition, Dignity lose the acquired firm's good employees immediately, who in some cases set up very successful funeral director businesses of their own.
- (vi) A long-established family firm in a rural area [X] stated that in the immediate local area, the number of branches had increased from three to 11 since December 2013 (three Co-ops, one Dignity, seven independents (including three of their own)). Despite this increase in the number of local competitors, its volumes had grown over this period. It noted that the start-up entrant was providing funerals £700 less than itself. However, by advertising as 'cheap, cheap, cheap' they had attached a stigma to themselves such that people did not want to use them.
- (vii) An established firm in a mid-size town [X] noted there had not been as many changes as experienced in other areas. It said that there had been a 'couple' of new independents and Co-op have expanded by four branches in the area during its years in business.
- (viii) A well-established family firm in a rural area [X] noted that there had not been much entry in recent years but instead there had been some change in ownership of existing funeral directors. It noted that nearby there had been entry by direct cremation specialists.
- (ix) A long-established firm in a large conurbation [X] expressed concerns about the high level of entry, opening up of branches followed by closures, with new entrants not behaving professionally. It was also critical of start-ups which approach funeral arrangement as if

it was the same as events management, and have no high street presence or vehicles. It considered that these companies do not provide an adequate service given the amount charged: ‘They sort of think, “well, I went to a funeral once and my grandmother. I felt I could do better.” But there is a bit more to it than that.’ It noted that over the previous ten years a number of funeral directors had been acquired by Funeral Partners and Dignity as well as ex-employees of larger funeral directors starting their own funeral director business.

Table 1: Co-op analysis of the number of new funeral director branches opened, 2013 to 2018

| | <i>New branches opened</i> |
|--------------------------------------|----------------------------|
| Co-operative Group | 197 |
| Dignity | 35 |
| Funeral Partners | 10 |
| Other regional Co-operative branches | 42 |
| Independent | 276 |
| Total branches opened | 560 |

Source: Co-op.

Analysis of funeral director concentration

Introduction

13. In this section, we set out the concentration analysis and results in the supply of funeral director services. First, we describe the data used and then report the results.

Data

14. We purchased a data set of funeral directors in the UK from GrowThink Solutions Ltd (GTS),¹⁶ which listed 6,168 branches as open and operated by 2,294 companies as of August 2019.¹⁷ This data set was compiled from public sources of information¹⁸ and details were verified by cross referring sources, telephone call or email. We performed some cross-checks of the data set against other data we had gathered from the industry to verify its accuracy.
15. We consider it unlikely that GTS’s data set captures every funeral director company or branch, given the highly fragmented nature of the sector and complexity of synthesizing multiple sources. Additionally, some funeral director branches, or companies, may have opened or closed since the data

¹⁶ A consultancy business.

¹⁷ GTS’s data set contains records on a total of 6,497 branches. Note, through data cleaning, the number of open branches is slightly reduced when compared to the raw purchased data set.

¹⁸ For example, Companies House records, directories, websites and mapping tools.

set was compiled. Nevertheless, we consider this data set to be the best available source of this sort of data.¹⁹

16. There are small differences between the number of branches in GTS's data set which the Largest companies operate and the number of branches these parties have told us they operate. This may be due to factors such as inconsistencies in the time period to which the numbers relate. For example, the data we have from parties on the number of branches they operate does not exactly align with the point in time at which GTS collected the data.²⁰ However, the differences are small.²¹

Number of rival funeral director branches within 15-minute drive time

17. In this analysis we assess local concentration by looking at the extent to which funeral director branches have rivals²² within a 15-minute drive time at normal speed. We note that, consistent with the approach typically adopted in retail merger analysis, local areas with four or more rivals (including the focal store) are considered not to raise prima facie competition concerns.
18. Table 2 shows the number and proportions of funeral director branches with a specified number of rival fascia, including the focal funeral director branch, within a 15-minute drive time.

Table 2: Number of rival funeral director fascia within 15-minute drive time, as of August 2019

| <i>Number of rival fascia within 15 minutes (incl. focal branch)</i> | <i>Number of focal branches</i> | <i>Proportion of branches (%)</i> |
|--|---------------------------------|-----------------------------------|
| 1 | 65 | 1 |
| 2 | 162 | 3 |
| 3 | 221 | 4 |
| 4 | 282 | 5 |
| 5-6 | 822 | 13 |
| 7-8 | 882 | 14 |
| 9-10 | 828 | 13 |
| 11-12 | 584 | 9 |
| 12+ | 2,313 | 38 |
| Total | 6,159 | |

Source: CMA Analysis of GrowThink Solutions Ltd data.

Notes: Nine funeral director branches were found to have no competitors with 30 minutes. Sums may be affected by rounding.

19. Table 2 shows that the majority (93%) of areas have four or more rival fascia within a 15-minute drive time.

¹⁹ Additionally, the figures set out in paragraph 14 are in line with previous estimates of the number of funeral director branches in the UK.

²⁰ We have data from Funeral Partners and Dignity on the number of branches they operate up to their 2018 year-end, and from Co-op to its 2019 year-end.

²¹ Co-op's branch number is overstated by 4.6% compared to its 2019 year-end figures, Dignity's branch number is overstated by 3.6% and Funeral Partners' branch number is overstated by 0.6% compared to their 2018 year-end figures.

²² Note, funeral director branches under the same ownership in the same local area are considered as one rival.

20. The remaining 448 areas (7%) which have three or fewer rival fascia within a 15-minute drive time are disproportionately located in rural areas²³ compared with the total funeral director branch population in the data set (57% of areas which have three or fewer rival fascia within a 15-minute drive time are in rural areas, compared with 18% of all funeral directors in the data set). Further, 67% of areas with two or fewer rival fascia are in rural areas. Typically, there is less demand in rural areas compared with urban areas, so fewer funeral director branches could be expected.
21. Of the 221 areas with three rival fascia within a 15-minute drive time, 74% of the focal funeral director branches have a nearest rival fascia within a 5-minute drive time (increasing to 86% within 10 minutes).

²³ As defined by the [Office for National Statistics](#).