

Residential Building Supplies Market Study

Summary of key findings

Competition for the supply and acquisition of key building supplies is **not working as well as it could** if it was easier for building products to be introduced and for competing suppliers to expand their businesses.

Key building supplies are used to build the major components of residential buildings – the foundation, flooring, roof, walls and insulation.

If competition was functioning more effectively, it would work alongside the building regulatory system to help deliver **safe, healthy, durable and affordable housing** for New Zealanders.



Key issues: the regulatory system and supplier rebates

The solution to improving competition lies in **improving the conditions for entry and expansion** which, in turn, will improve competition for key building supplies.

Two main factors make it difficult for new or competing products to be introduced and for suppliers to expand their businesses:

→ The **building regulatory system** continues to incentivise designers, builders and building consent authorities to favour familiar building products over new or competing products

→ **Quantity-forcing rebates** paid by established suppliers to merchants appear, under certain conditions, to be reinforcing regulatory factors impacting entry and expansion, making it difficult for new or competing products to access distribution channels and increase sales.

Land covenants, exclusive lease terms and contractual provisions with similar effect have the potential to affect competition between merchants.

The regulatory system

A number of features prevent competition from working well.

Despite flexibility to use new and innovative products, it is **too slow, costly and uncertain** to get them accepted for general use. This is due to the combined effect of:

- The way the building regulatory system (comprising the Building Act, the Building Code and related instruments, and the consenting system) is applied to building products
- The decision-making behaviours of designers, builders and building consent authorities in response to, and in applying, the regulatory system.

Quantity-forcing rebate structures

Quantity-forcing rebate structures appear, under certain conditions, to **reinforce regulatory factors impacting entry and expansion**.

They reward merchants for purchasing greater volumes through a single supplier, by offering higher percentage rebates that apply across all of that merchant's purchases with that supplier.

While these rebate structures do not always lessen competition, they can deter merchants from stocking competing products, which makes it more difficult for new or smaller suppliers to access distribution networks and become established in the market.